Public Document Pack

# Pension Board

**Wednesday 5 August 2020 at 6.00 pm**
This will be held as an online virtual meeting
Details on how to access the link in order to view proceedings will be made available online via the following link: Democracy in Brent

## Membership:

| Members | Representing |
| --- | --- |
| Mr Ewart | Independent Chair |
| **Councillor Members** | |
| Councillor Crane | Brent Employer representative |
| Councillor Kabir | Brent Employer representative |
| **Co-opted Members** | |
| Bola George | Member representative (Unison) |
| Chris Bala | Pension Scheme Members Representative |
| Robert Wheeler | GMB Trade Union |

**For further information contact:** Joe Kwateng, Governance Officer
joe.kwateng@brent.gov.uk; 020 8937 1354

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**www.brent.gov.uk/committees**

**The press and public are welcome to attend part of this meeting as an on online virtual meeting. The link to attend and view proceedings will be made available online via the following link: Democracy in Brent**

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for Brent

**Notes for Members - Declarations of Interest:**

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

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

****Personal Interests:**

The business relates to or affects:

(a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party of trade union).

(b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;

a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

# Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members.

**8 Pensions Administration Update** 71 - 104

This report updates the Pensions Board on various pensions administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

I have attached 2 appendices to the report.

**9 LPP Scheme Administration** 105 - 112

This report presents the LPP Pensions Administration Service as measured against key performance indicators that measure compliance, efficiency, and effectiveness of the service.

**10 LPP Business Update**

LPP will present a report on business update. The slide presentation will be circulated prior to the meeting.

**11 LPP Complaints data 2019/2020** 113 - 116

This report presents the LPP complaints data for 2019/2020.

**12 LPP COVID-19 Impact Analysis** 117 - 138

This report presents analysis from the Fund's administration provider Local Pensions Partnership (LPP) regarding the impact of the COVID-19 coronavirus pandemic, on the number of death notifications (bereavements) received, relating to members in the Brent Pension Fund and Brent Teachers Pension Fund since the start of this year.

I have attached 2 appendices to the main report.

**13 LGPS Update** 139 - 312

The purpose of this report is to update the committee on recent developments within the LGPS regulatory environment and any recent consultations issued by the Ministry of Housing, Communities and Local Government (MHCLG) which have would have a significant impact on the Fund.

I have attached 7 appendices to the main report.

**14 Brent Risk Register** 313 - 328

This report presents the updated Risk Register for the Brent Pension Fund Pensions Administration Service.

I have added 2 appendices to the main report.

**15 Date of next meeting**

The next scheduled meeting of the Board is on 3rd November 2020.

**16 Any other urgent business**

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.

**17 Exclusion of Press and Public**

The press and public will be excluded from the remainder of the meeting as the reports and appendices to be considered contain the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely:

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)".

**18 Appendices to Triennial Valuation report** 329 - 434

**Date of the next meeting: Tuesday 3 November 2020**

Brent

**MINUTES OF THE PENSION BOARD**
**Tuesday 22 October 2019 at 6.00 pm**

PRESENT: Mr Ewart (Chair) and Councillor Crane, Councillor Kabir, Ms George and Mr Wheeler

1. **Apologies for absence**

Received from Mr Chris Bala.

2. **Declarations of interests**

None declared.

3. **Minutes of the previous meeting - 13 June 2019**

RESOLVED:

That the minutes of the last meeting held on 13th June 2019 be approved as an accurate record.

4. **Matters arising**

None.

5. **Pensions Administration Update**

This report updated the Pensions Board on various pensions' administration matters as part of its remit to oversee the administration of the Brent Pension Fund. The report also reviewed the performance of the LPP contract against agreed Service Level Agreements (SLA's) during September 2019. Mr Ravinder Jassar (Head of Finance) introduced the report and drew Members' attention to the tables within the report, which showed contract statistics for cases that had been processed, grouped by category and progress by month in the last 6 months.

He continued that the amount of cases carried forward had improved significantly since April, a reflection of all the backlog of cases inherited from the previous administration provider which were being actioned or reviewed by LPP. Members heard that a total of 9 complaints were outstanding in April, 7 of which had been resolved since. He added that complaints were being dealt with as swiftly as possible with lessons learnt from them and processes and procedures updated accordingly.

Mr Jassar gave an update on Annual Benefit Statements (ABS), a statutory responsibility for the scheme manager to issue to all eligible active and deferred members by 31 August each year. By the deadline date, there were a small number of records where queries from year end returns had not been resolved in time and for those members, an ABS could not be produced as employers had not been forthcoming with the relevant information. The vast majority of those employers were schools that were closed over the summer months and could not respond to LPP's queries in a timely manner. He further updated that 34% of the outstanding queries had been resolved and ABS issued to members and it was expected that all queries would have been resolved by the end of March 2020. Progress was being regularly monitored and tracked as part of the monthly contract management and performance meetings with LPP.

In respect of data cleansing, a separate project commissioned to review, cleanse and fix any errors identified in member data, Members heard that phase 1 of the project was completed ahead of the 2019 triennial valuation. Mr Jassar drew Members' attention to appendix 3 of the report, which provided a status update for all work streams at the completion of phase 1 and added that officers would work closely with the Hymans Roberts (Investment Adviser) on the second phase of the project.

In the discussions that followed, Members expressed a preference to scrutinise the complaints about the service and with that in view, requested a further report on complaints to the next meeting. It was also suggested that in order to improve smaller employers' submissions for the purposes of ABS, consideration should be given to engagement with CVS Brent.

