Hampshire County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 29th March, 2019 at 10.00 am
Place	Mitchell Room, EII Podium, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION
This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 8)

To confirm the Minutes of the meeting held on 15 February 2019.

4. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

5. GOVERNANCE: CHANGE TO FUNDING STRATEGY STATEMENT (Pages 9 - 36)

To consider the report of the Director of Corporate Resources - Corporate Services seeking the approval of the Panel and Board for a technical change to the Funding Strategy Statement and for the Director of Corporate Resources to consult with employers on potential changes to the grouping mechanism.

6. GOVERNANCE: ADMINISTRATION STRATEGY CHANGES AND FAIR DEAL CONSULTATION RESPONSE (Pages 37 - 72)

To consider the report of the Director of Corporate Resources - Corporate Services seeking approval for some minor changes to the Administration Strategy, and to share the proposed response to the current Fair Deal consultation.

7. EXCLUSION OF THE PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

8. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 73 - 76)

To confirm the exempt minutes of the meeting held on 15 February 2019.

9. INVESTMENT: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT (Pages 77 - 88)

To consider the exempt report of the Director of Corporate Resources - Corporate Services providing a review of custody services in the last year, as well as an update on the Pension Fund’s tax claims and class actions.

10. INVESTMENT - INVESTMENT UPDATE (Pages 89 - 98)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Panel and Board on the Pension Fund's investments since the last meeting of the Pension Fund Panel and Board on 15 February 2019.

11. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE (Pages 99 - 108)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Pension Fund Panel and Board on the progress of the alternative investments portfolio.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 15 February 2019.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
p A. Dowden	p P. Latham
p A. Gibson	p J. Glen
a B. Tennent	a T. Thacker
p D. Mellor	

Employer Representatives (Co-opted members):
p Councillor M. Chaloner (Southampton City Council)
a Councillor J. Smith (Portsmouth City Council)
p Councillor T. Cartwright (Fareham Borough Council)
a Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):
p Dr C. Allen (pensioners' representative)
p Mr N. Wood (scheme members representative)
p Mrs V. Arrowsmith (deferred members' representative)
p Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:
a C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

140. **APOLOGIES FOR ABSENCE**

Cllrs Smith, Tennent and Thacker, and Mr Robbins and Mrs Dobson sent their apologies.

141. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

142. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 14 December 2018 were confirmed.

143. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman highlighted to the committee that the Scheme Advisory Board had published its consultation on good governance in the LGPS.

The Chairman invited members to feedback to the committee on any training events that they had attended recently, and Mrs Arrowsmith updated the panel on her attendance the SPS Investment Strategies event.

144. **GOVERNANCE – ACCESS JOINT COMMITTEE MINUTES 19 SEPTEMBER 2018**

The Panel and Board noted the minutes of the ACCESS Joint Committee meeting (item 5 in the minute book) held on 19 September 2018.

145. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

146. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 14 December 2018 were confirmed.

147. **INVESTMENTS – MHCLG DRAFT POOLING GUIDANCE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 8 in the Minute Book) outlining informal consultation from MHCLG on new draft investment pooling guidance. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

148. **INVESTMENTS – INVESTMENT PERFORMANCE UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 9 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	29 March 2019
Title:	Governance: Change to Funding Strategy Statement
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 01962 847600 **Email:** lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to ask for the Panel and Board's approval for a technical change to the Funding Strategy Statement (FSS) and to seek approval for the Director of Corporate Resources to consult with employers on potential changes to the grouping mechanism, prior to bringing a draft plan to the Panel and Board in June.

Recommendation(s)

2. It is recommended that the Panel and Board:
   - approve the proposed technical changes to the Funding Strategy Statement
   - delegate authority to the Director for Corporate Resources to consult with employers on proposals to change the way in which they are grouped for funding purposes.

Executive Summary

3. This report seeks approval for a technical change to the Funding Strategy Statement (FSS) which will allow the Fund Actuary to use the new Investment Strategy and revised calculation of Capital Market Assumptions in calculations for new and exiting employers prior to the 2019 valuation.

4. The Panel and Board are also asked to delegate authority to the Director of Corporate Resources to consult with employers on potential options for changing the way in which they are grouped for funding purposes. A draft

revised Funding Strategy Statement will then be brought to the Panel and Board meeting for approval before a period of formal consultation with employers as part of the 2019 valuation.

Funding Strategy Statement

5. The Funding Strategy Statement (FSS) describes the Fund's processes by which employer's pension liabilities are met and contribution rates are set. The Fund must keep this statement under review and, after consultation with appropriate people, make revisions to reflect any material changes in policy.

Technical change

6. The Fund Actuary has recommended a technical change to the FSS which will allow the current investment strategy to be used in the calculation of employer exit valuations and new contribution rates from 31 March 2019. The proposed changes are on pages 8 – 11 of the FSS which is attached as Appendix A to this report.

7. Under the current market conditions there is minimal impact of this change on the discount rate used for employer calculations, but by updating the FSS, the Fund Actuary will be able to reflect the updated investment strategy in her calculations.

8. It is not proposed that employers are consulted on this change to the FSS because it is a technical one, driven by changes to the Investment Strategy which were agreed by the Panel and Board in November 2018. The revised FSS will be communicated to employers following approval by the Panel and Board.

Grouping mechanism

9. Pages 13-16 of the FSS detail the group funding framework currently operated in the Hampshire Pension Fund. Hampshire is unique amongst local government pension funds in retaining this level of employer grouping, and the mechanism is therefore kept under review to ensure it still enables the delivery of the Fund's aims for stable contribution rates, fund solvency and long term cost efficiency.

10. A significant amount of work has been carried out since the 2016 valuation to stabilise the groups in light of increased pressures on employers, including removing 6th form colleges and some other educational institutes from the scheduled body group, and obtaining a subsumption commitment from local authorities for smaller, charitable bodies in the admitted body group. However the Fund Actuary has advised that further changes should be considered as part of the 2019 valuation.

11. These changes may include creating new smaller groups of similar employers (such as town and parish councils or academies) as well as reviewing the

overall effectiveness of retaining the scheduled and admitted body groups in their current form.

12. The Actuary is bringing a discussion paper to a meeting with the Director of Corporate Resources on 3 April outlining her proposals for a review of the grouping mechanism. Following this meeting it is proposed that employers are engaged and informal feedback on the potential changes is sought, prior to drafting changes to grouping mechanism in the FSS.

13. Approval is therefore sought from the Panel and Board for delegated authority to be given to the Director of Corporate Resources to consult with employers on potential options for change, prior to changes to the grouping mechanism in the FSS being drafted. The updated draft FSS will be brought to the June meeting for the Panel and Board’s consideration and approval before a period of formal consultation with employers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board are requested to delegate authority to the Director of Corporate Resources for consulting with employers on proposals for reviewing the grouping mechanism:	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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Funding Strategy Statement

Introduction

The Local Government Pension Scheme Regulations 2013 require the Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's Actuary must have regard to this statement when setting employers' contribution rates.

As required by 2013 Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

This FSS should be read in the context of the Fund's Investment Strategy Statement (ISS) which sets out in detail the Fund's investment arrangements and strategy. The current version of this is attached for information. The administering authority has had regard to the ISS in preparing this FSS.

Consultation

In accordance with Regulation 58, all Fund employers have been consulted on the contents of this FSS and their views have been considered in formulating it. However, the FSS describes a single strategy for the Fund as a whole.

The Fund's Actuary, Aon Hewitt Limited, has also been consulted on the content of this FSS.

Purpose of the Funding Strategy Statement

The purposes of this FSS are to set out the processes by which the administering authority:

- Establishes a clear and transparent funding strategy, that will identify how employers' pension liabilities are best met going forward.
- Supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.
- Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding those liabilities.

Aims of the Fund

The Fund has three main aims:

- To manage the employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- To enable primary contribution rates to be kept nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable 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 risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.

- Seek returns on investment within reasonable risk parameters.

The main aims of the Fund are explained in more detail below.

To manage the employers' liabilities effectively

Hampshire County Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively. The administering authority also commissions additional work in relation to the specific issues described below.

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

The Fund is deemed to be solvent when the assets held are equal to 100% of the Solvency Target.

The administering authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income, to avoid the cost of selling any of the Fund's investments. The position is reviewed every three months to make sure enough cash is available to meet the Fund's obligations.

The administering authority operates a group funding framework. Many employers are grouped for the purpose of determining employers' contributions in respect of the liabilities and more details are given later in this statement.

The administering authority publishes an Employer Policy which explains in more detail the funding policies for certain categories of employer on admission and exit.

Exiting the fund

Where an employer exits the fund, an exit valuation will be carried out in accordance with Regulation 64. The exit valuation will take account of

- any bulk transfer payments due or other activity as a consequence of exiting the Fund; and
- the future funding arrangements for any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers or otherwise continue to be funded to the satisfaction of the Administering Authority.

