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ISLINGTON

Town Hall, Upper Street, London, N1 2UD

AGENDA FOR THE PENSIONS BOARD

Members of the Pensions Board are summoned to attend a meeting which will be held in Committee Room 1, Islington Town Hall, Upper Street, N1 2UD on **6 March 2023 at 6.00pm.**

Enquiries to	:	Mary Green
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E-mail	:	democracy@islington.gov.uk
Despatched	:	24 February 2023

Membership

Employer representatives:
Maggie Elliott (Vice-Chair)
Councillor Dave Poyser (Chair)
(vacancy)

Scheme member representatives:
Mike Calvert
Valerie Easmon-George(+ vacancy for substitute)
George Sharkey

Independent member
Alan Begg

Quorum is 3, including at least one employer representative and one member representative

A. Formal matters

1. Apologies for absence

2. Declaration of interests

If you have a Disclosable Pecuniary Interest* in an item of business:

- if it is not yet on the council's register, you must declare both the existence and details of it at the start of the meeting or when it becomes apparent;
- you may choose to declare a Disclosable Pecuniary Interest that is already in the register in the interests of openness and transparency.

In both the above cases, you must leave the room without participating in discussion of the item.

If you have a personal interest in an item of business and you intend to speak or vote on the item you must declare both the existence and details of it at the start of the meeting or when it becomes apparent but you may participate in the discussion and vote on the item.

***(a)** Employment, etc - Any employment, office, trade, profession or vocation carried on for profit or gain.
(b) Sponsorship - Any payment or other financial benefit in respect of your expenses in carrying out duties as a member, or of your election; including from a trade union.
(c) Contracts - Any current contract for goods, services or works, between you or your partner (or a body in which one of you has a beneficial interest) and the council.
(d) Land - Any beneficial interest in land which is within the council's area.
(e) Licences- Any licence to occupy land in the council's area for a month or longer.
(f) Corporate tenancies - Any tenancy between the council and a body in which you or your partner have a beneficial interest.
(g) Securities - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

This applies to all members present at the meeting.

3. Minutes of the previous meeting 1 - 4

B. Non-exempt items

1. Pension administration performance 5 - 26

2. LGPS - Pensions' Risk Register 27 - 34

3. 2022 Actuarial valuation - draft Funding Strategy Statement - consultation results 35 - 90

C. Urgent non-exempt items

Any non-exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

D. Exclusion of press and public

To consider whether, in view of the nature of the remaining items on the agenda, any of them are likely to involve the disclosure of exempt or confidential information within the terms of Schedule 12A of the Local Government Act 1972 and, if so, whether to exclude the press and public during discussion thereof.

E. Confidential/exempt items

F. Urgent exempt items

Any exempt items which the Chair agrees should be considered urgently by reason of special circumstances. The reasons for urgency will be agreed by the Chair and recorded in the minutes.

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London Borough of Islington

Pensions Board - 5 December 2022

Minutes of the meeting of the Pensions Board held in Committee Room 4, Islington Town Hall, Upper Street, N1 2UD on 5 December 2022 at 6.00 pm.

Present: Alan Begg, Mike Calvert, Valerie Easmon-George, Maggie Elliott (Vice-Chair) and Councillor Dave Poyser (Chair)

Observer: Councillor Paul Convery

Councillor Dave Poyser in the Chair

53 APOLOGIES FOR ABSENCE (Item A1)

George Sharkey.

54 DECLARATION OF INTERESTS (Item A2)

None.

55 MINUTES OF THE PREVIOUS MEETING (Item A3)

RESOLVED:

That the minutes of the meeting held on 28 September 2022 be confirmed as an accurate record of proceedings and the Chair be authorised to sign them.

56 PENSION ADMINISTRATION PERFORMANCE (Item B1)

RESOLVED:

(a) That the number of members auto-enrolled into the LGPS during the period 1 August to 26 October 2022 and the information in respect of the Internal Dispute Resolution Procedure, compliments and complaints, all as detailed in the report of the Corporate Director of Resources, be noted.
(b) That the performance data for the administration activities of the Council's Pensions Office, again as detailed in the report, be noted.
(c) That it be noted that there were currently no Audit Investigations taking place in Pensions Administration.
(d) That progress on key projects by the Pensions team, such as transfer of the pension server to the Cloud and development of a member self-service platform, be noted.

57 PENSION DISCRETION POLICIES REVIEW (Item B2)

A suggestion was made that a guide for employers, explaining each discretion and its meaning for the employer and employee, be included with the policy document.

RESOLVED:
That the proposal to include a change to the Discretions Policy, by the introduction of a Shared Cost Additional Voluntary Contributions Scheme, be approved and that the Policy be noted.

58 DRAFT FUNDING STRATEGY STATEMENT FOR CONSULTATION (Item B3)

A representative from Mercer, the Fund Actuary, introduced the report to the Board, setting out the funding strategy for the Fund.

The Board noted that the results of the 31 March 2022 actuarial valuation had shown that the Fund was 96% funded, representing a deficit of £79m. The Board were keen to see the deficit reduced as far as possible and requested the Corporate Director of Resources to make a formal request to the Council to contribute towards the deficit.

RESOLVED:
(a) That the summary of the main updates in the draft Funding Strategy Statement which was to be the subject of consultation with employers between December 2022 and January 2023 and attached to the report of the Corporate Director of Resources be noted.
(b) That officers update the draft Funding Strategy Statement with the Fund Actuary for consultation with the Employers who are admitted into the Islington Fund.
(c) That officers be authorised, where necessary, to update and finalise the draft Funding Strategy Statement at the next meeting in March 2023.
(d) That the Corporate Director of Resources be requested to make a formal request to the Council to contribute towards the deficit.

59 PENSION BOARD FORWARD WORK PROGRAMME (Item B4)

RESOLVED:
(a) That Appendix A to the report of the Corporate Director of Resources, comprising the forward plan of business for the Board, be noted.
(b) That the Risk Register be reviewed every quarter, rather than the current 6-monthly.
(c) That the Pension Regulator Toolkit for Board members on training, knowledge and understanding, be recirculated.
(d) That information be included on future agendas, as necessary, on guidance from the Scheme Advisory Board to ensure that the Board is complying with Pensions' regulations.

60 ANNUAL MEETING FOR MEMBERS OF THE PENSIONS SCHEME

The Chair reminded all present that the Annual Meeting for members of the Fund would take place this coming Thursday, 8 December 2022, at 1.00pm in the Islington Assembly Hall.

The meeting ended at 6.55 pm

CHAIR

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Resources Department
7 Newington Barrow Way
London, N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 6th March 2023

Subject: PENSION ADMINISTRATION PERFORMANCE

1. Synopsis

1.1. This report provides the Board with information on the administration activities and performance of the Pension Administration. The information is in respect of the period from 1 November 2022 to 31st January 2023 and includes the number of Local Government Pension Scheme (LGPS) members auto-enrolled into the scheme for this period.

1.2. The report also provides information regarding the Internal Dispute Resolution Procedure (IDRP), compliments and complaints.

2. Recommendations

2.1. To note the number of members auto-enrolled into the LGPS during the relevant period.

2.2. To note the information in respect of the IDRP, compliments and complaints.

2.3. To review the performance data for the administration activities of the Council's Pensions Office.

2.4. To note any new Internal Audit Investigations in Pensions Administration

2.5. To note the latest pension news roundup.

2.6. To note the LGPS Current issues published by Mercer's February 2023 (Appendix 1)

3. Background

3.1. The membership profile on October 2022 and January 2023 is shown in the following table.

Category	Oct-22	Jan-23
Number of current active members	6,591	6,710
Number of preserved benefits	8,587	8,532
Number of Pensions in payment	6,338	6,512
Number of Teachers Comp Pensions in payment	111	108
Number of Spouses/dependants pensions in payment	990	998
Number of Teachers Comp Spouses Pensions in payment	10	11
Total	22,627	22,871

Active membership as seen a marginal increase of just under 0.2%. The Fund's preserved beneficiaries show a margin reduction of 0.6% and the pensioners continue to grow with a 2.75% increase during this period.

3.2. The table below shows performance against case type for the period from 1 November to 31 January 2023:

Process	**Total Cases Processed**	**Target Days**	**% Achieved within target days**	**Actual average days**
Deaths	43	10	94.0%	12.0
Retirement benefits	48	7	92.0%	10.0
Pension estimates	143	10	95.0%	14
Preserved benefits	20	30	89.0%	33.0
Pension Payroll Adj.	34	10	100.0%	9
Transfer-in quotation	36	10	80.0%	18.0
Transfer-in actual	69	10	83.0%	15.0
Transfer out quotation	21	15	100.0%	12.0
Transfer out actual	6	12.5	100.0%	11.0
Transfer out (Non-Public Sector) actual	0	-	-	-
Refunds	24	10	99.0	11.0
Starters	107	30	84.0%	31.0
All key processes	551		82.0%	

Overall performance has dipped by 2% from the 84% achieved in the last quarter in completed processes within the target days. This drop in performance is largely due to the Christmas holiday period, resourcing gaps and the increasing complexity of the function. Successful recruitment during this period will mean the introduction of new staff appointments in March 2023 which will provide additional support in managing and improving on our key processes.

An additional key process 'Refunds' has been added to table 3.2.

3.3. The table below shows the number of members auto-enrolled into the LGPS from November 2022 to January 2023:

Month	Starters No.	Opt Outs	Opt Outs %
November	67	0	0
December	30	0	0
January	80	0	0
Total	177	0	0

3.4. The Pension Office received -11- communications thanking Pension Administration staff for their service and -4- complaints. All complaints were resolved without escalating to the Pension Fund's Internal Dispute Resolution Procedure (IDRP).

Audit Investigations

3.5. No new cases of potential fraud have been identified by the Pensions Office and reported to Internal Audit for investigation during this period.

4. Pension News Roundup

4.1 The Department for Levelling Up, Housing and Communities has issued a consultation on moving the CARE revaluation date from 1st April to 6th April, if implemented this will take a significant body of members out of scope for the Annual Allowance tax charge.

4.2 The Pensions Regulator has issued new guidance on Cyber risk and the key security principals that administrating authorities need to adopt to protect member data.

4.3 The Pensions Regulator on the 12th of January 2023 published an updated version of their transfer guidance for administering authorities. The updated guidance makes it clear that members considering transferring to a defined contributions scheme must book a MoneyHelper safeguarding guidance appointment.

4.4 The Scheme Advisory Board have announced that they will be publishing updated guidance on McCloud data issues by the end of February 2023.