RESOLVED:

i) That the pensions administration update be noted;

ii) that a report on complaints on the service be submitted to the next meeting of the Board.

6. **LGPS Update**

This report updated the Board on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government. Mr Sawan Shah (Senior Finance Analyst) introduced the report and informed Members that the HM Treasury (HMT) launched a consultation on draft regulations, guidance and directions to implement the exit payment cap which was set at £95,000. He drew Members' attention to the Local Government Association (LGA) response paper, appended to the report, which raised concerns on the feasibility and consequences of implementing the Policy in the manner set out in HM Treasury's Consultation Document.

Mr Shah then gave an update on the McCloud case; transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015. Members heard that on 14 May 2019, the scheme advisory board (SAB) published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. He then outlined the key points from the Advice Note and added that the Fund Actuary had produced a summary regarding the various approaches in which the McCloud risk can be managed. Given that no remedy had been agreed by 31st August 2019, it would leave Funds to consider locally, how best to manage the uncertainty and risk.

In respect of Governance, Mr Shah informed Members that the Scheme Advisory Board (SAB) commissioned Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance, going forwards. Hymans Robertson undertook a process of engaging extensively with stakeholder groups and fund types to consider four governance models, each of which would be assessed against set criteria. The results found that there was a majority preference in adopting a governance model which combined improved practice with greater ring fencing of the LGPS within existing structures. In addition to this, the results found that there was a preference for clearer ring-fencing of Pension Fund management from the host authority, including budgets, resourcing and pay policies.

Following the analysis of these results, Hymans Robertson proposed that an outcome based approach to LGPS governance, with minimum standards, should be adopted rather than a prescribed governance model. In addition to this, Hymans Robertson proposed updating of relevant guidance and training requirements. Following the approval of the good governance report, the Scheme Advisory Board (SAB) has asked Hymans Robertson to assist with the next stage of this project which will involve the defining of good governance outcomes and options for assessment of these outcomes. Further details of the results and analysis undertaken by Hymans Robertson were set out in Appendix 3 to the report. Overall the Fund supported these recommendations, in particular, clearly clarifying the standards expected in areas of governance and administration.

Members welcomed the report and RESOLVED:

That the report on the recent developments in the LGPS be noted.

7. **Brent Risk Register 2019**

This report presented the updated Risk Register for the Brent Pension Fund Pensions Administration Service. Mr Saagar Raithatha (Finance Analyst) in introducing the report stated that having a strategy and register in place enabled the scheme manager to identify and manage scheme risks alongside established reporting mechanisms. He added that key elements of the strategy were discussed at a recent working party set up with the scheme manager, administrator and select employers for feedback and comment. The Register and the Risk were attached to this report in Appendices 1 and 2, respectively.

Mr Raithatha drew Members' attention to a new risk that had been added relating to the McCloud judgement which would potentially increase pension fund liabilities.

In welcoming the report, the Chair thanked officers for producing a comprehensive and better formatted register and RESOLVED:

That the Brent Risk Register 2019 be noted.

8. **The Pensions Regulator (TPR)**

This report presented the outcome of The Pensions Regulator's (TPR) engagement sessions with Local Authorities. Mr Ravinder Jassar (Head of Finance) informed the

Board that the sessions were started as TPR identified a slowdown in improvements across LGPS funds and wanted to gain a better understanding of the reasons for this. The reviews and meetings with TPR, based on the Code of Practice 14: Governance and administration of public service pension schemes. covered various risk areas including the following:

Administration, data and communication
Internal controls and complaint handling
Contributions, employer compliance and funding affordability
Pension Board knowledge and understanding, relationship between Board and Scheme manager and conflicts of interest
Fraud, mitigation of scams and cyber security

The meetings gave TPR a strong insight into current governance and administration practice and standards of LGPS funds as a result of which a number of recommendations were made across each element. He drew Members' attention to the key points as set out within the report and added that the recommendations made by TPR were agreed. He continued that the cyber security policy including penetration testing had been submitted to TPR. In response to Members' request, Mr Jassar undertook to re-send the link to the TPR on-line pensions training.

In welcoming the report, members RESOLVED:

That the outcome of the Pension Regulator's engagement sessions be noted.

9. **Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues**

This report set out the Fund's proposed approach to further integrating Environmental, Social and Governance (ESG) considerations into its strategic decision making, in particular how the Fund intended to take in the short and medium term to manage the risk of climate change. Mr Ravinder Jassar introduced the report and highlighted that the Brent Pension Fund Committee took Responsible Investment ("RI") seriously, aware that ESG factors can influence the Fund's ability to achieve long term sustainable returns. The Fund's RI commitment is reflected in the Fund's Investment Strategy Statement.

He continued that ESG criteria of its existing investments were assessed on an ongoing basis, including regular interaction and challenge of the Fund's investment managers (including the Fund's asset pool, London CIV). ESG also remained a key consideration when assessing the relative merits of any potential new Fund investments, in addition to ongoing education programme to increase overall knowledge.

The Fund's policy on RI is informed by its fiduciary duty to its members and employers, rather than by purely ethical considerations. Accordingly, the Fund did not disinvest from companies for purely non-financial reasons, not least because this could lead to legal challenge. He outlined different climate related scenarios which Hymans, the Fund's actuary and investment advisors, would model to help funds explore any challenging questions. To that end, it was proposed to undertake a carbon footprint exercise for the Fund in order to improve its understanding of the Fund's holdings. Officers would work with our investment advisors, Hymans, to scope out this project further and report back to the committee. Following this, recommendations on the measurement of and actions related to carbon emissions would then be presented to the committee for approval. Mr Jassar then referenced collaboration with other investors and groups including the Local Authority Pension Fund Forum (LAPFF) which had the potential to help influence and improve market best practice standards, as well as strengthening the voice of pension funds.