"orphan liabilities" arise where an employer is leaving the Fund, the Administering Authority will have no further access for funding from that employer once any exit valuation has been completed and any sums due have been paid to the Fund, and no particular employer or group of employers will be responsible for the future funding of those liabilities.

For orphan liabilities the funding target in the exit valuation will anticipate investment in low risk investments, currently assumed to be Government fixed-interest and index-linked bonds. This is to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. The Administering Authority currently operates a single investment strategy and so the remaining employers in the Fund assume the risk of the Fund's assets delivering returns less than the assumed rate in the exit valuation in respect of orphan liabilities.

"subsumed liabilities" refer to the situation where another employer, or group of employers, in the Fund agrees to provide future funding in respect of any emerging deficiencies in relation to the liabilities of a former (exited) employer. The subsuming employer will also normally benefit from any emerging surplus on those liabilities.

On exit the non-active liabilities of admission bodies in paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund on or after 1 April 2018 will be attributed to (i.e. assumed to be subsumed by) the relevant Scheme employer as defined in the regulations.

For subsumed liabilities the exit valuation will be calculated using a funding target (and hence assumptions) consistent with that used to set ongoing contributions for the exiting employer. This will be the ongoing orphan funding target for employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy. For all other employers the administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.

For subsumed liabilities the exit valuation will take account of a number of other factors such as the funding target used to calculate the initial asset transfer where the exiting employer is a short term admission body under paragraph 1(d)(i) of Schedule 2; the funding target used to calculate the ongoing contributions for the employer; whether the exiting employer is a going concern or is ceasing to exist, and whether there is a Guarantor.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer (or Guarantor if the employer is unable to pay) will generally be expected to make good the funding obligation revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required nor of a surplus credit being repaid.

Exiting the fund – surpluses

Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the exit credit will be paid to the departing employer within three months of the date of exit or such longer period as is agreed with the exiting employer.

An exit payment will usually be paid to the departing employer and Employers who are letting contracts need to ensure these cover any arrangements regarding exit credits. However the Administering Authority may deem that in some circumstances it is not appropriate to make an exit payment to the exiting employer, for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from employers within the Scheduled Body Group to subsume the liabilities on exit.

Potential exits

Where the Administering Authority considers that it is possible that an employer may leave the Fund at some point in the future and the employer would leave orphan liabilities on its exit from the Fund, an ongoing funding target (the "ongoing orphan funding target") will, unless the circumstances dictate otherwise, be used to determine the employer's ongoing contributions at the triennial valuation. The ongoing orphan funding target anticipates the approach which will be taken to valuing the employer's liabilities on exit. It will generally be calculated using a discount rate or rates set by reference to the yield on long-dated government bonds on the valuation date. Allowance may be made, at the Administering Authority's discretion and on the advice of the Fund's Actuary, for some out-performance of the Fund's assets relative to gilts in determining the discount rate which applies to the period during which the employees are assumed to remain active members and for future expected increases in gilt yields in determining the discount rate which applies to pensioner and deferred liabilities and for active members in the period after they are assumed to have left service.

Interim reviews for employers

Regulation 64(4) provides the administering authority with the power to carry out valuations in respect of admission bodies and other employers which are expected to cease at some point in the future, and for the Fund's Actuary to certify revised contribution rates, between triennial valuation dates.

The administering authority's overriding objective at all times is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

The administering authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years away, or is unknown and assumed to be indefinite, interim valuations will generally not be required by the administering authority.
- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the administering authority sees it as the responsibility of the Relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the

Relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, for example the date of exit becoming known, material membership movements or material financial information coming to light may cause the administering authority to review the situation informally and subsequently request a formal interim valuation.
- Where an employer is due to leave the Fund within the next three years, the administering authority will monitor developments and may see fit to request an interim valuation at any time in order to try to effect a smoother transition to exit.

In addition, the administering authority reserves the right to request an interim valuation of any employer at any time in accordance with Regulation 64(4).

Inter-valuation funding valuations

In order to monitor developments, the administering authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest valuation. It is unlikely that the liabilities would be calculated using individual membership data, or that the demographic assumptions would be reviewed.

Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The administering authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the Fund, the administering authority will require a Guarantor. The administering authority, unless notified otherwise, sees the role of a Guarantor to include the following:

- If an employer leaves the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide the Fund with the amount certified by the Fund's Actuary as due, including any interest payable.
- If the Guarantor is also an employer in the Fund and is judged by the administering authority to have suitable financial security, the Guarantor may clear some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor may at any time agree to the future subsumption of any residual liabilities of that employer. That action may reduce the funding target for the employer, which may, in turn, lead to reduced contribution requirements.

The Guarantor will be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency or surplus. However, where the Guarantor is a grouped employer, the administering authority will insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor (whether immediately or over an appropriate period), to protect the other employers in the Guarantor's group from this element of the group's deficiency. Conversely a Guarantor may receive a reduction to its contributions to ensure that the benefit of a surplus is provided to the Guarantor rather than spread across the Guarantor’s group.

Bonds and other securitisation

Paragraph 7 of Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new admission body to carry out to the satisfaction of the administering authority (and the Relevant Scheme Employer in the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the administering authority from an organisation who either funds, owns or controls the functions of the admission body.

The administering authority's approach in this area is as follows:

- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, and other admission bodies with a Guarantor, so long as the administering authority judges the Relevant Scheme Employer or Guarantor to have suitable financial security, any bond exists purely to protect the Relevant Scheme Employer against default of the admission body. It is entirely the responsibility of the Relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The administering authority can supply some standard calculations provided by the Fund's actuary to aid the Relevant Scheme Employer or Guarantor, but this should in no way be taken as advice on this matter. Levels of required bond cover can fluctuate and the administering authority recommends that Relevant Scheme Employers review required cover regularly, at least once a year.
- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, where the administering authority does not judge the Relevant Scheme Employer to have suitable financial security, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will require the Relevant Scheme Employer to review required cover jointly with it regularly, at least once a year.
- In the case of bodies other than paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will review required cover regularly, at least once a year.

To enable primary contribution rates to be kept as nearly constant as possible

Achieving nearly constant primary contribution rates requires stability of employers' active membership profile and use of assumptions which are relatively constant over time. The administering authority has no control over employers' active membership although the methodology used to calculate the future service rate does vary according to whether or not the employer admits new members to the Fund. In relation to the assumptions, the administering authority believes that the same assumptions should be used to determine the past service liabilities (and hence the funding target) as are used to determine employers' primary contribution rates.

The demographic assumptions are reviewed by the Actuary on a triennial basis and updated as required to allow for recent Fund experience and other national factors as required. It is not expected that material changes would be made to these assumptions from one valuation to the next.

In relation to the financial assumptions, these can vary quite materially from one valuation to the next as market conditions alter. A substantial proportion of the Fund's investments are held in asset classes such as shares and property, with the aim of increasing investment returns and keeping costs to employers reasonable. However, the expected returns on these asset classes can be quite volatile and so the real discount rate can change materially from one triennial valuation to the next, leading to a material change in employers' primary contribution rates.

Where justified, and as long as it doesn't run counter to the main aims of ensuring solvency and long-term cost efficiency, the administering authority will permit a stepping in of changes to employers' primary contribution rates over a period of up to four years. Care needs to be taken in relation to admission bodies and other employers which participate in the Fund for a fixed period (for example, non-local authority employers awarded contracts to provide local authority services), where use of stepping to smooth primary contribution rate changes is less appropriate.

The administering authority recognises that a balance needs to be struck regarding the financial demands made of admission bodies. On the one hand, the administering authority requires all admission bodies to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing, may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers.

Employers within the Admission Body Group where there is no commitment from a long-term secure employer such as one of the Councils, or the Scheduled Body Group as a whole, to subsume the liabilities from the exit date should in theory pay contributions to target solvency on the ongoing orphan funding target. However, to enable contributions to remain affordable for them in the short term, the funding target adopted for the Admission Body Group has been relaxed and is the same as that adopted for the Scheduled Body Group. This is a temporary measure to enable contributions to remain affordable in the short-term than would otherwise be permitted. However should a body in the Admission Body Group leave the Fund during the relaxation period, that body would be required to make good its funding deficiency including any underpayment on account of contributions having been relaxed. Only if that body is unable to meet any exit deficiency and there is no Guarantor would other solutions to the ongoing funding of the body's liabilities be sought (such as the Scheduled Body funding group providing future funding for any deficiency which cannot be met by the outgoing community admission body).

The Admission Body Group will be re-assessed in advance of the 2019 valuation with a view to moving admission bodies with no commitment from a long term secure employer to subsume the liabilities at the exit date onto the ongoing orphan funding target.