5. Implications

5.1. Financial Implications

5.1.1. The cost of administering the LGPS is chargeable to the Pension Fund.

5.2. Legal Implications

5.2.1. There are no specific legal implications in this report.

5.3. Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

5.3.1. None applicable to this report. Environmental implications will be included in each report to the Pension Board/Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is: https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

5.4. Equalities Impact Assessment

5.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

5.4.2. An Equalities Impact Assessment is not required in relation to this report, because there are no adverse impacts in terms of equalities arising from the contents of this report. The LGPS is a statutory public service pension scheme open to all Council employees.

6. Conclusion and reasons for recommendations

6.1. The report will be made to each meeting of the Pension Board and is provided in order to assess administration performance and dispute resolution.

Appendix: Appendix 1- LGPS Current Issues Feb'23

Final report clearance:

Authorised by:

Corporate Director of Resources

Date: 23 February 2023

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Mercer

LGPS CURRENT ISSUES

February 2023

welcome to brighter

In this edition

Whilst markets appear to have stabled, relative to the volatility seen in 2022, a number of regulatory developments are expected in the coming months. Together with work to finalise the actuarial valuations in England and Wales, preparatory work for the valuations in Scotland, and ongoing work in relation to McCloud, Climate Risk, Pension Dashboards etc. there is still plenty to keep LGPS Funds occupied as we approach the end of the financial year.

In this edition, alongside celebrating the history of the Oscars which take place in March, we provide brief updates on recent developments and commentary on what to expect over the next months including commentary on Cyber Risk and how we can help you in this area.

Click on the headings below to go straight to that section.

Investment Update

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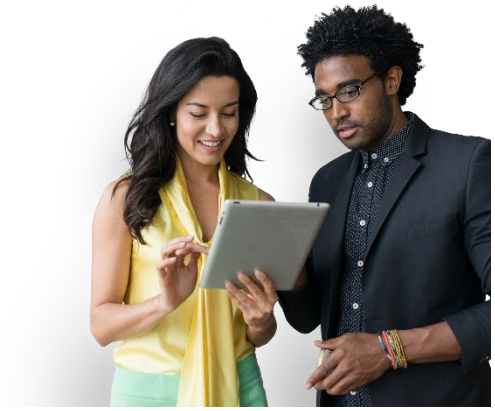
LDI Guidance

Following the market turmoil in the autumn of 2022, at the end of November 2022, a number of regulators issued a package of guidance and statements for liability driven investment (LDI) managers and investors to address the instability in the gilt market after the September “mini budget”. LGPS Funds with leveraged LDI portfolios should ensure they have reviewed the guidance with their investment adviser and are taking appropriate steps to meet regulatory expectations.



The initial statement was from National Competent Authorities (NCAs), which regulate LDI funds in the country in which their provider is based. This was followed by a statement from the Financial Conduct Authority (FCA) directed at LDI asset managers and guidance from the Pensions Regulator (TPR) for trustees of occupational DB schemes who have leveraged LDI investment allocations.

The overarching theme from all the regulators is that an appropriate yield buffer is deemed to be 3-4% and this needs to be accompanied by robust governance to withstand stressed market conditions.

The FCA plans to maintain a supervisory focus on market participants to ensure vulnerabilities identified are addressed and intends to publish a further statement on good practice towards the end of the first quarter of 2023.

For LGPS Funds with LDI portfolios, please contact your usual Mercer consultant if you want to discuss what changes you may need to implement in relation to the above.

Climate Risk Lawsuit - Shell

On 9 February 2023, Client Earth launched the first ever derivative action in the High Court in England and Wales against the board of directors of Shell for failing to manage the material and foreseeable risks posed to the company by climate change. The claim is supported by a number of institutional investors, including the London CIV, who have sent a letter of support to Client Earth. This support follows a letter issued by the CIV to Shell in October 2022 for which no response was received.

The record for the shortest acceptance speech is shared by renowned director Alfred Hitchcock and William Holden. They both simply said, "Thank you."

“Edinburgh Reforms”

On 9 December 2022, the Chancellor announced a set of reforms to drive growth and competitiveness in the financial services sector, collectively known as the “**Edinburgh Reforms**”. The package, consisting of 30 measures, are divided into four categories – a competitive marketplace promoting effective use of capital, sustainable finance, technology and innovation, and consumers and business.

The statement also confirmed that the Government would be consulting on asset pooling in “early 2023” (as previously expected) and also consulting on a requirement for LGPS Funds to consider investment opportunities in illiquid assets such as “venture and growth capital”.

Further details in relation to these consultations and what the requirements on LGPS Funds will be, are now awaited.

Walt Disney has the most Oscar wins of all time. In all, he has won 22 competitive Oscars and 3 honorary ones, out of a total of 59 nominations.

Mercer’s LGPS Sustainable Investment Conference (8 March)

Join our Mercer experts and guest speakers at our Sustainable Investment Conference on **Wednesday 8 March 2023** at our London Office, specifically for those responsible for LGPS Funds and Pools, as we explore TCFD**,** Levelling Up, and biodiversity and natural capital**.** The agenda is now available and can be viewed **here.**

You can register your place using the link here.
Secure your place

Funding Matters

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2022 and 2023 Actuarial Valuations

Across England and Wales, the 2022 actuarial valuations are entering into the final stages where Actuaries will be preparing their final reports to sign off employer contribution outcomes with any changes taking effect from 1 April 2023. Funds will need to ensure their Funding Strategy Statements are approved by Committees and finalised and consider their approach for monitoring and review of funding positions over the inter-valuation period.

The only sequel to have won Best Picture is *The Godfather: Part II* (1974).

In Scotland, preparatory work will have already begun in relation to the 31 March 2023 actuarial valuations. Despite market volatility, Funds will generally be expected to be in a healthy position relative to the previous valuation in 2020 and as for England and Wales, balancing risk vs as employer affordability will again be a key driver when determining valuation outcomes as employer finances in many cases will be even more stretched over the next few years.

Climate Change Scenario Analysis

Whilst a lot of focus to date has been on how climate change may impact Fund's assets, as part of the 31 March 2022 valuation reporting in England and Wales, there is a requirement for Actuaries to identify the impact of transition risk (shorter term) and physical risks (longer term) on potential funding outcomes. The outcomes of any scenario analysis undertaken and supporting comments will be included in the final valuation report. Funds will also be required to include a statement in their Funding Strategy Statement.

The Government Actuary's Department's (GAD's) core requirements are that Funds will at least model the progression of the funding level over 20 years on **two climate change scenarios** – one of which will be "Paris aligned" and the other consistent a higher temperature outcome.

The record for total Oscar wins in one year is 11. Three films have done it: Ben-Hur (1959), Titanic (1997), and The Lord of the Rings: The Return of the King (2003).

However we are finding Funds are generally looking to undertake a broader analysis so as to dovetail with the work done (or due) in relation to their investment strategy. Such analyses will look at impacts over the short, medium and longer term (e.g. 5, 20 and 40 years) in terms of the outcomes and also the effects of alternative investment strategies (in particular any change to their sustainable investments) in order to provide a form of measurement of the potential impact.

Mercer's climate scenarios have been developed in collaboration with Ortec Finance and price in shocks when the markets account for future impacts (both physical and transition impacts). There is also a granular insight into sector and regional impacts for equities, corporate bond and high yield allocations, with fixed income analysis considering the impact of changes in yield, spread, transitions and defaults.

SAB 2022 Scheme Valuation Report and Section 13

As the 2022 valuations are completed, Funds and Actuaries will be required to collate information to provide to the Scheme Advisory Board (SAB) for preparing the Board's 2022 Scheme Valuation Report and also to GAD for the purpose of the Section 13 assessment that they will undertake.

The oldest Oscar winner to date was Anthony Hopkins, who won Best Actor in a Leading Role for The Father (2020) at 83 years old.

Cyber Risk

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Pension schemes, including LGPS Funds, are vulnerable to cyber-attacks due to the large amount of assets and personal data they hold, as well as frequent financial transactions between stakeholders. Because of this, cyber risk for pension schemes is a topical and rapidly evolving area and is one of the growing threats to the security of members' benefits

TPR has guidance that sets expectations for trustees and administering authorities to consider how well Funds are protected against cyber risk. This will be incorporated as a module in the forthcoming single code of practice.

As this is a relatively new and developing area for pension schemes, it is important that administering authorities understand where to start the conversation and what actions they need to take.

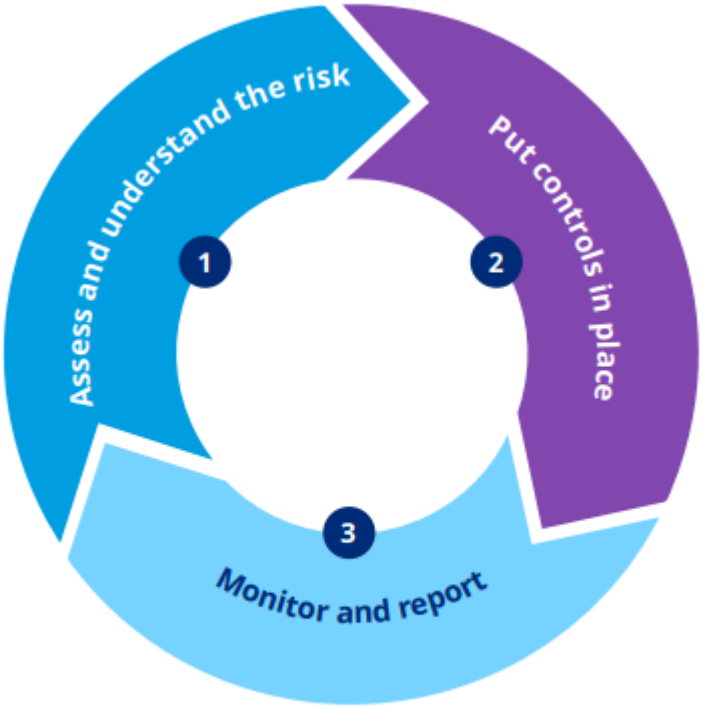
Having cyber risk on the agenda for Committee/Board meetings, and discussing with providers (e.g. third party administrators / advisers etc.) what controls are currently in place to protect the fund, is a good starting point. TPR's guidance contains questions for carrying out cyber risk assessments, which are summarised below and can be used as initial discussion points:

- Is the cyber risk on the risk register and is it regularly reviewed
- Do the scheme managers i.e. officers have access to the right skills and expertise to understand and manage the risk?
- Are sufficient controls in place to minimise the risk of a cyber-incident occurring?
- Is there a response plan in place to deal with any incidents which occur and help swiftly and safely resume operations?
- Do the suppliers have business continuity plans in place?
- Are the controls, processes and response plans regularly tested and reviewed?
- How are the scheme managers keeping up to date with information and guidance on threats?