Members welcomed the report and RESOLVED:

(i) To note the overall report with regards to position on responsible investment and climate change;

(ii) To note the further work proposed with regards to scenario analysis, carbon footprint analysis and consideration of alternative index-tracking funds.

10. **Investment Monitoring report on Fund Activity for Q2, 2019**

This report updated members on the Fund's activity for quarter 2, 2019. Mr Ravinder Jassar (Head of Finance) introduced the report and informed Members that the Fund returned ahead of benchmark in the Q2 2019, continuing the strong start to 2019 and over the quarter the fund grew from just over £856m to almost £897m. He anticipated an increasing trend in Q3 which will be reported to the next meeting. Mr Jassar clarified manager ratings and provided business updates as set out in the report.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

That the investment monitoring report for Q2 be noted.

11. **Brent Pension Fund: Annual Report and Accounts 2018/19**

This report presented the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2019. Mr Sawan Shah (Senior Finance Analyst) informed Members that there had been no major changes to the audited Annual Accounts since the submission of the Draft Annual Accounts to the Sub-Committee. He continued that only minor amendments and additional clarifications were made to the draft accounts by Grant Thornton (Council's auditors) and signed off. He highlighted the following main items:

The value of the Fund's investments increased from £831.1m to £856.4m and total contributions received from employers and employees totalled £52.1m for the year, an increase on the previous year's £49.9m. Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £45.9m, an increase on the previous year's £38.9m. He added that as in 2017/18, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

That the Annual report and accounts for 2018/19 be noted.

12. **Review of Fund benchmarks and performance targets**

The purpose of this report was to review the Fund's investment benchmarks and performance targets at an individual asset class level. Mr Sagaar Raithatha (Finance Analyst) explained that The Fund required benchmarks so that 'gaps' or problems with performance can be identified and performance improvements can be achieved through investigating causes and identifying the best solutions. He drew Members' attention to the recommendations to the Fund's benchmarks and performance targets (attached at appendix 1). Mr Raithatha added that at an individual asset class level, it was proposed to adopt new benchmarks and performance targets set against Capital Dynamics Private Equity, Baillie Gifford Multi Asset, Ruffer Multi Asset, Alinda Infrastructure, Capital Dynamics Infrastructure and LCIV CQS Multi Credit.

In noting that the changes would be incorporated in the next quarterly reporting of Fund activity, Members RESOLVED:

That the proposed changes to the Funds investment benchmarks and performance targets be noted.

13. **Equitable Life Proposal**

The report outlined proposed changes to the Equitable Life, a legacy Additional Voluntary Contributions (AVC) provider for the Brent Pension Fund. Mr Sawan Shah (Senior Finance Analyst) explained that AVCs were potentially a tax efficient way to save money for retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension. He clarified that the scheme, provided by Equitable Life, affected about 25 members only and was not part of the assets of Brent Pension Fund.

Members welcomed the report which had been presented to Brent Pension Fund Sub-Committee and RESOLVED:

The Equitable Life proposal as set out within the report be noted.

14. **Date of next meeting**

It was noted that the next meeting will be held on 25th March 2020.

15. **Any other urgent business**

Appointment of Employer Representative.

Mr Ravinder Jassar informed the Board that the process for the appointment of Employer representative on the Board to replace Mr Steer had begun. He added that in order to generate greater interest in the appointment, he would give a short presentation at the next meeting of Employers' Forum.

16. **Exclusion of Press and Public**

RESOLVED:

That the press and public be excluded from the consideration of the following reports as they contain the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely:
"Information relating to the financial or business affairs of any particular person (including the authority holding that information)"

17. **London CIV Update**

The purpose of this report was to update the Board on recent developments within the London CIV (LCIV). Mr Sawan Shah (Senior Finance Analyst) provided updates on personnel at the LCIV and the confirmation of the appointment of J.P. Morgan as the new sub-fund manager of the LCIV Emerging Market Equity Fund, subject to the completion of the Investment Management Agreement (IMA). Members also received updates on multi asset credit fund and infrastructure fund and noted that the proposal submitted by the LCIV in August 2019 for the Infrastructure Fund had been granted permission. He referenced MiFID II which reclassified local authorities from professional to retail client status. Members heard that the Fund submitted its application to opt-up to professional client status for alternative asset classes and that the London CIV had confirmed its approval.

In welcoming the update, Members RESOLVED:

i) That the recent developments with the London CIV be noted;

i) That the transition arrangements relating to the LCIV Emerging markets fund be noted.

18. **2019 Triennial Valuation**

The purpose of this report was to update members on the progress of the 2019 Triennial Valuation and the next steps. The report had been presented to Brent Pension Fund Sub-Committee meeting at which Members approved the draft FSS (Funding Strategy Statement) for consultation with employers. Mr Ravinder Jassar (Head of Finance) drew Members' attention to the draft FSS attached as appendix 1 to the report and the key changes since the last valuation in 2016. He continued that following consultation with other employers within the Fund, an updated report would be submitted to the Sub-Committee and the Board.