Seek returns on investment within reasonable risk parameters

Returns should be higher over the long term than those from index-linked stocks by investing in other asset classes such as shares, property and alternative investments.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time the administering authority reviews the potential risks of investing in the various asset classes, with help from the Fund's Actuary and its investment managers.

The Fund's funding strategy, based on the discount rate adopted for the majority of employers/liabilities at the 2016 actuarial valuation, requires the assets to deliver a long-term return above 4.5% p.a., (the discount rate) compared to the fund actuary's best estimate for the Fund's average return of 5.7% p.a. as at March 2016. An investment management structure has been developed and managers appointed to deliver a long-term return in excess of returns on cash and gilt investments within an acceptable level of risk. The Fund's investment strategy has been reviewed since the 2016 valuation and the Fund Actuary has also reviewed the derivation of the discount rate. Details of the updated structure and managers are in the Investment Strategy Statement.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income.
- pay out monies in respect of scheme benefits, transfer values costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013 and as required in the Local Government Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The three main parties with obligations to the Fund in relation to funding are the

County Council as administering authority (and scheme employer), the other employers in the Fund, and the Fund's Actuary. The administering authority delegates responsibility for fulfilling its obligations to the Panel and Board.

The County Council as administering authority is required to:

- Operate a pension fund
- Collect employer and employee contributions, investment income and other amounts due to the Pension Fund as stipulated in LGPS Regulations.
- Pay from the Fund the relevant entitlements as stipulated in LGPS Regulations.
- Invest surplus monies in accordance with LGPS Regulations
- Ensure that cash is available to meet liabilities as and when they fall due.
- Take measurers 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 Funding Strategy Statement and an Investment Strategy Statement, both after proper consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly.
- Effectively manage any potential conflicts of interest arising from its dual role as both administering authority and as a Scheme Employer.
- Enable the Pension Fund Panel and Board to review the valuation process.

The individual employer is required to:

- Deduct contributions from employees' pay correctly.
- Pay all ongoing contributions, including employer contributions determined by the actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise discretions as permitted within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain.
- Notify the administering authority promptly of all changes to active membership that affect future funding.
- Pay any exit payments on ceasing participation in the Fund.

The Fund actuary should:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS Regulations.

- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years cots, etc.
- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the administering authority on bonds or 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 permitted or required by the regulations.
- Ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the fund.

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the administering authority wants the Fund to get to),
- the Trajectory Period (how quickly the administering authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the administering authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund's actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

The administering authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim, and is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies in the Scheduled Body Group, and certain other bodies deemed to be of similarly sound covenant whose participation is indefinite in nature (including where the employer's liabilities would be funded by a Scheduled Body Group employer post-exit), the Solvency Target is set:

- at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,
- based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in pensions and pensions accounts (CPI). ~~a long-term investment strategy~~.

Thus the Solvency Target for employers in the Scheduled Body Group and certain other bodies generally assumes indefinite investment in a broad range of assets of higher risk than risk-free assets.

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Solvency Target will be set at a more prudent level dependent on circumstances.

For such bodies the administering authority will normally adopt a funding target which:

- in the case of admission bodies, particularly those which do not admit new members, anticipates the approach to valuing the liabilities on exit – the "ongoing orphan funding target" as defined earlier in this statement;
- in the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities.

Probability of Funding Success

The administering authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The administering authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. The valuation calculations, including the future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- For bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, the administering authority will take into account the potential for participation to cease, the potential timing of such exit, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of exit.

Recovery and Trajectory periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date which solvency is targeted to be achieved. A Trajectory Period of 25 years has been adopted at the 2016 valuation.

When an actuarial valuation shows that the Fund is in deficiency, employers' contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the Recovery Period), while ensuring that the probability of achieving solvency over the Trajectory Period remains acceptable. In consultation with the Fund's actuary, the administering authority has set a common maximum recovery period of 19 years for all employers in the Fund. The actual recovery period within this maximum of 19 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the administering authority has agreed a recovery period of 19 years for scheduled bodies in the 2016 actuarial valuation.

Grouping of Employers

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

All employers in the Fund are grouped together regarding the risks associated with payment of ill health pensions and partner's pensions and lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the administering authority, in view of the size of the Fund, does not see it as cost effective or necessary to insure these benefits externally.

Group Funding Framework

Within the Fund there are two groups of employers for funding purposes; the Scheduled Body Group and the Admission Body Group. Employers within a group share all risks of participation, with the exception of liability for ill health pensions, partner's pensions and lump sum benefits payable on death in service, with other employers in the group. A small, but increasing, number of employers sit outside of the groups.

Scheduled Body Group

The Scheduled Body Group includes:

- Scheduled bodies listed in Part 1 of Schedule 2 of the Regulations, excepting those employers (or category of employers) who in the view of the Administering Authority:
  - Are deemed by central government to be private sector organisations, or
  - Receive a significant proportion of their income from either non-government sources or otherwise are not considered to have a central or local government guarantee, or
  - Are otherwise considered by the Administering Authority to be less financially secure than the principal councils to the extent that there is a perceived (or potential) covenant risk to the Fund.
- Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations who, due to their unique size and

transience as active participating bodies, would benefit significantly from being able to share risks with a wider pool (and where the risk to that wider pool is deemed negligible)

- Paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations where
  - the employer was admitted to the Group before 4 March 2016
  - there is a pass through arrangement with an employer which is itself a grouped scheduled body, and
  - that body and letting authority (as appropriate) adheres to any mechanisms as required by the Administering Authority to protect other grouped employers from the additional and unique risks which that body contributes to the Group.

With effect from 31 March 2016, the following category of employers have ceased to participate in the Scheduled Body Group to become ungrouped employers in the Fund:

- Bodies in the Higher Education and Further Education sector (including post-92 Colleges and Universities)

The Administering Authority will keep under review the funding arrangements of all employers and may remove additional employers from the grouping arrangements should their situations change.

Admission Body Group

The Administering Authority views the purpose of the Admission Body Group to be primarily to smooth contributions for charities and other not-for-profit organisations which would otherwise be exposed to the potential of volatile contributions. For historic reasons other admission bodies have participated in the Group. With effect from 31 March 2016, the following category of employers have ceased to participate in the Admission Body Group to become ungrouped employers in the Fund:

- Bodies in the Higher Education and Further Education sector (including pre-92 Universities and independent schools). These bodies will become ungrouped employers, consistent with the treatment of other post-92 Universities and colleges.
- Housing Associations. These are closed employers with no subsumption commitment.

New funding groups would be considered by the Administering Authority, but only with the consent of the employers involved.

Funding principles applying to grouped employers

Common employers' contribution rates are set for each of these groups, instead of individual contribution rates for each employer. The Administering Authority accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the Fund's Actuary to cover the costs of unreduced early retirements, which is a major distinction between employers over time. The Administering Authority and the Fund's Actuary periodically review whether separate rates for individual employers or groups of employers are required.

Within each group, employers share risk according to a set of clearly defined principles which are as follows:

- The group exists to produce a common primary contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate, and
  - An employer's cash contribution depends on its level of payroll when a stream of deficit contributions is being set, and any special arrangements put in place in relation to being a Relevant Scheme Employer for a grouped paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations,
  - While an employer has contributing members in the Fund, the employer will share a responsibility to contribute towards any emerging deficiency within the relevant funding group, or will benefit from an emerging surplus within the relevant funding group through a deduction against previous deficiency obligations.
- Unless it is a paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations, or as otherwise agreed between the administering authority and the employer, the employer is assumed to belong to the group indefinitely
  - As an employer can always be called upon to pay its share of any group deficiency, a flow of new entrants to the employer is required to finance this
  - Funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite
- Employers are liable to fund deficiencies emerging at each valuation in proportion to their own payroll at the time of the valuation. Relevant Scheme Employers in relation to a grouped paragraph 1(d)(i) body admitted under Schedule 2 Part 3 of the 2013 Regulations will also be liable in respect of payroll transferred to the paragraph 1(d)(i) body, to the extent that the contributions are not fully covered by those made by the paragraph 1(d)(i) body.
- Streams of deficiency contributions, once certified at a valuation will normally remain in place for the duration of the relevant recovery period. New streams of such contributions may be certified at subsequent valuations in respect of new surplus or deficiency emerging at the relevant valuation. In certain circumstances, contribution streams set at a previous valuation may be modified at subsequent valuations if the administering authority and the Fund's actuary agree.
- Employers will pay a common future service ("primary") contribution rate. Relevant Scheme Employers in relation to a grouped paragraph 1(d)(i) body will also be liable in respect of any increased rate payable in respect of the paragraph 1(d)(i) body by virtue of the admission agreement being a closed

agreement.