How Mercer can help

We have been working with cyber experts at our sister company Marsh to provide pension funds with solutions in the form of training sessions, reviewing cyber policies and risk registers as well as developing incident response plans.

Please get in touch with your usual Mercer consultant to discuss your scheme's specific needs to manage cyber risk and we'd be happy to explore how we can help you in this area.



Source: https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles

The Matrix received four Oscar nominations (1999) and won in all four awards in four different categories, which included Film Editing, Sound Mixing, Sound Editing and Visual Effects.

No sci-fi film has ever won a Best Picture. Not *Star Wars* (1977), *E.T* (1982) or even *Avatar* (2009), which was the highest grossing film of all time when it lost the award.

Regulatory round up

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CARE Revaluation Date Consultation

On 10 February 2023, a consultation was published by the Department for Levelling Up, Housing and Communities (DLUHC) to consult on changes to the LGPS Regulations 2013 to give effect to the change in the annual revaluation date from 1 April to 6 April.

Meryl Streep is the record holder for the most total Academy Award acting nominations with 21. She's won three times.

The proposals seek to realign the annual revaluation of CARE benefits with the revaluation applied when determining a members Pension Input Amount (the value of growth in a member's benefits during a Pension Input Period). For 2022/23 in particular, the current disconnect between the two revaluations would lead to a greater number of members potentially being subject to an annual allowance tax charge.

From a member perspective, the change would reduce the potential for tax charges to be incurred and so will be seen as a positive change. The proposals also seek to mitigate the impact on those members where "member events" e.g. leaving/retiring etc. occur during the 1 to 5 April period.

There will also be administrative advantages to the change given the number of members who will need to be provided with a Pension Savings Statement will be lower than under the current approach and the number of queries that subsequently emerge will also reduce.

Given the timescales involved for any changes to be implemented, this consultation will only run for 2 weeks to 24 February 2023.

SAB Cost Management Process Consultation

On 30 January 2023, DLUHC published a consultation setting out proposed updates to the SAB cost management process for the LGPS. This follows from GADs report into the HMT cost management process and the resulting policy and legislative changes that followed. The proposed changes that are being consulted on are:

- A requirement to undertake the LGPS Scheme Valuation on a 4 yearly cycle rather than 3, thus bringing it into line with other public service schemes. (N.B. This doesn't change the requirement to undertake individual LGPS Fund valuations on a triennial basis.)
- Incorporating more flexibility if the SAB decide to make recommendation on costs.
- Ensuring the SAB is consulted on the technical accuracy of any changes in regulations that may be needed to incorporate the new "economic check" mechanism into the updated HMT cost management process, prior to implementation.

The consultation ends on **24 March 2023.**

Climate Change Risk Consultation

The long awaited consultation issued by the UK government on 1 September 2022 in respect of their proposals on how LGPS Funds will be expected to report on climate change risk and their governance approach to it, closed on 24 November 2022. A copy of the SAB response that was submitted on 18 November 2022 can be found here. A response to the consultation by the government is now awaited.

Since 1960, three black and white films have won Best Picture: The Apartment (1960), Schindler's List (1993), and The Artist (2011).

McCloud Remedy (Various)

Tax: On **24 November 2022** HMRC launched a consultation on how pension tax will apply to members protected by the McCloud remedy in order to seek views on draft legislation – **The Public Services Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023** – which would become effective from 6 April 2023 (with some provisions having retrospective effect).

Not all provisions within the draft legislation cover the LGPS given the legislation covers all public service pension schemes and the LGPS remedy is very different. The draft legislation (relevant to the LGPS) includes annual allowance treatment, individual/fixed protection for lifetime allowance considerations, and comment in a number of areas in relation to benefit

On **6 February 2023** the Regulations were laid and become effective from 6 April 2023.

Powers: On **14 December 2022** HMT made the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022 which came into effect on 19 December 2022. The Directions set out how certain powers in the Public Service Pensions and Judicial Offices Act 2022 must be exercised e.g. linked to the payment of compensation/interest etc.

The making of the Directions enables relevant departments to start consulting on regulations.

Teachers: It has been confirmed that the implementation of the McCloud remedy in the Teachers Pension Scheme (TPS) will have implications for the LGPS given that some teachers will be retrospectively eligible for LGPS membership during the period 1 April 2015 to 31 March 2022. Eligibility would be for those teachers who had a part-time employment, in addition to a full-time employment, given the part-time role would not have been pensionable in the TPS legacy scheme.

In such cases the member would have been enrolled into the LGPS. An administrative process, for dealing such cases, will be needed and the LGA will work together with the DfE and DLUHC on this matter. The DfE is also to begin contacting relevant schools to confirm employment status of members during the remedy period.

Judicial Review: **On 31 January 2023,** the Judicial Review (brought by the British Medical Association and the Fire Brigades Union) over the government proposed method of paying for costs incurred by the McCloud Judgment began. The outcomes of this review may have implications for the LGPS and the outcomes of the 2016 cost management process that were announced in 2022.

Further Education Bodies

On **29 November 2022**, following the review being undertaken by the ONS, the ONS has reclassified colleges and their subsidiaries into the central government sector. The response to the consultation can be found here.

The youngest Oscar winner ever was Tatum O'Neal, who won Best Supporting Actress for Paper Moon (1973) at just 10 years old.

Although the consultation response confirms the reclassification it confirms no impact on the LGPS and further details are still awaited in relation to additional covenant assurances/guarantees for Further Education (FE) employers. FE employers will also now be removed from the separate consultation on the eligibility of FE and Higher Education employers (in particular Post 1992 Universities) in the LGPS and whether the LGPS needs to be offered to support staff.

Other regulatory news in brief

TPR's New Single Code of Practice – The new Code is now expected to be published in its final form in the next few months. It will consolidate and re-write a number of existing codes, formalise the requirement for an Effective System of Governance, and (for pension schemes with 100 or more members) introduce the new Own Risk Assessment. New actuarial, internal audit and risk functions will also be required, and cyber risk, stewardship and climate change will be included in a code of practice for the first time.

And in other news…

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Ministerial Appointment

In November 2022, Lee Rowley MP replaced Paul Scully MP as the Minister of State for Local Government and Building Safety. The Scheme Advisory Board wrote to the Minister to welcome him to the role. The letter can be found here.

LGPS Frameworks – The National

LGPS Frameworks have written to administering authorities to ask for volunteers to act as founders for two new frameworks that will launch later this year – AVCs and Integrated Service Providers (ISP)/Member Data Services.

Review of TPR

DWP have announced the appointment of Mary Starks to lead a review of The Pensions Regulator (with the report expected to be delivered in May 2023).

CMI Investigation

The Continuous Mortality Investigation (CMI) has launched a consultation on how it should include mortality data for 2022 in the CMI_2022 version of its mortality projections model, which is used to estimate improvements in life expectancies of pension scheme members.

According to the consultation, adopting CMI_2022 will reduce projected life expectancies (and thus liabilities potentially) compared to earlier versions of the model. The impact will vary based on scheme characteristics and the final approach adopted by the CMI. The CMI aims to publish the model in June 2023.

Peter Finch (Network) and Heath Ledger (The Dark Knight) are the only actors to be awarded an Oscar posthumously.

Pensions Dashboards Update

There have been a number of updates recently in the Pension Dashboards programme. Further information can be found on the PDP website.

In summary:

At the end of November 2022 The Pensions Dashboard Regulations 2022 were made and came into force from 12 December 2022.

In terms of guidance/consultations, the following have been released.

- Early Connection Guidance
- Deferred Connection Guidance
- TPR Consultation on Compliance
- FCA Consultation on Regulatory Framework for dashboard operators.
- PDP Consultation on Dashboard Standards

Given the pace of developments relating to Pensions Dashboards, the LGA is looking to pull together a guide to assist LGPS administering authorities with the actions they need to take to ensure compliance.

Meet the team

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Name: Ciaran O'Donnell
Role: Associate Valuation Services Team Leader
Joined Mercer: November 2005
Place of Birth: Belfast
Favourite film: I love all of Chris Nolan's films, but I'll have to go for Indiana Jones and the Last Crusade. Adventure, plenty of wise-cracks and that John Williams theme. It did win an Oscar also in 1989 – Best Sound Editing!
Favourite actor: Harrison Ford. Played Indy, Han Solo and Deckard so that's good enough for me.
If you were an actor, what type of film would like to feature in: Sci-Fi

Name: Lucy Tusa
Role: Senior Investment Consultant
Joined Mercer: April 2007
Place of Birth: Gloucester, UK
Favourite film: Rocketman, various awards but not no Oscar unfortunately.
Favourite actor: Alfred Enoch – expect great things from him!
If you were an actor, what type of film would like to feature in: Cartoon

Name: Laura Cain
Role: Senior Investment Analyst
Joined Mercer: 2017
Place of Birth: Manchester
Favourite film: Would have to go with Notting Hill if we're going for a classic feel-good film. No Oscar but most popular film at the 2000 BAFTAs!
Favourite actor: Hugh Grant (see above, second entry would have been Love Actually…)
If you were an actor, what type of film would like to feature in: Definitely RomCom. I'm sure you're sensing a theme here.

Contacts

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For further information on how Mercer can help LGPS Funds and their stakeholders, please visit our website at www.uk.mercer.com/lgps

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Resources Department
7 Newington Barrow Way
London, N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 6th March 2023

Subject: LGPS – Pensions Risk Register

1. Synopsis

1.1. The Pensions Risk Register (PRR) outlines the key objectives of Islington Pension Fund and its administration; establishes the methodology for implementing proactive risk management to ensure that Islington Pension Fund has sufficient assets to meet its pension liabilities in accordance with the Pensions Regular code of practice.

1.2. This report summarises the risks that have been reviewed during the period from November 2022 to February 2023. The PRR (Appendix 1) is prefaced by an explanatory table (risk matrix) that sets out how the impact and likelihood ratings of 'low', 'medium' and 'high' rating can be interpreted.

2. Recommendations

2.1. To note the contents of the report and revisions made to the PRR.

2.2. To note the risk associated with incomplete dataset provided by a third-party agent has moved from an initial score rating of 8 to 15 following data quality audit as part of the 2022 Pension Fund valuation.

2.3. To note the risk associated with the late provision of payroll reports has moved from an initial score rating of 10 to 20, as this is yet to be resolved and year end is fast approaching.

2.4. To note the risk associated with the Council's AVC Providers failure to produce year-end Annual Benefit Statements and Statement of Accounts, as moved from an initial score rating of 15 to 12, following positive engagement with the AVC Providers.