Members welcomed the report which was first presented to the Sub-Committee meeting and RESOLVED:

i) That the progress on the triennial valuation be noted;

ii) that the Whole Fund results be noted;

iii) that the current draft of the Funding Strategy Statement (FSS) be noted;

iv) to note that the draft FSS will be consulted with employers, as required by LGPS Regulations, and reported to the next meeting in 2020 for formal ratification.

The meeting closed at 8.00 pm

MR. D EWART
Chair

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| Brent | **Pension Board**<br>25 March 2020 |
| | **Report from the Director of Finance** |

**2019 Triennial Valuation Results and Funding Strategy Statement**

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | PART EXEMPT - as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)" |
| **No. of Appendices:** | Four<br>1. Draft valuation report (Exempt)<br>2. Contribution Rate Modelling (Exempt)<br>3. Brent Council - Contribution Options (Exempt)<br>4. Funding Strategy Statement (FSS) (Open) |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst |

## 1.0 Purpose of the Report

1.1 This report sets out the results of 2019 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

## 2.0 Recommendation(s)

2.1 To note, comment and agree the draft valuation report and that members of the committee delegate authority to the Director of Finance to finalise the report before 31 March 2020.

2.2 To approve the contribution rate for the next three financial years for Brent Council, as 35.0% for 2020/21, 2021/22 and 2022/23 as set out in section 3.8 of this report and Appendix 2.

2.3 To delegate authority to the Director of Finance to finalise details of the advance payment of Brent Council's employer contributions and the subsequent impact on the rates and adjustment certificate, as set out in section 3.9 of this report and Appendix 3.

2.4 To approve the Funding Strategy Statement (FSS) as set out in section 3.13 of this report and Appendix 4.

**3.0 Detail**

3.1 Members of the committee will be aware from previous reports presented to the committee and training sessions that the Fund is required by law to undertake and actuarial every three years. All funds in the England and Wales are required to carry out a valuation as at 31 March 2019.

3.2 The purpose of the valuation is to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).

3.3 Hymans Robertson, the Fund actuary, attended the October 2019 meeting outlining the valuation process, the assumptions used and the initial results.

3.4 At the meeting, the committee heard why the assumptions were being used, a presentation of the whole fund results including the funding level, assets, liabilities and the overall deficit level. It was also explained that different employers within the Fund will have different funding levels due to the profile of their members and contribution rates in the past.

3.5 Since that meeting draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, have been produced for the Council and for most employers within the Fund. These have been communicated to employers. For a small number of employers where results have not yet been issued, these will be sent out as soon as possible.

3.6 The draft valuation report, attached in restricted Appendix 1, summarises the process that has taken place and presents the valuation results, funding position and employer contribution rates for 2020/21 to 2022/23. This report recommends the committee to note, comment and agree the draft valuation report and delegate authority to the Director of Finance to finalise the report.

3.7 In line with the valuation process, the council commissioned a contribution rate modelling exercise to allow the officers to consider a long term funding strategy for the stabilised employers within the Fund, that is, Brent Council, academies and local authority schools.

3.8 Based on the results of this modelling work and discussions with the fund actuary, officers propose to freeze contribution rate at 35% of pay for next 3 years and stabilised thereafter at +/- 1% per annum because there is an acceptable likelihood of success and downside risk on the 16 or 19 year time horizon. This proposal has been agreed by the Fund actuary. The full contribution rate modelling report is attached in restricted Appendix 2. This report recommends to approve the contribution rate for the next three financial years for Brent Council, as 35.0% for 2020/21, 2021/22 and 2022/23.

3.9 As part of the valuation, the council is considering paying a large part of its employer contributions upfront as a lump sum. A report was commissioned by the Fund actuary to model a number of options, set out further in Appendix 3, which concluded that there is an economic benefit to the Council in considering this and there is no negative impact on the pension fund.

3.10 This proposal, which is now quite common across a number of LGPS funds, is still under consideration as it requires advance clearance with the Council's auditor and is subject to independent advice. It is envisaged that a decision on the pre-payment will be taken in early March 2020, in order to be reflected in the formal valuation.

3.11 The Funding Strategy Statement (FSS) is a document detailing how employer contributions to the Pension Fund are calculated. It is normally updated in line with the triennial valuation to ensure consistency.

3.12 The fund needs an FSS because:

- It is a legal requirement under the LGPS Regulations, and also to revise this at each formal valuation;
- It shows employers how their cash contributions are calculated, and how these might change if the employer's circumstances change.
- It acts as a valuable policy/reference document for the Fund to help deal with employers who raise issues between valuations.

3.13 At the October 2019 committee meeting, the committee agreed the draft FSS for consultation with employers. The consultation has now been completed by officers and the final FSS is provided in Appendix 4 for committee approval.

## 4.0 Financial Implications

4.1 These are discussed throughout the report.

## 5.0 Legal Implications

5.1 The triennial valuation is a statutory process conducted every three years that ensures the Pension Fund is both compliant with LGPS regulations and has a viable long-term funding strategy. The latter is achieved by ensuring it has a robust Funding Strategy Statement (FSS) and Investment Strategy Statement.

## 6.0 Equality Implications

6.1 Not applicable.

## 7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

## 8.0 Human Resources

8.1 Not applicable.

***Report sign off:***

***Minesh Patel***
Director of Finance
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| Brent | **Pension Board**<br>25 March 2020 |
| | **Report from the Director of Finance** |

## Abatement of Local Government Pension on re-employment

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | 1. Summary of Abatement Policies across London in 2018<br>2. Current policy and proposed change |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance |

### 1.0 Purpose of the Report

1.1 This report provides the Committee with information regarding the reduction or suspension of a Local Government Pension on account of further employment within Local Government after an individual has retired (Abatement).