- When employers exit the Fund they will be assumed to leave the group. The funding target adopted at that time will be assessed in light of the employer's circumstances and, in particular whether its liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any future funding for those liabilities).

For most purposes, such as for the purpose of calculating an exit valuation or calculations under FRS102/IAS19, each employer in a group is assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

> notional assets held in respect of the group divided by value of benefits accrued to date for the group as a whole.

However, where circumstances dictate otherwise (e.g. to protect the remaining employers in a group), and it is necessary to allocate a notional value of assets to an employer in a group, this may be calculated as the value of the liabilities less the present value of the employer's stream of deficiency contributions.

Further aspects of funding strategy that may be relevant from time to time are described below:

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer had its own notional sub-fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be updated allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

In some cases there is insufficient information to complete these calculations. In these circumstances:

- Where, in the opinion of the Fund's Actuary, the unavailable cashflow data is of low materiality, estimated cashflows will be used.
- Where, in the opinion of the Fund's Actuary, the unavailable cashflow data is material, the Fund's Actuary will use an analysis of gains and losses to update the notional sub-fund. This method is less precise than using cashflows, and involves calculating gains and losses to the surplus or deficiency shown at the previous valuation to determine an expected surplus or deficiency at this

valuation. This is compared with the liabilities evaluated at this valuation to calculate an implied notional asset holding.

Attribution of investment income

Where the Administering Authority has agreed with a scheme employer that the scheme employer will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

Phasing in of new contribution rates

At each actuarial valuation, the Administering Authority will consider whether changes to employers' contribution rates should be payable immediately, or be phased in. The Administering Authority discusses with the Fund's actuary the risks of adopting such an approach. The current policy is to phase in changes to the primary rate of employers' contributions over a maximum of four steps. However, phasing in of increases to deficit recovery contributions may be permitted if unusual and difficult budgetary constraints make this necessary, or if other changes, such as changes to the funding target, justify this approach. Whenever contribution changes are being phased in, this can only be achieved if the regulatory requirements of setting employer contributions to ensure the solvency and long-term cost efficiency of the Fund would still be met.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the administering authority will normally require defined capital streams from employers in respect of any disclosed funding surplus or deficiency.

Identification of risks and counter measures

The administering authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The administering authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are as follows:

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The administering authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisers, Fund Managers and Fund's Actuary. The administering authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer risk

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The administering authority will put in place a FSS which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The administering authority maintains a knowledge base on their employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement.

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications:

- The increased emphasis on outsourcing and other alternative models for service delivery may result in active members leaving the LGPS,
- transfer of responsibility between different public sector bodies,
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The administering authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Liability risk

Inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.

The administering authority will make sure the Fund's Actuary investigates these matters at each valuation, or more often if necessary. The Fund's Actuary will report to the administering authority as appropriate. The administering authority will then agree with the Fund's actuary any necessary changes to the assumptions used in assessing solvency.

If significant liability changes become apparent between valuations, the administering authority will notify all participating employers of the likely effect on their contributions after the next full valuation, and consider whether any bonds that are in place for admission bodies require review.

Regulatory and Compliance risk

Occupational pensions in the UK are heavily regulated. Both general and LGPS-specific legislation mush be complied with.

The administering authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The administering authority will ask the Fund's Actuary to assess the effect of any changes on employers' contribution rates.

The administering authority will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Governance risk

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the administering authority promptly.

To limit this risk, the administering authority requires the other participating employers to communicate regularly with it on such matters. The administering authority also undertakes to inform the Fund's Actuary promptly of any such matters.

Recovery period

Allowing surpluses or deficiencies to be eliminated over a recovery period of up to 19 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency and that deficit contributions are compared to the amount of interest accruing on the deficit.

Stepping

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process or, in relation to the primary rates of contributions, that employers are not paying enough to meet the cost of benefits being accrued in future. The administering authority's policy is to limit the number of permitted steps to four. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

Links to investment policy set out in the Fund’s Investment Strategy Statement

The administering authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Investment Strategy Statement (available from the Pension Fund’s website).

Both documents are subject to regular review.

Future monitoring

The administering authority plans to review this FSS as part of the three-yearly actuarial valuation process unless circumstances arise that require earlier action.

The administering authority and the Fund's Actuary will monitor the Fund’s solvency position at regular intervals between valuations. Discussions will be held with the Fund's Actuary to establish whether any changes are significant enough to require further action, such as informing employers of the need for different employers’ contribution rates after the next valuation.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	29 March 2019
Title:	Governance: Administration Strategy changes and Fair Deal consultation response
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 01962 847600 **Email:** lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to seek approval for some minor changes to the Administration Strategy, and to share the proposed response to the current Fair Deal consultation.

Recommendation(s)

2. It is recommended that the Panel and Board:
   - agree the proposed changes to the Administration Strategy
   - approve the proposed response to the Fair Deal consultation.

Executive Summary

3. The Administration Strategy needs to be amended in light of recent LGPS amendment regulations which have an impact on some of the Fund's discretionary policies. In addition two beneficial changes to administration processes have been made as part of the new partnership arrangement with West Sussex and these need to be reflected in the Strategy.

4. The Ministry for Housing, Communities and Local Government (MHCLG) has issued a consultation on the new Fair Deal proposals. These proposals are intended to strengthen the pension protection afforded to employees in the LGPS who are compulsorily transferred to third party service providers. A response on behalf of the administering authority has been drafted for consideration and approval by the Pension Fund Panel and Board.

Administration Strategy

5. The Administration Strategy sets out the roles and responsibilities of the administering authority and scheme employers. It is regularly reviewed to ensure that it is up to date. The Strategy needs to be updated in light of:

   - the impact of the LGPS (Miscellaneous Amendment) Regulations 2018 which came into force on 10 January 2019
   - changes to two administration processes as a result of the new partnership with West Sussex

   The opportunity is also being taken to add four discretions to the table held in Appendix C of the Strategy and update team name references in the document.

6. It is not proposed that Employers are formally consulted on these changes as they are either required because of a change in regulations or are beneficial to members. However the updated Strategy will be communicated to Employers and any feedback will be considered and used to inform further updates if necessary.

LGPS (Miscellaneous Amendment) Regulations 2018

7. The LGPS (Miscellaneous Amendment) Regulations 2018 came into force on 10 January 2019. One of the amendments is to allow the administering authority to grant the payment of benefits on compassionate grounds for a particular group of members where their former employer no longer exists.
8. There are existing situations where the administering authority has to use its discretion in relation to granting retirements for members whose former employer no longer exists. The required update is therefore a minor one to add the reference to the specific regulation.

West Sussex partnership

9. As part of agreeing the service standards for key processes with West Sussex, the turnaround time for providing a leaver with their deferred benefit information has been reduced from 40 days to 30 days. Pension Services are already achieving this target informally but the service standard will now be updated to reflect this quicker processing time.
10. The West Sussex Pension Fund allows members to ‘trivially commute’ pension benefits. This means that if certain conditions are met, a member can receive their pension benefits as a one off lump sum instead of a small annual pension. Hampshire has previously chosen not to allow members this option because the legacy administration system did not have an automatic trivial commutation calculation.
11. The trivial commutation calculation works in UPM so in order to keep consistent processes for Hampshire and West Sussex, this option will now be available to Hampshire members.

Existing discretions

12. There are several discretions which have been agreed by the Pension Fund Panel and Board which are currently codified in the Employer Policy. The opportunity is being taken to add these to the discretions table in the Administration Strategy.
13. The final change is to add a discretion regarding Voluntary Scheme Pays (VSP). HM Revenue and Customs set an annual limit for tax free pension savings. Members who exceed this annual allowance may incur a tax charge, and if the tax charge exceeds £2,000 they have a right to ask the scheme to pay the tax on their behalf and instead have a deduction from their pension when it comes into payment. This is known as Scheme Pays. If the tax charge is less than £2,000 there is no right to request Scheme Pays but funds have the discretion to allow members to have this option.
14. The policy in place for the Hampshire LGPS is to offer the Scheme Pays option if the tax charge is over £1,000 but less than £2,000. To avoid challenge, the discretion allows individual cases to be considered on their merit where the tax is less than £1,000 (to provide an option in case of hardship). This VSP policy is in line with that agreed by Hampshire Fire for the Firefighter's Pension Schemes and that in place under the Police Pension Scheme regulations.
15. The updated Administration Strategy is attached as Appendix A of this report. The full list of changes is shown in the table below.