3. Strategy & Finance, People

Risk – Member data incomplete or inaccurate

3.1. The Pensions Office has received incomplete member data from St Mary Magdalene Academy – The Courtyard regarding new starters. The Pensions Office has informed the Headteacher at the Academy and follow-up reminders sent. The Academy are waiting on their payroll team to provide the information requested. The initial risk score of 8 has been reassessed and moved to a current risk score of 10.

Risk – The late provision of payroll reports

3.2. The provision of timely accurate year end payroll reports remains a concern. Work has only recently started on creating the required reports, this delay will make the year-end process more challenging. It is clear that this area needs to assume a much higher priority and dialogue is ongoing with HR and an external consultant to develop bespoke reports. In view of the actions taken to date the score rating as moved from an initial rating 10 to 15.

4. Finance (Strong Financial and Contract Management)

Risk – AVC Providers failure to produce year-end Statement of Accounts

4.1 Early engagement with AVC Providers have proved constructive in identifying key contacts and their understanding of our timelines and their obligation to meet them. Assurances and actions taken by the AVC Providers provides reasonable assurance of an improvement in service which will be monitored. The current risk score as consequently been re-assessed and moved from an initial 16 to 12.

4.2 In reviewing and making revisions to the PRR in accordance with the Pensions Regulator code of practice issued under section 90(2)(k) of the Pensions Act 2004, the Pension Fund must have regard to the extent to which the exercise of identifying and evaluating risks and the mitigation satisfy the legal requirements to have appropriate internal controls.

4.3 **Appendix 1** sets out the current risks identified by the Pension Fund in collaboration with the Council's Pensions Board. Further reviews and updates to the PRR will be presented to the Pension Board periodically throughout the year.

5. Implications

5.1. Financial Implications

5.1.1. The cost of administering the LGPS is chargeable to the Pension Fund. There are no financial implications arising directly from the report.

5.2. Legal Implications

5.2.1. There are no specific legal implications in this report. The Pensions Regulator code of practice requires the Pension Fund to prepare, review and publish a Pensions Risk Register. This Register must thereafter be kept under review.

5.3. Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

5.3.1. None applicable to this report. Environmental implications will be included in each report to the Pension Board/Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is: https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

5.4. Equalities Impact Assessment

5.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

5.4.2. An Equalities Impact Assessment is not required in relation to this report, because there are no adverse impacts in terms of equalities arising from the contents of this report. The LGPS is a statutory public service pension scheme open to all Council employees.

6. Conclusion and reasons for recommendations

6.1. There is a legal requirement for the Pension Fund to regularly review its Risk Register. In identifying and reviewing the Register the Pension Fund must have regard to ensuring effective internal controls that will not lead to a serious loss of confidence in the public service.

Appendices: Appendix 1

Background papers:

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

Report Author: Patrick Fullerton, Pensions Manager
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Email: patrick.fullerton@islington.gov.uk

Islington Council
Pensions Risk Register 2023

The Pensions Risk Register outlines the key objectives of the Pension Fund and its administration; establishes the methodology for implementing proactive risk management to ensure the 'Fund' has sufficient assets to meet its pension liabilities.

The Pensions Risk Register is forward looking and under continuous review with relevant stakeholders to identifying potential problems and the tools needed to mitigate any obstacles that may endanger critical objectives.

The Pensions Risk Register sets out these risks and the risk matrix assesses the probability and impact.

Risk scoring guide

Likelihood ratings	Description	Example	Probability	
1	Rare	Very unlikely that this will ever happen.	1%	1 in 100
2	Unlikely	Expected to occur in only exceptional circumstances.	10%	1 in 10
3	Possible	Expected to occur in some circumstances. Has happened elsewhere.	20%	1 in 5
4	Likely	Expected to occur in many circumstances. Has happened in the past.	50%	1 in 2

Impact Score	Financial	Service Delivery	Reputation
5	Over £1M	Repeated disruption of a core/critical service	Long-term reputational damage
4	£500K - £1M	Major disruption to a critical service	Medium term reputational damage
3	£100K-£500K	System failure/Cyber attack	Adverse media coverage. Reputational damage
2	£10K - £100K	Disruption of service affecting multiple pension scheme members	Adverse local media coverage
1	£1K - £10K	Disruption of service affecting an individual	Unaffected

IMPACT	Rare	Unlikely	Possible	Likely
5	5	10	15	20
4	4	8	12	16
3	3	6	9	12
2	2	4	6	8
1	1	2	3	4
	1	2	3	4

LIKELIHOOD

Definition
Risk: An action or event that will affect the Pension Fund's ability to achieve it's objective

Assessing Risk

Date: 20/02/2023

Low
Medium
High

No	Objective	RISK Identified	Cause	Consequence	Current Risk Score			Current controls in place to manage risk	Risk Evaluation (drop-down list)	Further actions to mitigate risks	Risk rating following mitigation	Target Date	Risk Owner
					Impact (1=Low, 5=High)	Likelihood (1=Low, 4=High)	Combined Score						
1	**Strategy & Finance, People** To grow membership and confidence in pension scheme administration.	Loss of data by administrator	Fire, flood, IT Breakdown, Cyber-attack. System failure.	Loss of sensitive data. Timely pension payments not made to members and third parties.	4	2	8	Business continuity plan. Daily & weekly backups kept offsite.	Treat	Disaster Recovery Plan. Moving servers to the cloud	6	Jul-23	Pensions Manager/Deputy Manager
		Member data incomplete or inaccurate	Incomplete dataset provided by payroll or third party agent	Leads to reputational damage/financial loss	2	5	10	Pro-active engagement with internal and external employers, school Business Managers and payroll providers.	Treat	Regular data Quality Auditing	8	Apr-23	Pensions Manager/Deputy Manager
		Poor administration of pension fund leads to complaints	Resourcing/inadequate training of staff	Strong dependency on key staff and failure to recruit.	2	4	8	Invest in staff, their development, workloads and review compensation.	Treat	Review complaints register and establish corrective actions	6	Ongoing	Head of Treasury & Pension Fund
		Internal Fraud	Inadequate internal fraud controls	Fraudalent activity resulting loss of benefits to fund members. Adverse impact on the Pension Fund.	4	1	4	Cross checking of work and the segragation of duties.	Treat	Internal & External Audits. National Fraud Initiative Exercise, NI Database check. Life certificates.	2	Ongoing	Head of Treasury & Pension Fund
		Failure to deduct accurate employee/employer contributions (Corporate Payroll)	Payroll calculation failure	Additional work to request and correct data. Financial Loss. Reputational damage	4	1	4	Monthly reconciliations.	Treat	Regular Data Contributions Audit	2	Apr-23	Head of Treasury & Pension Fund
		The late provision of payroll reports (Corporate Payroll)	Resourcing	Late issue of pension statements & govt. statutory returns.	5	3	15	Pro-active engagement with Payroll Manager and other relevant stakeholders. Use of External Consultant	Treat	Establish self-service running reports	12	Apr-23	Pensions Manager/Deputy Manager
		Failure to apply correct Pensions Increase (Corporate Payroll)	Software design fault/training required	Inaccurate pension benefit calculations and reputational damage	5	3	15	Pro-active engagement with Payroll Manager and other relevant stakeholders	Treat	Early engagement with software suppliers to find a solution & test	12	Apr-23	Pensions Manager/Deputy Manager
		Failure to deduct accurate employee/employer contributions (External Payroll Providers)	Payroll calculation failure	Additional work to request and correct data. Financial Loss. Reputational damage	4	3	12	Monthly reconciliations.	Treat	Data Contributions Audit	8	Apr-23	Head of Treasury & Pension Fund
		The late provision of payroll reports (External Payroll Providers)	Ineffective planning	Late issue of pension statements & govt. statutory returns.	4	3	12	Pro-active engagement with external payroll provider and other relevant stakeholders	Treat	Establish self-service running reports	9	Apr-23	Pensions Manager/Deputy Manager
		Low take-up of pension scheme membership	Cost/Retirement Age/Personal Pension	Increased employer costs	4	2	8	Comms & website on the benefits of scheme membership. Pension surgeries.	Treat	Further promotion of the pension scheme. Auto-enrolment	4	Ongoing	Pensions Manager/Deputy Manager
		Remedies in relation to the mccloud judgement	Unlawful age discrimination.	Increased employer costs	4	3	12	To ensure the accurate re-calculation of pension benefits.	Treat	Report the final outcome to actuary	8	May-23	Pensions Manager/Deputy Manager
		Lack of understanding among scheme members of scheme issues/options	Limited awareness/Comms Deficit	Complaints/Opt-outs	2	3	6	Comms & website on the benefits of scheme membership 50/50 & AVCs. Pension surgeries on AA & LTA.	Treat	Work with HR to run surgeries on Wellbeing & pension planning. The annual pension statements will direct members to LBI's pension website for guidance notes and other information in relation to pension planning.	4	May-23	Pensions Manager/Deputy Manager
2	**Contract Management** To establish robust data security and to avoid system failure	Pension database may not be secure and appropriately mantained	Poor management/inadequate training	Service impairment and financial lost to the Pension Fund.	5	2	10	Electronic access control systems are deployed on Islington's network that rely on user credentials and authentication. Passwords are regularly changed and there are robust user administration procedures to access the pension's database. The system is regularly updated to ensure regulatory compliance with the LGPS and is protected against viruses and other types of malware.	Treat	Moving servers to the cloud	8	Jul-23	Pensions Manager/Digital Services
3	**Finance** Strong Financial and contract Management	Loss of Investment returns	Market turbulence/Inflation	Reduction in asset market values.	5	3	15	Clear investment strategy,quarterly monitoring of managers' performance and a diversfied portfolio	Treat	Managers are set 3 year + targets as long term investors. On apointment a terms of reference is agreed as a tool to monitor and identify scrutiny level.	10	Ongoing	Director of Finance/Pension Sub-Cttee
		Failure of non-public sector employers	Poor Management/Market Adjustments	Additional cost to the Pension fund.	4	3	12	Use of bonds and guarantees. Governance monitoring.	Treat	Triennial valuation process of determining contributions consults with employers to agree affordability and sustainability of the Fund	8	Ongoing	Head of Legal/Head of Treasury & Pension Fund
		AVC Providers failure to produce year-end SOA	Resourcing issues with AVC Providers	Late reporting of AVC funds, delay in year end fund closure.	4	3	12	Early engagement with AVC Providers.	Treat	Reporting any breach to the Pensions Regulator.	10	Apr-23	Pensions Manager/Deputy Manager