1.2 The report explains the background to the "Abatement" rules and the current statutory provisions for doing so.

1.3 Information about the abatement practices of other Local Authorities is set out in Appendix 1 while further explanation of the current policy and proposed change is set out in Appendix 2.

### 2.0 Recommendation(s)

2.1 The Committee is asked to approve the report for consultation with employers for agreement. Any material changes arising from consultation will be reported back to the Committee.

## 3.0 Detail

### Background

3.1 Abatement is a technical term regarding the reduction or suspension of a Local Government Pension Scheme (LGPS) pension where a pensioner has entered into further local government employment. If the annual salary in the second local government employment plus the pension in payment exceeded the annual salary at the initial retirement, then the pension would be reduced or potentially suspended for the duration of the subsequent local government employment.

3.2 When formulating an abatement policy, the pension regulations require that the Administering Authority has regard to:

- The level of potential financial gain at which it wishes abatement to apply;

- To the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and

- To the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.

3.3 Until 31 March 1998 abatement was mandatory, but from 1 April 1998 to 31 March 2014 abatement was discretionary. With effect from the introduction of the 2014 LGPS career average pension, abatement ceased to be applicable for service after 1 April 2014. Accordingly, a scheme member who only has LGPS membership from 1 April 2014 will not be subject to abatement.

3.4 Abatement cannot apply if a pension recipient obtains further local government work as an agency worker, nor if a person is engaged as a contractor or a consultant. A pension payable to the spouse or partner of a former local government employee, cannot be abated if the spouse/partner enters local government employment.

3.5 In respect of an LGPS pension recipient, a further employment in the wider public sector such as teaching or in the NHS does not require assessment for abatement.

3.6 Under the terms for ‘flexible’ retirement, a scheme member aged 55 or over may, with the agreement of the employer, reduce working hours or take a pay grade reduction and receive the LGPS pension including salary without abatement.

3.7 At present there are 7 Brent Council pension recipients whose pensions are being abated due to re-employment. Pensioners are also being contacted on a regular basis to enquire if they have commenced further local government employment, which places an administrative burden on collecting, collating and implementing abatement. Currently, there are also 17 pension recipients being assessed regularly in respect of earnings in further local government employment.

3.8 A survey of London Boroughs in 2018 has shown that 15 Councils currently do not abate pensions in payments. There are 4 Councils which offer a limited abatement and 18 currently abate pensions in payments.

3.9 The abolition of post 1998 abatement will allow for fairer treatment for all pensioners, as pensioners with only post 2014 scheme membership are not subject to abatement.

3.10 The change in pensions rationale over the last few years, seen with the introduction of "Pension Freedoms", has allowed active and deferred scheme members to access reduced pensions at a date of their choosing, but the continued use of abatement seems to be working against this shift in policy.

3.11 The proposal is that the London Borough of Brent, consults with our employees as per the regulations and if there are no major objections, then we will cease to abate pensions for staff who ceased employment after 1 April 1998 from 1 April 2020.

3.12 For those pensioners who are currently abated and their Brent employment ended after 1 April 1998, they will cease to have their pensions abated and will be reinstated to the current values from 1 April 2020.

## 4.0 Financial Implications

4.1 The cost of administering abatements is chargeable to the Pension Fund and places a strain on the Fund and the Council's resources.

4.2 By ceasing abatement the cost of administering the scheme will be reduced through less time and resource being spent on checking and monitoring pensioners who may be drawing a pension from the Local Government Scheme, for example the cost of reducing and increasing pensions from payroll and LPP running regular employment checks on Brent pensioners as well as the cost of auditing and handling of complaints from abated pensioners.

## 5.0 Legal Implications

5.1 There are no abatement provisions in the LGPS Regulations 2013. Therefore if an employee leaves on or after the 1st April 2014, draws their pension benefits and are then is subsequently re-employed in local government, the Council may not abate their post 1st April 2014 pension.

5.2 However, the abatement provisions in Regulations 70 & 71 of the LGPS (Administration) Regulations 2008 continue to have effect in relation to pensions in payment deriving from the pre 1st April 2014 pension schemes regardless of when payment of those pensions commenced, by virtue of Regulation 3(13) of the LGPS (Transitional) Regulations 2014.

5.3 Under Regulation 70, the Council, as its administering authority must keep under review its policy concerning abatement. This includes; the extent, if any, to which the amount of retirement pension payable to a member and applicable to the period prior to 1st April 2014, should be reduced (or whether it should be extinguished) where the member has entered a new employment with a scheme employer within the LGPS.

5.4 In formulating its existing policy concerning abatement, the Council would have had regard to:

- the level of potential financial gain at which it wishes abatement to apply;
- the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and
- the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.

5.5 When reviewing its existing abatement policy, the Council will need to have regard to the matters set out above. If, as a result of reviewing its policy concerning abatement, the Council decides to amend the abatement policy, it must publish a statement of the amended policy before the expiry of the period of one month beginning with the date of its determination.

## 6.0 Equality Implications

6.1 To be advised by Human Resources.

## 7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

## 8.0 Human Resources

8.1 Not applicable.

***__Report sign off:__***

***Minesh Patel***
Director of Finance
.

HYMANS ROBERTSON

# London Borough of Brent Pension Fund

Funding Strategy Statement

February 2020

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Funding Strategy Statement PAGE



Appendices

# 1. Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Brent Pension Fund ("the Fund"), which is administered by the London Borough of Brent, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 25th February 2020.