Number	Change	Reason	Page
1.	Update to the email address for technical queries from Employers.	Change of email address.	p5
2.	Reduction in turnaround time for processing deferred benefit calculations.	Bring service standard in line with that agreed for West Sussex.	p11
3.	Update to the discretions table to reflect team name change from Operations to Member Services.	Team name change.	p14-21
4.	Update regulation references for discretion 11 where the administering authority is acting instead of a defunct employer.	Amendment regulations.	p15
5.	Update discretion 14 to allow trivial commutation.	Bring process in line with that agreed for West Sussex.	p16
6.	Add discretion 55 re allowing backdated admission agreements.	Already part of the Employer Policy.	p21
7.	Add discretion 56 re extending the payment of an exit credit beyond 3 months from the date of exit	Already part of the Employer Policy.	p21
8.	Add discretion 57 re allowing suspension notices for Town and Parish Councils.	Already part of the Employer Policy.	p22
9.	Add discretion 58 re operating a Voluntary Scheme Pays scheme.	Codifying the approach used for 2017/18 annual allowance calculations.	p22

Fair Deal consultation

16. The Ministry of Housing, Communities and Local Government (MHCLG) consulted in May 2016 on the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. On 19 April 2018, the Government response to the consultation confirmed the commitment to this objective but recognised that the consultation had raised a number of concerns about the specific approach.

17. MHCLG has issued a further consultation on the new policy proposals which closes on 4 April 2019. The main change is to remove the option for a service provider to offer a broadly comparable scheme, and introduce a new way for employers to ensure employees who are transferred can retain access to the LGPS. This is called the Deemed Employer route and would mean that the outsourcing employer retained the responsibility for its outsourced employees in relation to the LGPS.

18. However the Deemed Employer route proposals as drafted do not appear to deliver the objective of making it easier for employers to outsource services whilst protecting the pension rights of LGPS employees. Instead they will increase the administrative burden on both the employer and the administering authority and could lead to greater confusion for the member.

19. The draft response to the consultation is attached as Appendix B to this report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve changes to a statutory document:	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

   The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

   - Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
   - Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
   - Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

   Due regard in this context involves having due regard in particular to:

   - The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
   - Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
   - Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally low.

2. **Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals benefit all scheme members.

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Hampshire Pension Fund
administered by

Hampshire
County Council

Hampshire Pension Fund Administration Strategy

1 Introduction

1.1 Hampshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the Hampshire Pension Fund (HPF). The LGPS is governed by statutory regulations.

1.2 HPF provides a high quality pension service to members and employers, to ensure members receive their correct pension benefits. This is best achieved where HPF and the employers are clear about their roles and responsibilities and work in partnership.

1.3 This strategy statement:

- sets out the roles and responsibilities of HPF and the employers
- specifies the level of services HPF and the employers will provide to each other
- explains the performance measures used to evaluate them
- is an agreement between HPF and the employers

2 Pension Administration Strategy

2.1 This strategy is an agreement between the Hampshire Pension Fund and all participating bodies. All parties commit to the following principles:

- provide a high quality and low cost pension service to members
- continually develop efficient working arrangements
- meet HPF's service standards
- an annual report of performance
- take responsibility to provide accurate and timely information
- keep the pension administration strategy under review and revise where appropriate.

2.2 This strategy statement was produced by HPF in consultation with the employers and is effective from 16 December 2017 . It is hereby agreed that each of the parties as defined in this agreement and the scheme regulations, shall abide by the requirements of this agreement.

- HPF shall monitor the requirements of this agreement and report its findings to the Hampshire Pension Fund Panel and Board.
- Changes are subject to consultation with the employers. Variations must be agreed with HPF and confirmed in writing.

2.3 Please keep a copy of this strategy for your records. The original will be held at the offices of the Hampshire Pension Fund and will be made available to any scheme member, past or present, wishing to have sight of the document.

3 Roles and responsibilities

3.1 The quality of service to members depends on the supply of accurate and timely information.

3.2 Employer duties, responsibilities and discretions are listed in Appendix A to this agreement.

3.3 HPF's duties and responsibilities are listed in Appendix B to this agreement.

4 The Regulations – effect on strategy

4.1 This strategy sets out certain duties and responsibilities.

- It does not override any provision or requirement in the Regulations or any overriding legislation.
- The intentions of the Regulations in their application to current members, potential members, deferred members and retired members must be complied with.

4.2 This agreement is based on:

- Current regulations:
    - the Local Government Pension Scheme Regulations 2013, and any amendments;
    - the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, and any amendments;
- Any earlier LGPS regulations as they continue to apply
- Overriding legislation including, but not limited to,
    - the Public Service Pension Act 2013
    - the Local Government (Early Termination of Employment) (Discretionary Compensation) (England & Wales) Regulations 2006
    - Occupation and Personal Pension Scheme (Disclosure of Information) Regulations 2013

5 Definitions

5.1 For the purpose of this Administration Agreement:

- "***Administering Authority***", 'Hampshire Pension Fund (HPF) and the Fund means Hampshire County Council;
- "***Employing authority***" or ***"employer"*** means an employer within the Hampshire Pension Fund; and
- ***"Scheme***" means the Local Government Pension Scheme, and
- ***"The Panel"*** means the Hampshire Pension Fund Panel and Board'

6 Communication

6.1 The HPF Communications Policy Statement outlines how the Fund communicates with all stakeholders, including employers.

6.2 HPF routinely provides information and resources for employers using

- its website, www.hants.gov.uk/pensions with an employers' section
- an electronic newsletter called Pension Matters
- an employer manual and other guides available on the HPF website.

6.3 HPF will make available to the employer an up to date list of LGPS publications which will be available from the HPF website or as otherwise indicated.

6.4 HPF will communicate to the employer on an ad hoc basis and as required in respect of matters relating to the LGPS.

6.5 HPF will ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of The Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2013.

6.6 HPF will notify the employer of changes to administrative procedures that may arise as a result of changes in pension scheme regulations and update standard documentation on the HPF website.

6.7 HPF will issue electronic forms, newsletters, booklets and such other materials as are necessary in the administration of the LGPS, for members and the employers.

6.8 Employers should provide contact details at least annually, and whenever a named contact changes, on the Employer Contacts and Authorisation form.

6.9 Employers may provide information about members to HPF in a variety of ways, including electronic and paper forms or directly updating electronic pension records. Forms used must be up to date, and are available on the HPF website. Employers who update electronic pension records directly are fully supported via initial and refresher training and day to day support.

7 Performance measurement and reporting

7.1 Pensions Services will monitor, measure and report compliance with the agreed service standards. This information will be reported to the Panel, and improvement plans put in place if necessary.

7.2 Where this information reveals problems in employers meeting the standards, HPF will consult and work with the relevant employers to improve compliance and performance levels by providing appropriate support, guidance, and training.

7.3 Where as part of the annual return process or any other monitoring activity, there are concerns about the accuracy of an employer's data, the employer will be required to undertake a data cleanse exercise and make a declaration that they have fulfilled all of their requirements to notify the fund of changes. Details of the data cleanse requirements will be provided as part of the annual returns process.

7.4 Where poor performance affects Pension Services meeting statutory deadlines, consideration will be given to the requirement to report this to the Pension Regulator.

8 Costs

8.1 The Fund Actuary determines employer contribution rates for the three years following each triennial valuation. The rates and adjustments certificate provides details of all payments which are due from employers in the fund.

8.2 The costs of the standard administration service, including actuarial fees for the triennial valuation, are charged directly to HPF. These administration costs are taken into account by the Fund Actuary when assessing the employers' contribution rates.

8.3 Where Pension Services incur additional administration costs due to the pension implications of an Employer restructuring (e.g. outsourcing, creation of a company, change of legal status etc) a separate additional administration charge will be made. The charge will be based on estimated staff time and will be notified to the employer before any work is carried out.

8.4 Where additional actuarial or legal services are required by, or result from the decisions and actions of, the employer, the employer will be required to reimburse HPF for the costs involved. Where appropriate, an estimate of these costs will be provided and the employer's agreement obtained before proceeding to instruct the service provider.

8.5 If HPF incurs interest charges as a result of a late notification of retirement from the employer, it may recharge to the employer the interest incurred on the late payment of the lump sum.

8.6 Employers may also be required to pay for additional work, including estimates which are in addition to the agreed allocation, or for requesting work to be completed faster than the normal service standards. The employer's agreement to the charge will be obtained prior to the work being carried out.

9 Penalties

9.1 Commitment to the principles of this statement (see 2.1) should mean that any non-compliance is addressed promptly, with no need to resort to a penalty. However, the following actions are possible:

- Where payment over of contributions is late more than once in any 12 month period, HPF will issue the employer with a written notice of unsatisfactory performance and may charge interest on the late payment at a daily rate equal to the Bank of England's base rate plus 1%.
- Persistent failure to comply with contributions payment requirements will result in HPF informing The Pensions Regulator as required of Scheme Administrators by the Pensions Act 2004.
- Where the employer fails to comply with their scheme duties, including failure to pay contributions due, HPF reserves the right to notify the member(s) involved and to notify all members employed by the employer in the event of serious or persistent failure.
- If additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged to the employer according to powers available under scheme regulations. Written notice will be given of the reasons for the re-charge, how the cost was calculated, and the part of this statement which, in HPF's opinion, was contravened.
- Where orders or instructions issued by The Pensions Regulator, the Pensions Ombudsman or other regulatory body require financial compensation or a fine to be paid by HPF, or by

any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.