No	Objective	RISK Identified	Cause	Consequence	Current Risk Score			Current controls in place to manage risk	Risk Evaluation (drop-down list)	Further actions to mitigate risks	Risk rating following mitigation	Target Date	Risk Owner
					Impact (1=Low, 5=High)	Likelihood (1=Low, 4=High)	Combined Score						
		Failure to sign off annual accounts and reports on time	Late information from 3rd parties	Qualified audit opinion	3	1	3	Early dialogue with external auditor.	Treat	Ensure external audit work is complete.	1	Mar-23	Director of Finance/Head of Treasury & Pensions
		Employer failure to pay monthly contributions into scheme	Poor staff oversight by external body	Late receipt of contributions,	2	3	6	Monthly monitoring of contribution payments by Treasury & Pension Admin Staff	Treat	Regular quarterly Audits reviews.	4	Ongoing	Pensions Manager/Deputy Manager
4	**Governance & Compliance** Compliance with statutory regulations and guidance issued by TPR and LGA	Failure to interpret rules or legislation correctly	Poor management/inadequate training	Financial & reputational damage	4	2	8	Treasury and Pensions Admin review LGA, TPR and SAB website, other literature and have networking arrangements to ensure they remain up-to date. Membership of relevant professional groups ensures any potential changes in statutory requirements are properly implemented.	Treat	All staff go on relevant training courses at the LGA as appropriate to remain up-to date on Pension issues.	6	Ongoing	Pensions Manager/Deputy Manager
					3	2	6	Altair system calculation checks to ensure compliance with LGPS regulations.	Treat	Regular review of updates and patches.	4	Apr-23	
					3	2	6	Networking with key partners, Actuaries, Govt. LGA and TPR.	Treat	The Fund's Investment Advisors and Actuary provide briefings on new legislation and guidance on implementation. Auditors also test our process to ensure best practise	4	Ongoing	
		Conflicts of Interest	None disclosure/lack of transparency	Inability for Board member to participate.	2	2	4	All pension board members have completed educational material and training is ongoing	Treat	Conflicts document signed by all pension board members, recorded in conflicts register. Reminder, and any changes or additional conflicts, will be minuted at each pension board meeting.	2	Ongoing	Pension Board Chair/Democratic Services
		Insufficient knowledge and understanding by Pension Board Members.	Lack of knowledge and understanding by Pension Board Members.	Poorly informed for decision making	3	2	6	Members training plan, investment & legal advice	Treat	Re-appraisal of members skillset.	2	Jun-23	Pension Board Chair/Head of Treasury & Pension Fund
		Non-compliance with GDPR requirements	Poor data protection processes/inadequate staff training	Data protection breach and reputational damage.	3	3	9	Review letters/internal processes and procedures, Privacy statements, data share agreements, contracts with 3rd parties. Use of secure portals to share information with key stakeholders, mandatory data protection training for staff.	Treat	Regular review of data protection polices.	6	Ongoing	Pensions Manager/Deputy Manager
5	**Strategy & Finance** Sustainable investment and climate actions	Non-compliance with Investment Strategy Statement	Investment managers fail to take adequate note of ESG risks	Investment in stranded assets. Adverse media courage	4	2	8	Regular monitoring of Investment managers performance	Treat	The fund will monitor ESG risks annually and set targets to mitigate these risks.	6	Ongoing	Pension Sub-Ctte
6	**Customer Outcomes & Quality** Incorrect information in public domain including pension fund website	Non accurate information on information platforms.	Failure to update information platforms.	Adverse media courage. Complaints which take up time to resolve. Compensation payments.	4	2	8	Prompt action to ensure data quality.	Treat	Quarterly review of data on information platforms.	6	Mar-23	Pensions Manager/Deputy Manager

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Report of: Corporate Director of Resources

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pension Board / Pensions sub-Committee

Date: 6th March 2023

Ward(s): n/a

SUBJECT: 2022 ACTUARIAL VALUATION -DRAFT FUNDING STRATEGY STATEMENT CONSULTATION RESULTS

1. Synopsis

1.1 A Funding Strategy Statement will be prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the Regulations, the administering authority must prepare, maintain and publish a written statement setting out their funding strategy. In doing so, the administering authority must consult with such persons, as they feel appropriate. The Fund actuary must have regard to the FSS in carrying out the formal actuarial valuation of the Fund.

1.2 This report informs the pension board and pensions sub-committee of consultation result on the main issues that employers admitted into the Fund were consulted on, in the draft FSS, as part of the 2022 actuarial review

2. Recommendations

2.1 That the Pension Board consider the draft FSS attached as Appendix 1

2.2 That the Pensions sub-committee consider the draft FSS attached as Appendix 1 and note employer comments received from the consultation exercise attached as Appendix 2

2.3 Agree to delegate authority to the Section 151 Officer and Fund Actuary to finalise any agreed amendments and regulatory changes.

2.4 Agree to delegate authority to the Section 151 Officer and Fund Actuary to publish the final FSS as part of the Actuarial Valuation Report

3. Background

Introduction

3.1 The 2022 actuarial valuation is now underway and as part of the process preparatory work is being undertaken to determine the funding position and investment strategy review that can support sustainable contributions from employers.

3.2 The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

It is a statutory document that has to be consulted upon with interested parties and approved by the Pensions sub-committee before the actuarial valuation can be completed. The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement.

3.3 Given the difficult financial environment all employing bodies currently face, the Funding Strategy Statement (FSS) sets out how the issue of affordability is to be addressed in the valuation. In particular, the Fund has taken steps to ensure that as far as possible any increases in contributions are manageable from a budgetary perspective.

3.4 In January and early February, all employers admitted into the Islington council pension fund were consulted to give their views on the 2022 actuarial valuation. They were asked to consider the draft funding strategy statement, in particular the following points:

3.4.1 Consider the FSS to understand the key areas and policies as it will have a financial and operational impact on their organisation but note that whilst consultation responses from all employers in the Fund will be taken into account, it is ultimately the Administering Authority's responsibility to formulate and implement the FSS as part of the valuation process.

3.4.2 Keys areas highlighted for feedback and comments included the below:

- The affordability of contributions and in particular whether there was any particular year over 2023/2026 which will be more challenging. In order to form a view on any further flexibility required e.g. for the Fund to consider phasing of any increases (% rate and/or deficit lump sum).

- Option to prepay deficit lump sums (if applicable) – either on an annual basis or three years up front.

- If the minimum contributions result in a reduction in total contributions over 2023/26 (e.g. if the "Total 2023/26 Projected Contributions" has fallen from the 2019 plan), do

you need to take the full reduction now or could you pay more (e.g. could you pay higher deficit contributions or take a smaller surplus offset back each year)?

- Whether there are any other significant post-valuation date events (e.g. major profile changes that the Fund) that the Actuary should be aware of when setting the final contributions for your employer.

3.5 The results of the consultation are attached as (Appendix 2) and Members are asked to note the results.

3.6 Members are asked to note that there were no employer comments on issues listed in para 3.4, however market outlook has changed compared to March 2022 and that needs to be incorporated in the draft FSS. Members are therefore asked to delegate authority to the Section 151 officer and Fund actuary to finalise the FSS with any updates and sign off the Actuarial Valuation's rate and adjustment certificate by 31 March 2023. The final version of FSS will be published after 31 March.

4. Implications

4.1 **Financial implications**

4.1.1 The cost of providing actuarial advice is part of fund management and administration fees charged to the pension fund.

4.1.2 The funding level of the pension fund directly affects employer contributions. A reduced Pension Fund deficit would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed

4.2 **Legal Implications**

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

Prior to agreeing the statement, the Council must have proper regard to any comments received from the consultees.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is: https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

4.4 **Resident Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked note the consultation results and agree to delegate authority to the Section 151 Officer and the Fund Actuary to finalise the draft FSS for publication after 31 March.

Appendices:

Employer consultation results- Appendix 2

Draft FSS -Appendix 1

Background papers:
None

Final report clearance:

Authorised by: Corporate Director of Resources

Date: 23 February 2023

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

Financial implications Author: Joana Marfoh
Legal implications – Legal (as per previous report)

Appendix 2

Employer Consultation Results

The Islington fund as at 31 March 2022 had 27 admitted employers with active employees.

All employers were asked to comment by 10th February on the approach taken and to confirm their implied rate and past service deficit contribution where applicable. In the absence of any comment to the contrary the implied contribution rate will be certified.

The table below list the active employers written to and their response.

	2022/23 Contribution Rate		**Proposed 2023/24 Contribution Rate (prior to Consultation)**		
Employer	**Future service rate (%)**	**Deficit recovery contribution £'s**	**Future service rate%**	**Deficit recovery contribution £'s**	**Consultation Response**
Volunteering Matters(CSV)	10.8	96,500	14.0	-	Continuing discussions on proposal to agree a cessation date before March 31st
London Borough of Islington	14.6	9,900,000	18.3	4,900,000	Officers discussed the Council's position in line with the FSS parameters and affordability
Elliot Foundation	12.5	17,300	15.7	22,500	No response
Isledon Arts/ Youth Hub	20.9	(1700|)	23.9	(1,500)	No response
Camden & Islington NHS Foundation	29.0	21,100	30.5	0	No response
NCP Services	21.1	(38,6000)	23.5	(12,900)	Had a comment on presentation of rates and currently in surplus.
Islington lighting	26.3	16,300	29.0	(22,700)	No response.
New North Academy	16.9	29,600	19.5	25,600	No response
William Tyndale	17.5	33,300	17.5	30,700	No response
St Mary Magdalene Academy	16.3	-	19.4	(6,800)	Discussed how surplus will be recovered.

The Courtyard Free School	11.9	(200)	tbc	tbc	Change in payroll providers resulted in incomplete membership. WIP
The Pears Family Charitable Foundation School	12.4	1,600	16.2	1,200	No response
The Bridge Free School	12.1	5000	15.8	10,500	Acknowledged and received comments on pooling and requested phasing
Bridge School Academy	16.8		19.4	220,600	Acknowledged and received comments on pooling and requested phasing
Bridge Satellite	16.2	600	15.1	-	Acknowledged and received comments on pooling and requested phasing
Caterlink	23.3	(26,000)	25.5	(26,600)	No response
City of London Academy	16.2	(26,200)	20.1	(19,400)	No response
EQUANS SERVICES LTD	21.6	(39,200)	23.8	(31,500)	No response
Greenwich Leisure Ltd	23.9	(38,200)	23.9	(25,900)	No response
Bouygues E&S FM UK	22.0	300	27.9	(300)	No response
Highbury Grove (COL)	15.8	145,700	18.5	154100	No response
Primary Academy Isington(COL)	15.6	-	14.1	100	No response
(COL) Academy Highgate Hill	13.1	2,300	17.3	-	No response
London Screen Academy	11.7	-	14.9	-	No response
Hungerford Academy	18.0	54,500	19.9	61,600	Acknowledged and received comments on pooling and requested phasing
Grouped TMO:				-	
Pleydell TMO	23.0	-	21,4		No response
Braithwaite TMO	23.0	-	21.4		No response
Brunswick TMO	23.0	-	21.4		No response

DRAFT – SUBJECT TO CONSULTATION

FUNDING STRATEGY STATEMENT

ISLINGTON COUNCIL PENSION FUND

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Islington Council Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

November 2022

This Funding Strategy Statement has been prepared by London Borough of Islington (the Administering Authority) to set out the funding strategy for the Islington Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, together with other factors that may impact an employer's contribution outcomes, are set out here.