### 1.2 What is the London Borough of Brent Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Brent Fund, in effect the LGPS for the Brent area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

### 1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member of the London Borough of Brent: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

### 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Ravinder Jassar in the first instance at e-mail address Ravinder.jassar@brent.gov.uk or on telephone number 0208 937 1487.

# 2. Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies' membership in LGPS Funds.

**Designating employers** – some employers are able to participate in the LGPS via a resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

## 2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

### 2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term high level risk measures, whereas contribution-setting is a longer term issue.

### 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

### 2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance for the potential impact in the assessment of employer contribution rates at the 2019 valuation: this will be achieved by building in a slightly higher required likelihood of reaching funding target, all other things being equal.

The fund will reassess the employer contribution rates at the next formal valuation of the Fund. If the outcome of the McCloud case is then known, a more accurate allowance for the impact will be made at that time.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

### 2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

# 3. Calculating contributions for individual Employers

## 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

## 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

| **Type of employer** | **Scheduled Bodies** | | | **Community Admission Bodies and Designating Employers** | | **Transferee Admission Bodies** |
|---|---|---|---|---|---|---|
| **Sub-type** | **Local Authorities** | **Academies** | **Other** | **Open to new entrants** | **Closed to new entrants** | **(all)** |
| **Funding Target Basis used** | Ongoing participation basis, assumes long-term Fund participation (see Appendix E) | | | Ongoing participation basis, but may move to "gilts exit basis" - see Note (a) | | Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E) |
| **Primary rate approach** | (see Appendix D – D.2) | | | | | |
| **Stabilised contribution rate?** | Yes - see Note (b) | Yes - see Note (b) | No | No | No | No |
| **Maximum time horizon – Note (c)** | 19 years | 19 years | 19 years | 19 years | Future working lifetime of actives | As per letting employer |
| **Secondary rate – Note (d)** | % of payroll | % of payroll | Monetary | Monetary | Monetary | Monetary |
| **Treatment of surplus** | Covered by stabilisation arrangement | | Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority | | | Reduce contributions by spreading the surplus over the remaining contract term if less than 4 years, else no reduction |
| **Likelihood of achieving target – Note (e)** | 70% | 75% | 70% | 75% | 80% | 70% |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | | 3 years | 3 years | 3 years | None |
| **Review of rates – Note (f)** | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract |
| **New employer** | n/a | Note (g) | n/a | Note (h) | | Notes (h) & (i) |
| **Cessation of participation: exit debt/credit payable** | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation assumed to expire at end of contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case low risk basis would apply. Letting employer liable for future deficits and contributions arising. See Note (i) for further details |

**Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

**Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

Currently the only eligible Fund employer is the London Borough of Brent's Council Pool, although Academies will pay the same rate as the Council for at least the three years beginning 1 April 2020 (see Note (g)).

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the current stabilised rate for the Council Pool is a total contribution rate 35.0%, payable for the three years beginning 1 April 2020.

The stabilisation criteria and limits will be reviewed at the next formal valuation. This will take into account the Council's membership profile, whether stabilisation should continue to apply (and if so, whether this should be extended to other employers), and other relevant factors.

### Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

### Note (d) (Secondary rate)

The Secondary contributions for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient secondary contributions being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### Note (e) Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

**Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

**Note (g) (New Academy conversions)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. The new academy's actual contribution rate will be as per the Council rate, expressed purely as a percentage of pensionable pay. This applies whether or not the theoretical rate is above the Council rate. All other things being equal, this will mean some academies taking longer to pay off their deficit (where the theoretical rate is higher than the Council rate), or paying off the deficit more quickly (where the theoretical rate is below the Council rate).

The Fund's policies on academies are subject to change in the light of any amendments to MHCLGand/or DfE guidance or removal of the formal guarantee currently provided to academies by the DfE . Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

### Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

redundancy and early retirement decisions.

### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis. Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore,, the Fund reserves the right to revert to the "gilts exit basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- LEA schools generally are also pooled with the Council. However there may be exceptions for specialist or independent schools.
- Academy schools may be pooled within their Multi Academy Trust (if this applies).
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

### 3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the Fund in the financial year following the award of an early retirement. In exceptional circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding three years. If this is agreed, interest will be charged using factors provided by the actuary.

### 3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

The cumulative cost of ill health retirements between actuarial valuations will in effect be reflected in the employer's results at the next valuation.

Where a different approach is adopted (eg regularly monitoring ill health experience and requesting contributions between valuations), details will be included in each that employer's Admission Agreement.

### 3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

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

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.
- Active members switching employment from one Fund employer to another will result in assets equal to the past service liabilities being reallocated between the employers, i.e. a "fully funded transfer". This means that the deficit at the point of transfer is retained by the ceding employer.

  However, in the case of schools converting to academy status (i.e. the members switch from Council employment to the new Academy); the process is instead as per Note (g) to section 3.3 above. This is because the guidance from the Department for Education and the Department for Communities and Local Government anticipates that the past service deficit will be inherited by the new Academy.

# 4. Funding strategy and links to investment strategy

## 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

## 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

## 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

## 4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

# 5. Statutory reporting and comparison to other LGPS Funds

## 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

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

## 5.2 Solvency

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

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

## 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

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

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

# Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in October 2019 for comment;

b) Comments were requested to be received no later than 31st January 2020;

c) There was an Employers Forum on 13th November 2019 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in February 2020.