- Where, as a result of the employer's failure to notify HPF of the final retirement details in a timely manner, payment of any retirement lump sum is not made within 30 days from the date of the member's retirement, HPF may issue the employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.
- Where it is proven that the employer is not responsible for any fine or penalty imposed by The Pensions Regulator or any other statutory body as a result of non-compliance of this Service Level Agreement, any such charge will automatically default to HPF.
- From time to time, HPF offer training and support to employers through 'Employer Days' and workshops. There is no charge made to an employer for attending this event, however HPF reserves the right to charge a late cancellation fee of £100 + VAT, where at least one week's notice has not been given of non attendance.

10 Hampshire Pension Fund contacts

Member and general employer queries
Pensions customer support team 01962 845588 pensions@hants.gov.uk Website www.hants.gov.uk/finance/pensions
Technical employer queries
Employer services team pensions.employer@hants.gov.uk
End of year and associated matters
Employer services team pensions.eoy@hants.gov.uk

Appendix A - Employer Responsibilities

The main duties of the employers as set out in the Regulations are set out in the table below, together with timescales for completion where appropriate.

Employer responsibility	**Timescale**
Decide who is eligible to become a member of the LGPS and the date from which membership of the LGPS starts). Notify HPF of the new member details and provide employee with details of the pension scheme.	Within 10 working days following the end of the month in which the employee joined the LGPS.
Determine the rate of employee contributions to be deducted from the employee's pensionable pay and, where the employee holds more than one post, the rate that should be applied to each post. This should be reviewed at least annually or more often where employer policy states	For the first pay period in which the employee joins the LGPS
Move employees into the 50:50 section Provide an amendment form to advise of change to/from 50:50 section	From the next pay period after receiving the employee's request Within 10 working days following the change
Collect and pay to the HPF the deduction of, the correct rate of pension contributions payable by the employee and the employer, including any additional employee contributions of any kind.	Payment over to HPF by 19th of the month following deduction (22nd if electronic)
Complete monthly remittance form containing detail of the contributions payment.	Send to Pensions Services with payment of contributions every month
Collect and pay over AVC contributions to the specified AVC provider in accordance with statutory timescales Notify HPF of a member's election to pay, vary or cease AVCs.	Payment over to AVC provider by 19th of the month following deduction (22nd if electronic)
Refund contributions through the payroll to any employee who opts out of the scheme with less than 3 months membership. Notify HPF of opt out and refund through payroll by providing a copy of the opt out form	From the next pay period after receiving the employee's request to opt out Within 10 working days following the end of the month in which the employee left the scheme

Employer responsibility	**Timescale**
Calculate assumed pensionable pay for any employees who met this requirement under the regulations.	As required
Leavers (excluding retirements/casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month in which the employee was last paid
Leavers (casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month the employer is aware they have left or were last paid
Retirements When an employee's LGPS membership ends on the grounds of retirement, determine the reason for retirement and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 20 working days before an employee's retirement date
Use an independent registered medical practitioner qualified in occupational health medicine in determining requests for ill health retirement.	As required
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify HPF and members of any changes to those policies within one month of setting a policy and the changes taking effect.
Appoint a person to consider applications from members regarding decisions, acts or omissions and to decide on those applications.	On entry to the HPF and review as required
Provide annual information to HPF with full details of the contributions paid by members in the year. Respond to queries on the annual return raised by HPF.	By 30 April each year Respond to queries within 10 working days of receipt
The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits. The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	As required

Employer responsibility	Timescale
Notify HPF of a member’s death and next of kin’s details.	Within 5 working days of the member’s death.
Supply details required for completion of an estimate.	Within 10 working days of the member’s request
Distribute annual benefit statements and any other notifications to active members as requested by HPF.	Within 20 working days of receipt
Notify HPF of any TUPE transfer. Complete TUPE forms for each member transferring.	Notify HPF of the transfer as soon as possible in advance of the transfer date. Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.
Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS Where an admission agreement is required, the Scheme employer should complete an ‘Outsourcing data capture’ form, transferring ‘staff data capture’ form and ‘Undertaking of costs’ form Ensure admission agreement is finalised Provide individual TUPE forms for transferring staff to HPF	As soon as possible but no later than 20 working days before change As soon as possible but no later than 20 working days before change No later than date of transfer Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place

Employer responsibility	**Timescale**
Notify HPF of a change of payroll provider by completing a 'Employer Change of payroll provider' form	As soon as possible but no later than 20 working days before change
Submit individual 'Change of payroll provider' forms to HPF for all transferring employees	Within 20 working days post transfer
Provide notification of new payroll numbers (if applicable) to HPF	Within 20 working days post transfer
Complete a mid year return if date of change is not 1 April	Within 40 working days post transfer

Appendix B - HPF Responsibilities

The overriding responsibility of HPF is to maintain the Hampshire Pension Fund in accordance with the regulations.

HPF will provide the following within the timescales shown. A reduced timescale may be agreed in exceptional cases at an employer's request.

HPF responsibility	**Timescales**
Invest pension contributions and account for and manage the Pension Fund's assets.	Daily.
Allocate all contributions submitted by the employer to their respective income codes and reconcile the total contributions paid on a yearly basis.	Annually.
Appoint Additional Voluntary Contributions provider(s).	As required.
Appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.	As required, in line with procurement provisions.
Provide accurate, timely data to the Fund actuary.	As required.
Correspond with and commission any information required of the Fund Actuary on behalf of the employer.	As required.
Arrange for the triennial valuation of the Pension Fund and provide the employer with a copy of the valuation report and the annual report and statement of accounts.	Every three years.
Arrange for the annual accounting report to be provided to all employers requiring such a report.	Annually.
Publish and review the Pension Fund's Policies and Funding Strategy Statement, and prepare annual report and accounts.	Annual review and publication.
Notify the employers of any significant changes to: • Regulations that might affect members in their employ; • policies made by the administering authority under the Regulations; or • procedures adopted by it in accordance with this strategy. Advice will be given to the employers in respect of matters arising from the interpretation and implementation of the Regulations.	As required.
Maintain a complaints procedure including the appointment of a specified person to act as a local referee at Stage 2 of the dispute process.	As required.

HPF responsibility	Timescales
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify employers and members of any changes to those policies within 30 working days of the changes taking effect.
Answer enquiries made by members	Within 5 working days or sooner where possible Where an enquiry will take longer than 5 days to resolve, HPF will notify the member and keep the member updated.
Set up a record for each new member and issue a statutory notification.	Within 20 working days from when notified of their membership.
Issue annual benefit statements on member self service to active members or via their employer where written notification is received to opt out of member self service	By 31 August after relevant annual return information from the employer is received and uploaded
Provide an estimate of pension benefits on request from the employer, and details of any capital costs to be paid by them.	Within 15 working days of receipt of all relevant information
Amend a member's record.	Within 15 working days from when the change was notified.
Calculate benefits due when a member leaves employment and send details to the member.	Within 15 working days for retirements, or within ~~40~~ 30 working days for deferred benefits, on receipt of all information needed to make the final calculation
Send a benefit statement to all deferred members showing the accrued benefits to the date of leaving and the other options available to them in accordance with the Regulations.	Annually by 31 August

HPF responsibility	Timescales
Pay retirement lump sums.	Within 10 days of the retirement date or of receipt of all information from the employer and member if later.
Provide details of the final capital costs to be paid by the employer into the Pension Fund.	Within 10 working days of completing the calculation.
Calculate and process transfers of members' pension rights inwards and outwards.	Within 15 working days of receipt of all information
Acknowledge in writing the death of a member.	Within 5 working days of being notified of the death.
Supply survivor beneficiaries with notification of their entitlements including the method of calculation.	Within 15 working days of all the information being received.
Pay any death grant due and set up dependant on pensioner payroll.	Within 10 working days of completing the calculation of entitlement
Apply pensions increases annually to the relevant pensions in payment and deferred pensions retained in the Fund in accordance with the Pensions Increase (Review) Order issued by the Government.	Annually

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Appendix C – Administering Authority discretions and delegated authority for approval

The table below sets out how the Hampshire Pension Fund (HPF) choses to exercise its discretions under the LGPS regulations, together with the delegated authority for approval where a further decision exists.