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out here.

3. Employer Types and Admission Policy, (Appendix C)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out here

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found here

5. New Academy Conversions and Multi-Academy Trusts (Appendix E)

Current Fund policy regarding the treatment of local authority maintained schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit at the point of its conversion. Further details on this and multi-academy trusts can be found here.

6. Review of Employer Contributions between Valuations (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out here.

7. Ill Health Insurance Arrangements (Appendix G)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out here.

8. Glossary (Appendix H)

A glossary of the key terms used throughout is available at the end of this document here.

2. Background

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Ensuring that the Islington Council Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (London Borough of Islington). The Funding Strategy adopted by the Islington Council Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Islington Council Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Islington Council Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

Integrated Risk Management Strategy

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The Solvency Objective

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

3. Key Funding Principles

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Purpose of the FSS

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

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

The aims of the fund are to:	The purpose of the fund is to:
• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes • maximise the returns from investments within reasonable risk parameters taking into account the above aims.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key

parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Sub-Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:	The Individual Employer should:
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund's actuary • prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties, and • monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date • undertake administration duties in accordance with the Pension Administration Strategy. • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and • notify the Administering Authority promptly of any changes to membership which may affect future funding. • understand the pension impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The Fund Actuary should:	A Guarantor should:
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

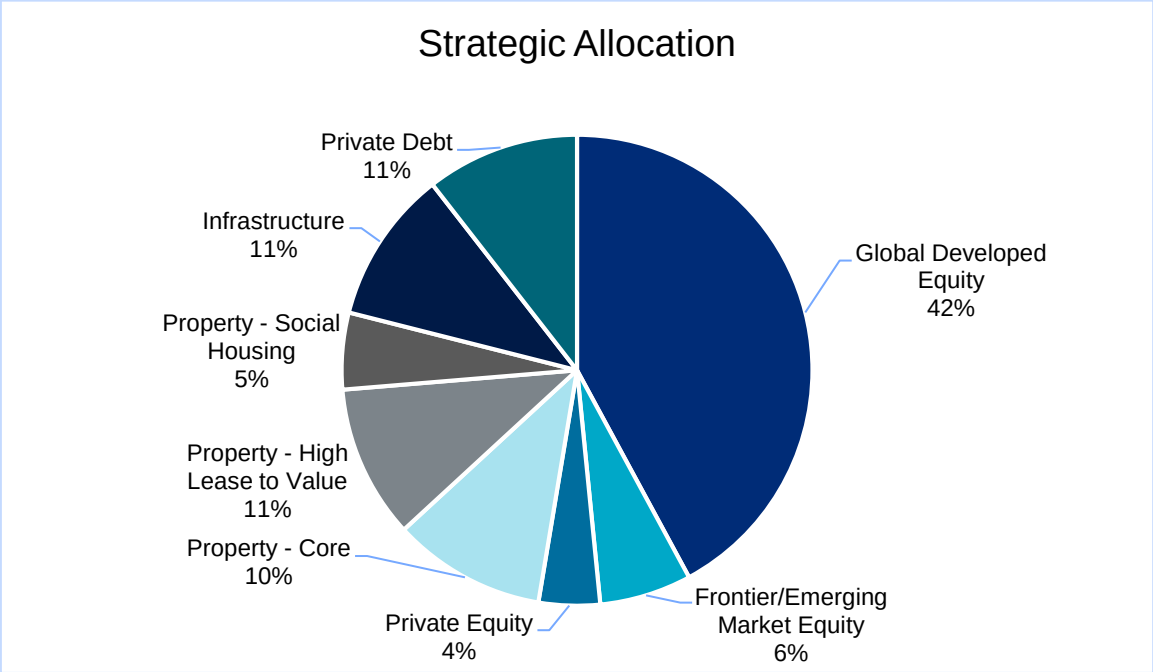
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be 96% covered by the assets, with the funding deficit of £79m being covered by future deficit contributions.

Link to Investment Policy and the Investment Strategy Statement (ISS)

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate (e.g. the Equity Protection policy implemented up until 2020). Further details will be set out in the ISS.

Climate Change [Note this section is subject to finalisation once the guidance has been provided]

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial	**Demographic**
The financial risks are as follows:- • Investment markets fail to perform in line with expectations • Protection and risk management policies fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.	The demographic risks are as follows:- • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers • Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

Financial	Demographic
In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.	

Governance	Regulatory
The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process. Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. • Changes in the Committee membership. For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost Management Process although in light of the McCloud discrimination case, there can be exceptional circumstances which give rise to unexpected changes in Regulations. • Changes to national pension requirements and/or HMRC Rules • Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy. Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

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

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. Further details on the circumstances in which the Administering Authority will review individual employer contribution rates in between actuarial valuations can be found in Appendix F.

Appendix A – Actuarial method and assumptions

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The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions		
	2022 valuation assumption	Description
Investment return / discount rate	4.65% p.a. (past) and 5.10% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.55% p.a. above CPI inflation (past) and 2.0% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.
Inflation (Retail Prices Index)	3.90% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the ongoing and low risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the case of a low risk termination calculation.

		The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
Salary increases **(long-term)**	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity ‘improvement’ year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	22.6	21.9	25.1	24.1
Actives aged 45 now	24.1	23.4	27.0	26.2
Deferreds aged 45 now	22.8	22.8	25.9	25.7

For example, a male pensioner, currently aged 65, would be expected to live to age 86.9. Whereas a male active member aged 45 would be expected to live until age 88.4. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	108% S3PMA_CMI_2021 [1.75%] 102% S3PFA_M_CMI_2021 [1.75%]
	Dependant	131% S3PMA_CMI_2021 [1.75%] 114% S3DFA_CMI_2021 [1.75%]
	Ill Health	131% S3IMA_CMI_2021 [1.75%] 151% S3IFA_CMI_2021 [1.75%]
	Future Dependant	131% S3PMA_CMI_2021 [1.75%] 114% S3DFA_CMI_2021 [1.75%]
Active	Normal Health	115% S3PMA_CMI_2021 [1.75%] 103% S3PFA_M_CMI_2021 [1.75%]
	Ill Health	243% S3IMA_CMI_2021 [1.75%] 322% S3IFA_CMI_2021 [1.75%]
Deferred	All	124% S3PMA_CMI_2021 [1.75%] 110% S3PFA_M_CMI_2021 [1.75%]

Future Dependant	Dependant	131% S3PMA_CMI_2021 [1.75%] 119% S3DFA_CMI_2021 [1.75%]

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Other Demographics	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.9% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current

closed membership group potentially over the period of the rates and adjustments certificate.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

Method and assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the solvency funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

Employer asset shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

Covenant: The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

Stability: Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) where deficits remain, unless there is a specific reason not to do so. As set out in Appendix B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

Contribution Increases: It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Phasing: Where there is a material increase in total (i.e. both primary and secondary rate combined) contributions required at this valuation, in certain circumstances, the employer may be able to "phase in" contributions over a maximum period of 3 years in a pattern

agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer.

Pooling Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a single contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for Multi-Academy Trusts who have a number of different constituent academies within the Fund (as per Appendix E). It should be noted that contributions will still be allocated to the individual employers by the administration team.

Insurance: The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Prepayments: Employers may also wish to make prepayments of contributions which could result in a cash saving over the valuation certificate period. Further details of the potential savings will be set out in the Rates and Adjustments Certificate produced by the Actuary. Any employers who prepay Primary Rate contributions will also be required to make “top-up” payments should actual payroll be higher than that assumed when making the prepayment to ensure no underpayment emerges.

Early Retirement Strain Costs: Any “strain” costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement. In certain situations, depending on the covenant of the employer and at the discretion of the Administrative Authority, an alternative payment structure may be agreed.

Deaths: The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant’s benefits become payable) and impacts can be material**.** Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position.

Appendix B – Deficit recovery and surplus offset plans

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Employer Recovery Plans – key principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

The maximum/average recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the maximum/average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Secondary Rate contributions for each employer will be expressed as £s amounts increasing at 4.6% per annum (in line with the Fund's long-term pay growth assumption) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Scheme Employers	13 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan. For certain employers, subject to the agreement of the administering authority, depending on affordability and other considerations, a maximum recovery

		period of up 16 years may be applied
Open Admitted Bodies	13 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 13 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund. Generally for those employers providing a service this will be contract length.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the future service contribution requirements.

Other factors affecting the employer deficit recovery plans

As part of the process of agreeing funding plans with individual employers and managing risk in the inter-valuation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater

security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

Surplus offset plans

For those employers assessed to be in surplus at the valuation date, surplus offsets won't be available to those with a funding level of less than 110%. For those with funding levels greater than 110%, surplus offsets will be based on the surplus above 110% only. Surplus off-sets will be allowed only where there is no deficit on the termination basis.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, the Secondary rate will based on the default recovery period of 16 years, unless otherwise agreed by the Administering Authority.

Administering Authority Discretion

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases when determining deficit recovery/surplus offset plans.

Appendix C – Employer types and admission policy

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Entry to the Fund

Mandatory Scheme Employers

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Please also refer to Appendix E in relation to academies.

Designating Bodies

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

Admission Bodies

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

Connected Entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the Regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

Second Generation outsourcings for staff not employed by the Scheme Employer contracting the services to an admitted body

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor. These liabilities relate both to any staff whom it may be outsourcing for the first time and to any staff who may be transferring from one contractor to another having previously been employed by a scheme employer prior to the initial outsourcing

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

Risk Assessments

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the low risk termination methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a low risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

Admitted Bodies providing a service

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the low risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in Appendix B.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the low risk methodology and assumptions.

Contribution Rate Assessments

Where there are less than 5 members transferring at the point of admission, unless agreed otherwise with the Administering Authority, the initial contribution rate payable from the date of admission, will be set in line the corresponding contribution rate payable by the letting employer towards future service benefit accrual. The initial rate will apply until the actuarial valuation following the date of admission when the new admitted body’s contribution requirements will be fully reassessed.

In all other situations, unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

Pre-Funding for termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a low risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination due to the use of a notional matching investment strategy (see below). However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the low risk basis.

For any employing bodies funding on such a low risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body’s

notional asset share of the Fund will be credited with an investment return in line with the low risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund, or depending on any case specific circumstances.