### A3 How is the FSS published?

The FSS is made available through the following routes:

A full copy included in the annual report and accounts of the Fund;

A copy sent by email to each participating employer in the Fund;

A copy sent to employee representatives;

A summary issued to all Fund members;

Copies sent to investment managers and independent advisers;

Copies made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

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

### A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at https://www.brent.gov.uk/your-council/transparency-in-brent/performance-and-spending/budgets-and-finance/pensions/

# Appendix B – Responsibilities of key parties

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

**B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

**B2 The Individual Employer should:-**

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

**B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;

3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

# Appendix C – Key risks and controls

## C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

## C2 Financial risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.<br><br>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.<br><br>Analyse progress at three yearly valuations for all employers.<br><br>Inter-valuation roll-forward of liabilities between valuations at whole Fund level. |
| Inappropriate long-term investment strategy. | Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.<br><br>Chosen option considered to provide the best balance. |
| Active investment manager under-performance relative to benchmark. | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark. |
| Pay and price inflation significantly more than anticipated. | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.<br><br>Inter-valuation monitoring, as above, gives early warning.<br><br>Some investment in bonds also helps to mitigate this risk.<br><br>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of |

| Risk | Summary of Control Mechanisms |
|---|---|
| | any bias in pensionable pay rises towards longer-serving employees. |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. |
| Orphaned employers give rise to added costs for the Fund | The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.<br><br>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9). |
| Effect of possible asset underperformance as a result of climate change | Covered in the Fund's Investment Strategy Statement |

## C3 Demographic risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Pensioners living longer, thus increasing cost to Fund. | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies. |
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).<br><br>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. |

## C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.<br><br>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation. |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate. |

## C5 Governance risks

| Risk | Summary of Control Mechanisms |
|---|---|

| Risk | Summary of Control Mechanisms |
|---|---|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.<br><br>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations<br><br>Deficit contributions may be expressed as monetary amounts. |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | The Administering Authority maintains close contact with its specialist advisers.<br><br>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br><br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by:<br><br>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.<br><br>Vetting prospective employers before admission.<br><br>Where permitted under the regulations requiring a bond to protect the Fund from various risks. |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Requiring new Community Admission Bodies to have a guarantor.<br><br>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).<br><br>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |
| An employer ceasing to exist resulting in an exit credit being payable | The Administering Authority regularly monitors admission bodies coming up to cessation<br><br>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required. |

# Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### D3 How is the Secondary contribution rate calculated?

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)

2. at the end of the determined time horizon (see 3.3 Note (c) for further details)

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

### D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;

4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;

6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

### D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1) A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysingmovements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

In particular, with effect from 1 April 2019, the Fund Actuary uses the Hymans Robertson's proprietary "HEAT" system to track employer assets on a monthly basis. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 **How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

# Appendix E – Actuarial assumptions

## E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

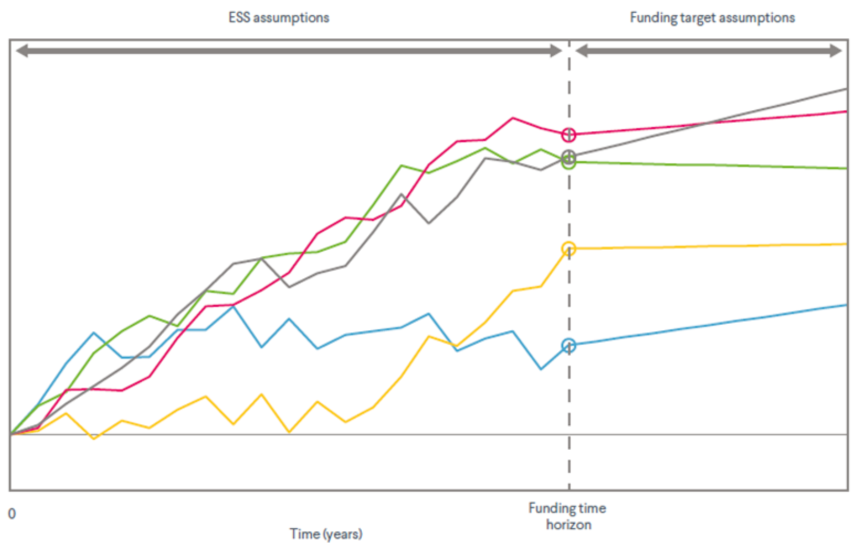
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

### E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

### E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

| Funding basis | Ongoing participation basis | Contractor exit basis | Low risk exit basis |
|---|---|---|---|
| **Employer type** | All employers except Transferee Admission Bodies and closed Community Admission Bodies | Transferee Admission Bodies | Community Admission Bodies that are closed to new entrants |
| **Investment return assumption underlying the employer's funding target (at the end of its time horizon)** | Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a. | Long term government bond yields plus 1.6% (appropriate to the basis used to allocate assets to the employer on joining the Fund) | Long term government bond yields with no allowance for outperformance on the Fund's assets |

## E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

### a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of short term restrictions plus longer term increases linked to price inflation; the agreed blended rate is RPI less 0.7% p.a.. This is the same assumption used at the previous valuation.