	Discretion	Regulation	Policy	Delegated authority for approval
1.	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority, Care Quality Commission or any other body applying to be an admission body	**R**4(2)(b), **R**5(5) & **R**Sch 2, Part 3, para 1	HPF will enter into an admission agreement where the requirements that it has set down and issued to prospective bodies are met.	Team Manager – ~~Service Development~~ Employer Services
2.	Whether to terminate a transferee admission agreement in the event of: - Insolvency, winding up or liquidation of the body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**R**Sch 2, Part 3, para 9(d)	HPF will decide any case on its merits.	Director of Corporate Resources
3.	Define what is meant by 'employed in connection with'	**R**Sch 2, Part 3, para12(a)	HPF admission agreements specify this as the employee spending at least 50% of his time employed by the admission body carrying out duties relevant to the provision of the services.	N/A
4.	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	**R**16(1)	HPF has not set a minimum payment threshold.	N/A
5.	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC	**R**16(10)	HPF does not require those applying to take out an APC to pass a medical.	N/A
6.	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	**R**16(10)	HPF will turn down an application if there are sound reasons to believe the applicant is not in good health	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
7.	Whether to charge member for provision of an estimate of additional pension that would be provided by the Scheme in return for transfer in of in house AVC /SCAVC funds (where AVC / SCAVC arrangement was entered into before 1 / 4/ 14)	**TP**15(1)d & **A**28(2)	HPF charges for estimates in accordance with its estimates policy.	N/A
8.	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	**R**17(12)	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	Team Manager – Member Services ~~Operations~~
9.	Pension account may be kept in such form as considered appropriate	**R**22(3)(c)	HPF will decide the form in which pension accounts are kept based on any published guidance, best practice and in an efficient manner.	N/A
10.	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	**TP**10(9)	HPF will aggregate with the earliest remaining employment.	N/A
11.	If an Employer has become defunct, the administering authority is required to make decisions on ill health and early payment of benefits. Including whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement or on benefits which a member voluntarily draws before normal pension age.	**R**30(8) **TP**12(6) **R**38(3) **R**38(6) **B**30(2) **B**30(5) **B**30A(3) **B**30A(5) **B**31(4) **B**31(7) TPSch 2, para 1(2) & 1(1)(c) TP3(1), TPSch 2 para 2(1)	HPF will exercise this discretion in accordance with, and to the extent of (if any) the policy and practice of the former employer. If no policy exists, HPF will not waive any reduction or otherwise agree to a retirement which would incur an employer strain charge. HPF will assess ill health retirement decisions, including the use of 2008 certificates, on a case by case basis.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
12.	Whether to require any strain on Fund costs to be paid ‘up front’ by employing authority following payment of benefits under: flexible retirement; redundancy / business efficiency; the waiver (in whole or in part) of any actuarial reduction that would have otherwise been applied to benefits which a member voluntarily draws before normal pension age; release of benefits before age 60.	**R**68(2) **TP**Sch 2, para 2(3) **L**80(5) **B**30 or **B**30A	HPF requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).	N/A
13.	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	**R**32(7)	No extension will be granted, unless appropriate to the individual circumstances of a case.	Head of Pensions
14.	Decide whether to commute small pension	**R**34(1) **R**39 (1) (b) & (c) **B**39 **T**14(3) **L**49 & **L**156	~~HPF will not allow commutation of small pension pots.~~ HPF will allow commutation of eligible small pension pots.	N/A
15.	Approve medical advisors used by employers (for ill health benefits)	**R**36(3) **L**97(10)	HPF requires employers to provide details of medical advisors used for assessing entitlement to ill health benefits and will liaise with any employer who is using a medical advisor of which HPF does not approve.	Head of Pensions
16.	Decide to whom death grant is paid	**TP**17(5) to (8) **R**40(2) **R**43(2) **R**46(2) **B**23(2) & **B32**(2) **B**35(2) **T**Sch1 **L**155(4) **L**38(1) **L**155(4) E8	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member’s valid expression of wish form.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
17.	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**R**49(1)(c) **B**42(1)(c)	HPF will choose the benefit entitlement that yields the highest level of benefits for the member.	Team Manager - Member Services ~~Operations~~
18.	Whether to set up a separate admission agreement fund	**R**54(1)	HPF has decided not to set up a separate admission agreement fund.	Director of Corporate Resources
19.	Maintain a governance policy which contains the information set out in the regulations	**R**55	HPF has a written governance policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
20.	Decide on Funding Strategy for inclusion in funding strategy statement	**R**58	HPF has a funding strategy which is included in the funding strategy statement.	Pension Fund Panel and Board
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	**R**59(1) and (2)	HPF has a written pensions administration strategy.	Pension Fund Panel and Board
22.	Maintain a communication policy which contains the information set out in the regulations	**R**61	HPF has a written communication policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	**R**64(4)	HPF will decide each case on its merits, with advice from the Fund Actuary.	Director of Corporate Resources
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under **R**63	**R**65	HPF will make this decision as it arises, with advice from the Fund Actuary.	Director of Corporate Resources
25.	Decide the frequency of payments to be made over to the Fund by employers and whether to make an admin charge	**R**69(1) **L**81(1) **L**12(5)	Employer contribution payments are due monthly by 19th of the month (22nd if electronic) following deduction. Administration costs are taken into account by the actuary when setting employer contribution rates.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
26.	Decide the form and frequency of information to accompany payments to the Fund	**R**69(4) **L**81(5)	Employers are required to complete a monthly remittance form with their payment showing a breakdown of contributions.	Team Manager - Finance
27.	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	**R**70 and **TP**22(2)	HPF will work with employers to improve performance but if additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged.	Head of Pensions
28.	Whether to charge interest on payments by employers which are overdue	**R**71(1) **L**82(1)	HPF will charge interest on payments which are more than one month overdue.	Head of Pensions
29.	Decide whether to extend six month period to lodge a stage one IDRP to be heard by the administering authority	**R**74(4)	HPF will not extend the 6 month period, unless the circumstances of the individual case warrant an extension.	Head of Pensions
30.	Decide procedure to be followed when exercising its IDRP functions and decide the manner in which those functions are to be exercised	**R**74(6) **R**76(4) **L**99	HPF has a documented and compliant IDRP process.	N/A
31.	Whether admin authority should appeal against employer decision (or lack of a decision)	**R**79(2) **L**105(1)	HPF would take the decision to appeal based on the merits of the individual case.	Head of Pensions
32.	Specify information to be supplied by employers to enable admin. authority to discharge its functions	**R**80(1)(b) & **TP**22(1)	HPF provides employers with full guidance as to the information they must supply.	N/A
33.	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in the Administration of Estates (Small Payments) Act 1965.	**R**82(2) **A**52(2) **L**95	HPF will pay death grants that are under the amount specified in the Administration of Estates (Small Payments) Act 1965 without the need for grant of probate / letters of administration.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**R**83 **A**52A	HPF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	**R**89(5) **L**106A(5)	HPF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
36.	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	**R**100(6)	HPF will not extend the 12 month limit, except if warranted by the individual circumstances of the case.	Head of Pensions
37.	Allow transfer of pension rights into the Fund.	**R**100(7)	HPF will allow transfers into the Fund.	N/A
38.	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.).	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) **T**Sch 1 **L**23(9) **B**10(2)	HPF will choose the pay figure that would yield the highest overall level of benefits for beneficiaries.	Team Manager – Member Services ~~Operations~~
39.	Decide to treat child as being in continuous education or vocational training despite a break.	**R**Sch 1 & **TP**17(9) **B**39 **T**14(3)	HPF will treat a child as being in continuous education or vocational training despite a break.	N/A
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	**R**Sch 1 & **TP**17(9)(b) **B**25	HPF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	Team Manager - Member Services ~~Operations~~