Appendix D – Termination policy, flexibility for exit payments and Deferred Debt Agreements

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Exiting the Fund

Termination of an employer's participation

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund, as an alternative to requiring an immediate payment in full, the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full unless agreed otherwise with the relevant parties.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt (see further details below).

- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

In the event that unfunded liabilities arise that cannot be recovered from the exiting employer, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

Basis of Termination

Whilst reserving the right to consider options on a case by case basis, the Fund's policy is that a termination assessment will be made based on low risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

For all termination cases, the underlying assumptions adopted for individual employers will be based on the approximate duration of that employer's liabilities.

Details of the low risk funding basis are shown below.

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit (or surplus) on closure. In these circumstances no termination payment will be required from (or made to) the outgoing employing body itself, as the deficit (or surplus) would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any orphan liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required.

Whether or not the termination liabilities are assessed on the valuation funding basis or the low risk termination basis, the liabilities will also include an allowance for estimated future administrative expenses in relation to any remaining members on termination.

Implementation

Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are

subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (**The Local Government Pension Scheme (Amendment) Regulations 2020**) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation assessment by the Actuary.

- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. [Final regulations are awaited]. Where a surplus or deficit isn't being subsumed, an allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the Regulations have been finalised, any

calculations will be performed in line with the prevailing regulations and associated guidance.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the low risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious low risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, based on representations from the interested parties where appropriate.

Non contract-based admission bodies with a guarantor in the Fund.

The approach for these will be the same as that above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

Admission bodies with no guarantor in the Fund / only a guarantee of last resort

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious “low risk” basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. [Final regulations are awaited.]. As part of any termination assessment, allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the Regulations have been finalised, any calculations will be performed in line with these and associated guidance.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Connected Entities

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

Policy in relation to the flexibility for exit debt payments and Deferred Debt Agreements (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making

this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

Policy for Spreading Exit Payments

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised (which will be met by the employer unless agreed otherwise with the Administering Authority)
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant, legal and any other specialists necessary

g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

7. The costs associated with the advice sought and drafting of the Debt Spreading Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

Employers participating with no contributing members

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4. If the Administering Authority’s assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board’s separate guide. As part of this, the following will be considered and agreed:

   - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won’t enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
   - Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.

- What the updated secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

Termination Basis

A lower risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the Fund.

The discount rate underlying the low risk basis is set with reference to the return on a notional portfolio of low risk assets (comprising investments such as gilts, bonds) that can be achieved with a high likelihood [(c90%)]. The discount rate set will initially be equal to the underlying yields available on fixed interest government bond yields at the date of termination plus an additional 0.5% per annum but will be subject to a cap of the employer's nominal discount rate for ongoing funding purposes. The discount rate will be kept under review over time.

In setting the CPI assumption to apply on the low-risk basis, market RPI inflation will be reduced by 0.3% p.a. to reflect the average difference between RPI and CPI indices allowing for RPI reform in 2030, consistent with the ongoing funding approach. However no adjustment will be made for an "inflation risk premium" reflecting the fully hedged nature of the notional low-risk portfolio. This adjustment will be kept under review over time.

The low risk financial assumptions that applied at the actuarial valuation date (31 March 2022) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Low Risk assumptions	31 March 2022
Discount Rate	2.2% p.a.
CPI price inflation	3.6% p.a.
Pension increases/indexation of CARE benefits	3.6% p.a.

All demographic assumptions will be the same as those adopted for the 2022 actuarial valuation, except in relation to the life expectancy assumption. Given the low risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% used in the 2022 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

Administering Authority discretion on low-risk assumptions.

For all terminations, where the low-risk basis of termination applies, the Administering Authority reserves the right to review the assumptions applied at the employing body's cessation date where individual circumstances warrant this, for example, in times of extreme market conditions and volatility. This is in order to ensure the assumptions adequately reflect the transfer of pension risk from the exiting employer to the Fund. The investment return assumption will be no greater than the prudent expected return on the actual portfolio in which the Fund is reasonably expected to invest the assets of the terminating employer.

Appendix E – Academies/Multi Academy Trust Policy

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Academy conversions and deficit transfers

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of the funding contributions relating to past service (based on the local authority recovery period) the school would have made to the Fund had it not converted to academy status at the conversion date. The deficit allocated will be subject to a limit to ensure that the minimum asset share of the new academy is nil.

Multi Academy Trusts

Multi-Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool (see below).

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies (i.e. a pool). In such cases, the Actuary will certify a pooled Primary and Secondary contribution rate for the MAT in the Rates and Adjustments Certificate. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

Approach to setting contribution rates

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

Any new academies joining an existing MAT pool in the Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

[Detail to be agreed] Outsourcings by Multi Academy Trusts

The Fund's current policy is in accordance with the Regulations, requiring a separate admission agreement in respect of separate contracts.

Under Schedule 2, Part 3, paragraph 5. of the 2013 Regulations, if the admission body is exercising the functions of the scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the scheme employer i.e. the Multi Academy Trust.

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Trust becomes responsible for the assets and liabilities standing to the account of the admitted body. A cessation valuation can be provided by the Fund actuary should the Trust request it.

Appendix F – Review of employer contributions between valuations

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The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make one request between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation although changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of an employer
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iii. A bulk transfer into or out of the employer
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
b) Two or more employers merging including insourcing and transferring of services
c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 10% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

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

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts

and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- Funding for termination

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer should fund for termination.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or move to fund for termination
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 6 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment

Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Appendix G – Ill-health insurance arrangements

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Overview of arrangement

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary) a captive insurance arrangement has been established by the Administering Authority to cover ill-health retirement costs. This will apply to all ill-health retirements from 1 April 2023. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is 0.7% of pay per annum

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by Islington Council. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers covered by the arrangement

The Fund has set an initial eligibility criteria of employers having less than 200 active members at the valuation date.

These employers have been notified of their participation. New employers entering the Fund will also be included if they meet this criteria. In certain circumstances, the

Administering Authority retains the discretion to include/exclude any employer from the arrangement.

For employers outside the captive arrangement, the current treatment of ill-health retirements will still apply, whereby an assumption for ill-health retirements is made within the calculation of employer contributions and any excess costs associated with ill-health retirements will emerge as part of the subsequent actuarial valuation assessment, and in any subsequent secondary rate contributions payable into the Fund.

Employer responsibilities

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

Appendix H – Glossary of terms

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Actuarial Valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies
A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark
A measure against which fund performance is to be judged.

Benefits
The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE)
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH
An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Contingent Assets
Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

Covenant
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deferred Debt Agreement (DDA)
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer
An employer that has entered into a DDA with the Fund.

Deficit
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Derivatives
Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

Discount Rate
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Early Retirement Strain
The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary Rate")
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

Employing bodies
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities
Shares in a company which are bought and sold on a stock exchange.

Equity Protection
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit
The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. For example, these include councils, colleges, universities and academies

Funding or solvency Level
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD)
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Guarantee of Last Resort
For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

Ill-Health Captive
This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

Investment Strategy
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Liabilities
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Long-term cost efficiency
This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Low risk basis
An approach where the discount rate used to assess the liabilities is determined based on a portfolio of investments (actual or notional) designed to provide an expected rate of return over the duration of the Fund's liabilities above market yields of Government bond investments, with a very high likelihood of being achieved [(c90%)]. This is usually adopted when an employer is exiting the Fund.

Maturity
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment
This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Orphan liabilities
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment
The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value
The value of projected benefit payments, discounted back to the valuation date.

Primary Contribution Rate
The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

Profile
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real Return or Real Discount Rate
A rate of return or discount rate net of (CPI) inflation.

Recovery Plan
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis
A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers

Scheduled bodies
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary Rate of the Employer's Contribution
An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Section 13 Valuation
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain Costs
The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

Valuation funding basis
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments, expressed as an expected out-performance over CPI in the long term by the Fund's assets i.e. the "real rate".

50/50 Scheme
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions Board

Date: 6th March 2023

Ward(s): n/a

SUBJECT: PENSION FUND ADMINISTRATION COST 3-YEAR FORECAST AND ANNUAL CASHFLOW

Synopsis

1.1 This report is for the local pension board to review the Funds administration's 3-year income and expenditure forecast and annual cash flow, as part of its work programme objective to make recommendations on statutory and non-statutory policies and strategies.

2. Recommendation

2.1 To review the cash flow and forecast of administration cost attached as Appendix 1 and Appendix 1A.

3. Background

3.1 The Public Services Pensions Act 2013 requires the establishment of local pension boards for each Local Government Pension Fund. Each administering authority must establish a pensions board no later than 1 April 2015.

3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (the Governance Regulations) provide that Pensions Board will have responsibility for assisting the 'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),

- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 The Pensions Sub -committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions -Sub Committee

The Pension Board should therefore be mindful.

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

The 3-year Forecast of Pension Fund Admin Income and Expenditure and Annual Cashflow

3.4 A 3-year forecast for pension administration cost including investment management has been prepared based on actuals to month ten in 2022/23. The fund is forecasted to remain in net negative cashflow position and will have to call on investment income to meet expenditure in the region of £16m a year.

3.5 The 2023/24 cashflow plots the monthly income and expenditure expected and best use of surplus cash to minimize cost and investment capital. This is a monitoring tool to avoid disinvestment and for future investment strategies to generate enough investment income to meet future cashflow requirements. The need to draw down investment income is delayed because the council pays its normal monthly employer contribution upfront in April. Members should note that the Council has proposed to pay upfront its three-year deficit lump sum in year 1 for a discount and this will be reinvested until the need to fulfil any gaps in cashflow.

3.6 Members are asked to review the cashflow and budget forecast.

4. Implications

4.1 **Financial implications**

Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

4.2 **Legal Implications**

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

Environmental implications will be included in each report to the Pensions-sub committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is:

https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

4.4 **Equality Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

An equalities impact assessment has not been conducted because this report is seeking. opinions on a policy document and therefore no specific equality implications arising from this report.

5. Conclusion and reasons for recommendation

5.1 Members are asked to note and review 2023/24 cashflow forecast and 3-year budget of administration cost for the period covering 2022/23 to 2025/26 as per their agreed work plan.

Appendices: 1and 1A- 3 yr forecast and cashflow forecast

Background papers:
Islington pension board's terms of reference

Final report clearance:

Authorised by: Corporate Director Resources

23 February 2023

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

Financial Implications: Joana Marfoh

Legal implications: n/a

	Actual	Budget	Revised Budget	Forecast	Forecast	Forecast
	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000	£'000
Contributions receivable						
Employer contributions	31,450	29,200	34,000	38,200	40,000	41,800
Members contributions	14,450	13,000	15,000	15,000	16,000	16,000
Deficit recovery contributions	1,250	10,500	21,200	16,100	1,200	1,200
Transfers in from other pension funds	2,660	4,000	8,000	6,000	6,000	6,500
Other Income/Recharges*	2,320	2,000	4,000	4,000	4,000	6,000
Total Income	**52,130**	**58,700**	**82,200**	**79,300**	**67,200**	**71,500**
Benefits payable						
Pensions (Monthly Payroll)**	(51,700)	(53,000)	(60,000)	(62,000)	(63,000)	(64,000)
Lump sum benefits	(10,700)	(10,500)	(11,000)	(12,000)	(13,000)	(14,000)
Payment to and on account of leavers	(4,500)	(2,000)	(2,000)	(3,000)	(3,000)	(4,000)
Administrative fees (Icl. Oversight & custodian)	(1,950)	(2,000)	(2,000)	(2,300)	(2,500)	(2,500)
Investment Management Expenses	(1,200)	(1,300)	(1,300)	(1,500)	(2,000)	(2,500)
Reinvestment			(20,000)	(15,000)		
Total Expenditure	**(70,050)**	**(68,800)**	**(96,300)**	**(95,800)**	**(83,500)**	**(87,000)**
Net additions/ (withdrawals) from dealing with members	**(17,920)**	**(10,100)**	**(14,100)**	**(16,500)**	**(16,300)**	**(15,500)**
Investment income	18,200	18,000	14,500	17,000	18,000	16,000
In-year (deficit)/ surplus	**280**	**7,900**	**400**	**500**	**1,700**	**500**

Notes
* Other income is comprised of LBI & HMRC recharges
** Gross payroll
22/23 HRA deficit lump £20m recieved was invested
23-26 contributiin's figures taken from actuary report
23/24 Forecast increased in retirement
23/24 LBI 3yrs advance deficits approx 15.3m forecasted and reinvest?

Pension Fund Cashflow															
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total		
Inflow	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**			
Contributions	28,000,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	47,800,000	1,800,000.00	
Transfer in	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	6,600,000	550,000.00	
Lumpsum	0	0	0	15,000,000	0	0	0	0	0	0	0	0	15,000,000		
Other income/Recharges	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	5,400,000	450,000.00	
Investment income/self fund	0	0	0	0				6,000,000		5,000,000		2,000,000	13,000,000		
Total inflow	**29,000,000**	**2,800,000**	**2,800,000**	**17,800,000**	**2,800,000**	**2,800,000**	**2,800,000**	**8,800,000**	**2,800,000**	**7,800,000**	**2,800,000**	**4,800,000**	**87,800,000**		
Outflow	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Total**		
Image Cheques	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000	4,000.00	
Monthly payroll	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	60,000,000	5,000,000.00	incready in 23/24 b6 10.1%
Benefits paid	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	5,400,000	450,000.00	
Transfer out	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	2,400,000	200,000.00	
Islington Council(recharge) overheard							1,400,000	0	0	0	0	0	1,400,000		
HMRC	620,000	620,000	620,000	620,000	620,000	620,000	620,000	620,000	620,000	620,000	620,000	620,000	7,440,000	620,000.00	
Bank charges/fees	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000	30,000.00	
Refunds/Returns	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000		
Money Transfers/self fund				15,000,000									15,000,000		
Total outflow	**6,324,000**	**6,324,000**	**6,324,000**	**21,324,000**	**6,324,000**	**6,324,000**	**7,724,000**	**6,324,000**	**6,324,000**	**6,324,000**	**6,324,000**	**6,324,000**	**92,288,000**		
Movement Summary	**Apr-23**	**May-23**	**Jun-23**	**Jul-23**	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Total**		
Net in/outflow	22,676,000	-3,524,000	-3,524,000	-3,524,000	-3,524,000	-3,524,000	-4,924,000	2,476,000	-3,524,000	1,476,000	-3,524,000	-1,524,000			
Opening balance	1,500,000	24,176,000	20,652,000	17,128,000	13,604,000	10,080,000	6,556,000	1,632,000	4,108,000	584,000	2,060,000	-1,464,000	-2,988,000		
Closing balance	**24,176,000**	**20,652,000**	**17,128,000**	**13,604,000**	**10,080,000**	**6,556,000**	**1,632,000**	**4,108,000**	**584,000**	**2,060,000**	**-1,464,000**	**-2,988,000**	**-2,988,000**		

ISLINGTON
For a more equal future

Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pension Board

Date: 6th March 2023

Ward(s): n/a

Pension Board 2023/24 Forward Work Programme

1. Synopsis

1.1 The Appendix A to this report provides information for Members of the Board on agenda items for forthcoming meetings and training topics where required as per its work programme objectives.

2. Recommendations

2.1 To consider and note Appendix A attached and amend the forward programme where there is change in priorities.

2.2 To note current news and consultations on the Scheme Advisory Board website

3. Background

3.1 The Public Services Pensions Act 2013 required the establishment of local pension boards for each Local Government Pension Fund.

3.2 Local Government Pension Scheme (Amendment) Governance Regulations 2014 (the Governance Regulations) provide that Pensions Board will have responsibility for assisting the

'scheme manager' (the Pensions Sub Committee in Islington's case) in relation to the following matters:

To ensure compliance with:

- the Local Government Pension Scheme Regulation (LGPS),
- other legislation relating to the governance and administration of the LGPS, and
- the requirements imposed by the Pensions Regulator in relation to the LGPS to ensure the effective and efficient governance and administration of the scheme.

3.3 The Pensions Sub- committee is the decision making body of the Fund and the Pension board can only advise or make recommendations to the Pensions -Sub Committee
The Pension Board should therefore be mindful;

- Its work plan should take account of the Fund's own work programme and seek to add value
- Servicing the Pension board will consume Fund management resources and time
- Senior Fund officers servicing the pension Board may on some fund performance issues be personally compromised and conflicted
- Some work items required may need the use of specialist external consultancy resources rather than using the officers servicing the Fund.

3.4 Based on the LGPS and The Pension Regulator's guidance on the role of the pension boards, the focus should include the following:

a) Its own training, knowledge and understanding
b) Avoiding any conflicts of interest
c) Ensuring its own statutory compliance
d) Checking fund governance
e) Reviewing fund risks and internal systems and controls
f) Checking fund external advisors/service providers and their internal controls
g) Reviewing fund member record keeping
h) Checking fund contributions
i) Reviewing fund administration
j) Benchmarking fund performance and Value for Money (VFM)
k) Fraud prevention
l) Employer and member communications
m) Complaints and dispute resolution
n) Reporting regulatory breaches

3.5 The Pension Board must also consider its Annual Report and the review of Pension Fund's draft Annual Report and audited accounts and triennial actuarial review.

3.6 **News From the Scheme Advisory Board**

(i) 30th January- DLUHC has today launched an 8-week consultation on changes to the Scheme Advisory Board's cost management process – the process that operates separately from but alongside the quadrennial scheme-level cost management process, which is based upon HM Treasury legislation and directions. The consultation follows the report from the Government Actuary's Department into changes to the HM Treasury cost management process, and the resulting policy and legislative changes set out in HM Treasury's response to that report. It acknowledges the differences between these two processes but proposes measures

suggested by SAB in its consultation response to better integrate the SAB process within the statutory HMT mechanism. The consultation closes on 24th March 2023 and can be found here..

(ii) 26th January- The Secretariat is currently in the process of planning for the Board's 2022 Scheme Valuation Report. The report is aggregated using data from individual fund valuation reports. It would be a great help if funds could send their valuation reports to the SAB's Data Analyst, Gareth Brown (gareth.brown@local.gov.uk) as soon as they have a final version.

(iii) **DLUHC Annual Revaluation date change in LGPS Consultation -10th Feb to 24 Feb**

This consultation seeks views on changing the Local Government Pension Scheme for England and Wales (LGPS) annual revaluation date from 1 April to 6 April. This is to mitigate against the impact of high inflation on LGPS revaluation this year and consequent tax liabilities arising as a result. These tax liabilities would arise because the timing of LGPS revaluation on 1 April is not aligned with HMRC's process for assessing the annual allowance tax charge. The proposed change would bring it into alignment. The Government is seeking views on draft regulations to affect this change. Thank you in advance for your assistance. respond online.

3.7 Members need to consider their priorities for the next 12months and use that to formulate their agenda for forthcoming meetings. The draft programme and timetable attached as Appendix A is a guide for members to discuss and amend. It will be updated as necessary at each meeting, to reflect any changes in administration policy, new regulation and pension fund priorities after discussions with Members

4. Implications

Financial implications

4.1 Any cost associated with the governance of the fund will be treated as administration cost and charged to the Fund.

4.2 **Legal Implications**

The Public Services Pensions Act 2013 requires the council to establish a local pension boards by 1 April 2015. The board must comply with the requirements of the relevant Legislation.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is https://www.islington.gov.uk/~/media/sharepoint-lists/public-records/finance/information/adviceandinformation/20212022/20211123islingtonpensionfundinvestmentstrategystatementdec20.pdf.

4.4 **Equalities Impact Assessment**

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.4.1 An equalities impact assessment has not been conducted because this report is seeking. opinions on a policy document and therefore no specific equality implications arising from this report.

5 Conclusion and reasons for recommendation

5.1 To advise Members of forthcoming items of business to the Pension Board and training and note some current news from the SAB website.

Appendices: Appendix A - Work programme for 2023/24

Background papers:
None:

Final report clearance:

Authorised by Corporate Director of Resources

Date : 23 February 2023

Report Author: Joana Marfoh
Tel: (020) 7527 2382
Email: Joana.marfoh@islington.gov.uk

Finance implication author: Joana Marfoh

Legal implications author: n/a

APPENDIX A
Pensions Board Forward Plan for March 2023 to June 2024

Date of meeting	Work programme objective	Reports
	To ensure the effective and efficient governance and administration of the Scheme	Please note: there will be a standing item to each meeting on: • Admin Performance report • Forward work programme
6th March 2023		Final FSS with consultation results Risk register review 3 yr Budget and Annual Cash Flow
3 July 2023		Draft Financial Statements
18th Sept 2023		Risk register review
21st Nov 2023		Draft Annual Report
		Annual Pension Meeting
11th March 2024		3 yr Budget and Annual Cash Flow Risk Register Review
25th June 2024		Draft financial statement

Planned and Previous Training on committee meeting dates

November 2018- pension sub cttee meeting	Training Actuarial Review update
September 2019 joint pension sub and board training	Funding strategy and actuarial valuation
February 2021- joint pension sub and board training	Net zero carbon transition training
September 2022- joint pension sub and board training	Actuarial Valuation training
On going self training	The Pension Regulator Toolkit

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