	Discretion	Regulation	Policy	Delegated authority for approval
41.	Decide policy on abatement of pensions following re-employment, including the pre April 14 element for post 14 leavers.	**TP**3(13) & **A**70(1)* & **A**71(4)(c) **T**12 **L**109 **L**110(4)b	HPF will not abate pension for any re-employment starting after 1 April 2014. Pensions already abated at this date will continue to be abated until the re-employment ends.	N/A
42.	Extend time period for capitalisation of added years contract	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	HPF will not extend the time limit for applications to pay off added years contracts.	N/A
43.	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3) **L**89(3)	HPF will usually recover as a deduction from benefits.	Team Manager - Member Services ~~Operations~~
44.	Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	**B**27(5) **L**47(2) G11(2)	All pensions due to children under 16 will be paid to another person for the benefit of the child. After age 16, HPF will normally pay to the child, unless the circumstances of the individual case mean that the payments should continue to be made to another person.	N/A
45.	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service.	**L**17(4),(7),(8) , & **L**89(4) & Sch 1	HPF will not extend the 12 month period.	N/A
46.	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.).	**L**22(7)	HPF will choose the appropriate pay period that would yield the highest overall level of benefits for beneficiaries.	Team Manager - Member Services ~~Operations~~
47.	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08. leavers).	**L**47(1) G11(1)	HPF will apportion children's pension equally amongst eligible children.	N/A
48.	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	**L**50 and **L**157	HPF will commute benefits due to exceptional ill health, provided regulatory conditions are met.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
49.	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	**L**60(5)	HPF does not set a minimum payment threshold for AVCs	N/A
50.	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	**L**91(6)	Employer payments are paid monthly on account, with an annual balancing charge after the year end.	N/A
51.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	**L**118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
52.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	**L**147	HPF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
53.	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	HPF will pay spouse's LGPS pensions for life.	N/A
54.	Agree to pay annual compensation on behalf of employer and recharge payments to employer.	**DC**31(2)	HPF will pay compensation on behalf of an employer, subject to acceptable recharge arrangements.	Head of Pensions
55.	Whether to agree to that an admission agreement may take effect on a date before the date on which it is executed.	**R**Sch2, Part 3, para 14	As set out in the Employer Policy, HPF requires employers to notify the Fund of any outsourcing as soon as possible and complete an admission agreement with sufficient time before the contract start date. However each case will be decided on its merits, with advice from the Fund Actuary.	Head of Pensions
56.	Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	**R**64 (2ZA)	As set out in the Employer Policy, HPF will agree a later date with an employer if circumstances mean that an exit credit cannot be paid within 3 months of the employer exiting the Fund.	Head of Employer Services

	Discretion	Regulation	Policy	Delegated authority for approval
57.	Whether to suspend (by way of issuing a suspension notice) for up to 3 years an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	**R**64(2A)	As set out in the Employer Policy, HPF will exercise this discretion in relation to Town or Parish Councils. Any other circumstance will be considered on its merits with advice from the Fund Actuary.	Head of Employer Services
58.	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so.	**RPS** 2	HPF will allow a request for Voluntary Scheme Pays (VSP) where the tax charge is over £1,000 and under £2,000. Any request for VSP below this minimum will be considered on a case by case basis with regard for the administration cost of administering a small pension debit.	Head of Pensions

Key to regulations:

Prefix	Regulation
R	Local Government Pension Scheme Regulations 2013
TP	Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
A	Local Government Pension Scheme (Administration) Regulations 2008
B	Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
T	Local Government Pension Scheme (Transitional Provisions) Regulations 2008
L	Local Government Pension Scheme Regulations 1997 (as amended)
None	Local Government Pension Scheme Regulations 1995
DC	Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
RPS	The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

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Local Government Pension Scheme: Fair Deal – Strengthening pension protection

Response from Hampshire County Council as Administering Authority for the Hampshire LGPS Fund

We welcome the opportunity to respond to this consultation as the Administering Authority for the Hampshire LGPS fund. Although we support the aims of the proposals, we do not think that as drafted, the regulations can deliver the practical outcomes required by Scheme Employers and Administering Authorities in the LGPS.

We feel it is important that the view of the Administering Authorities on the practical implementation of the proposals is taken into account. Our response has therefore focussed on the implications for administering the proposed changes, leaving the professional advisers to the LGPS to respond on the technical details posed in the consultation.

Question 1: Protected Transferees – do you agree with this definition?

To the extent that the Administering Authority can give an opinion on the value of extending LGPS eligibility to employees, we agree that allowing Scheme Employers the flexibility to include employees not previously eligible for the LGPS could be a valuable workforce strategy.

However as drafted, we do not believe that the regulations will achieve this aim as the protected status can be removed at any time by either party – which will not provide certainty or assurance to the employee.

Just as now, responsibility for ensuring employees continue to retain eligibility for the LGPS needs to rest with the employer and not with the Administering Authority.

Question 2: Do you agree with this definition of a Fair Deal employer?

We welcome the inclusion of the Police and Crime Commissioner in the definition and agree that admission bodies should be able to follow these principles should they wish to do so.

However as above, employers covered by the definition will need to ensure that they follow the requirements, with the Administering Authority's role limited to providing guidance and information.

Question 3: Do you agree with these transitional measures?

We agree that the transitional measures are fair to employees previously outsourced under the 2007 or 2012 Direction.

Question 4: Do you agree with our proposals regarding the calculation of inward transfer values?

We agree with the principle of having a neutral mechanism for the calculation of inward transfers and for members to be allowed to make their own decision as to whether to bring benefits accrued in a broadly comparable scheme back into the LGPS. However, we believe that few members should choose to do so as they be moving from a final salary to a CARE scheme with no mechanism for their transfer to buy service. Members may transfer back to the LGPS in the belief that it is a better scheme than their current broadly comparable scheme without understanding the loss of final salary benefits.

Question 5: Do you agree with our proposals on deemed employer status?

We do not think that the proposals for deemed employer status are practical and instead will introduce an administrative burden on Scheme Employers and Administering Authorities greater than the issues that they are attempting to resolve. We think it would be better to continue with the current use of the admitted body route.

One of the objectives of the proposals is to prevent the period of limbo for transferring employees caused by a delay in signing the admission agreement. Although we agree that this can be an issue, the proposals as drafted do not require employers to agree the route they will take prior to the start of the tender process so there will still be timing issues as these negotiations take place.

The proposals appear to be seeking an easier route for small Scheme Employers to outsource services without contractors overpricing contracts for pension risks. However, the only example of Deemed Employers working in practice is given as local authorities with regard to voluntary schools (where there is an overriding existing relationship). We are concerned that smaller employers will not understand their continued responsibilities under the Deemed Employer route.

In our experience, larger employers are already operating pass through arrangements with contractors to negate the risk share issue so the Deemed Employer route for them is unnecessary.

The proposed approach seeks to slow the rate of increase of LGPS employers and so reduce administrative issues. However although the number of new Scheme Employers would slow through use of the Deemed Employer route, the Administering Authority would still have to deal with the contractors as if they were Scheme Employers (collection of contributions, provision of payroll information, discretions policies etc). The Deemed Employer route would therefore have the effect of hiding the increase in employers rather than removing it, and so underplaying the complexity of LGPS administration.

We believe that the Deemed Employer route will increase the administrative burdens both on Administering Authorities and Scheme Employers, as well as introduce confusion for scheme members. The Administering Authority will still be reliant on the contractor providing necessary and timely information but without the direct relationship which is currently in place (and therefore without any of the authority for requiring the employer to do anything). This is already an issue for employers with 3rd party payroll providers, but at least in this situation, it is clear that a single employer retains all LGPS responsibilities.

We are concerned about the requirement for academies to have to follow guidance from the Department of Education before being able to use the Deemed Employer route. Who will enforce this requirement – and if the academy is subsequently found not to have followed the guidance, what will happen to the employees who have been outsourced? We cannot be in a position where pension risk falls onto the other employers in the Fund.

Question 6: What should advice from the scheme advisory board contain to ensure that Deemed Employer status works effectively?

We are not sure that the Scheme Advisory Board has the necessary remit to advise Scheme Employers directly. We would ensure that the advice was shared but could not effectively monitor an employer's response to it so question the value of this route over statutory legislation.

Question 7: Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?

As a minimum, the Regulations should specify that the outsourced employer is responsible for deducting and paying over employee and employer contributions to the Administering Authority. If this is not included in the Regulations, we do not feel that we will be able to get the support of the Pensions Regulator in the event of any breach by the employer.

Question 8: Is retaining the admission body option the right approach?

We agree this is the right approach because we do not think that the Deemed Employer route is practical to implement. However we would not want to see the Administering Authority involved in risk share issues as this is for the employer and contractor to sort out between themselves.

Question 9: What further steps can be taken to encourage pensions issues to be given full and timely consideration by Fair Deal employers when services or functions are outsourced?

Pension issues need to be considered by all employers when services / functions are outsourced. However it is difficult to conceive of a legislative route by which this objective could be achieved.

Question 10: - Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by our Fair Deal proposals?

We are not aware of any groups who would be disadvantaged by the proposals.

Question 11: Automatic transfer of assets and liabilities – is this the right approach?

Question 12: Do the draft regulations effectively achieve our aims?

Question 13: What should guidance issued by the Secretary of State state regarding the terms of asset and liability transfers?

We agree with the intention of the proposal but are concerned that the regulations as drafted are insufficient.

- If a stronger company was taken over by a weaker company (or a shell company) then the exit debt may not be paid (and would fall on the other employers in the Fund)
- The Fund Actuary could not target the exit payment by amending the contribution rate for the new body

We have been able to address concerns about unintended triggering of exit debts or taking on of liabilities following a merger via separate legal agreements and feel this approach allows us greater flexibility and certainty than the draft proposals.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 8

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Agenda Item 10

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Agenda Item 11

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