### b) Pension increases

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

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

### c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

### d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above) in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

# Appendix F – Glossary

| | |
|---|---|
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| **Covenant** | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| **Designating Employer** | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**. |
| **Funding basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target. |
| **Gilt** | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return. |
| **Guarantee / guarantor** | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. |

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|---|---|
| **Letting employer** | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |
| **LGPS** | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| **Maturity** | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| **Members** | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| **Primary contribution rate** | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details. |
| **Profile** | The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also. |
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |

| | |
|---|---|
| **Secondary contribution rate** | The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. |
| **Valuation** | A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too. |

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| Brent | **Pension Board**<br>5 August 2020 |
| | **Report from the Independent Chair of Council's Pensions Board** |
| **Annual Report** | |

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | None |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | David Ewart, Independent Chair of the Pension Board |

**1.0 Purpose of the Report**

1.1 This report provides a summary of the work carried out by the Council's Pensions Board. The report covers the period from the Boards meeting in June 2019 to the end of 2019/20 Municipal Year. It presents details of the Board members, training and items covered during the Board's meetings. It also raises a number of items the Board wishes to draw to the Councils attention.

**2.0 Recommendation(s)**

2.1 The Committee is asked to note the annual report, and agree to submit it to the General Purposes Committee.

**3.0 Detail**

**Introduction**

3.1 I should like to begin the by expressing my thanks to the other members of the Board, particularly Sebastian Steer who has stood down from membership. I should also like to thank the Council's officers for all their hard work, help and support in developing the work of the Board.

**The Board Membership**

3.2 The membership of the Board during the year was as follows:

Brent Council employer representatives - Councillors Crane and Kabir
Trade Union representative – Unison – Bola George
Trade Union representative – GMB – Robert Wheeler
Employer representative - Vacant.
Pension Scheme member – Chris Bala
Independent Chair – David Ewart

**The Board's Training**

3.3 Training is important to ensure the Pension Board, as a whole, have the appropriate skills, knowledge and understanding to support the Scheme in running effectively. During 2019/20 the Board built on the training it had received since 2015/16, with additional briefings made available to new members. A bespoke training session was delivered to the board by the Fund actuary, Hymans, at its June meeting. In addition, board members have been regularly invited to training provided to the Pensions Sub-Committee on various topics including investment matters, risk management and governance.

3.4 The Pensions Regulator (TPR) provide free online learning via the Trustee toolkit programme and it is expected that all Pension Board members complete such courses. The courses cover basic knowledge and understanding required by law to support the scheme manager. These courses are free, easy to use and allows one to learn at their own pace.

**The Board's Meetings**

3.5 During the year, the Board met twice, on 13th June and 22nd October 2019. The meeting schedule on 25th March 2020 was postponed due to the Covid-19 Pandemic.

**Key Issues identified from the Board's discussions during the year**

**Transfer of the Pensions Administration Contract**

3.6 A decision taken around November 2017, following officers' recommendation, Cabinet granted approval to enter into a shared service agreement with Local Pensions Partnership (LPP) for the provision of the pension fund administration. The previous contract with Capita concluded in September 2018 and in October 2018, the implementation phase of the contract took place to ensure a successful transition and hand over. In addition, responsibility for pension's administration transferred to the Finance department combining with the work of the investment function, which has resulted in significant service improvements.

3.7 The Board is pleased to note from reports at both its meetings on the performance of the administration services provided for members with target timescales being largely achieved and other marked improvements in the services provided. It was noted that a number of legacy issues remained to be resolved particularly from long outstanding queries and missing leaver records. Officers continue to conduct strict contract management with LPP and monitor performance on a monthly basis against a series of service level agreements, which are also reported to the board.

3.8 In addition to the business as usual (BAU) contract arrangements described above, a separate project had been commissioned to cleanse common and scheme specific (conditional) data. This includes the resolution of any outstanding queries. This was treated as a separate project so that additional dedicated resources could be put in place, to ensure the existing data issues were resolved in a timely manner and to not impact performance against the day to day service. The Board is pleased to note that most of the work streams under this project had been completed by its June 2019 meeting.

**Risk Management**

3.9 The Board has continued to receive an updated, detailed and tailored risk register at each of its meetings supplied together with a risk strategy at its October meeting. The Board is particularly grateful for this, as effective risk management is a key foundation for sound corporate governance. It is noted that for the LGPS, the focus should be on all aspects of the scheme’s operation, not just investment matters, which is carefully considered by the Pensions Sub-Committee meetings.

**The Pension Administration Strategy**

3.10 The Board continues to receive updates on the Pension Administration Strategy at each of its meetings and has considered a number of issues raised including:

- Members communication strategy;
- Conflict of interest policy;
- Brent’s breaches policy;
- The statutory guidance on annual benefits statements
- The Data Cleanse project.
- The Record Keeping Plan

3.11 Members have also considered the position around complaints, which is continuing to be monitored due to delays from previous arrangements and a number of complex cases which has resulted in delay to resolve some complaints. Members have also requested assurances that lessons learned from these cases are considered appropriately and reported to the board on regular basis

**Annual Benefit Statements**

3.12 It is a statutory responsibility for the scheme manager to issue an annual benefit statement (ABS) to all eligible active and deferred members by 31 August each year.

3.13 The Board was pleased to note at its October meeting, that there were only a small number of records where queries from year end returns had not been resolved in time for members to receive an ABS. This was primarily due to employers experiencing delays in supplying of relevant information. The vast majority of those employers were schools which were closed over the summer months and were unable to respond to LPP's queries in a timely manner.

3.14 The Board was further updated that 34% of the outstanding queries had been resolved and ABS issued to members. It was expected that all queries would have been resolved by the end of March 2020.

3.15 The Board was also informed that progress was being regularly monitored and tracked as part of the monthly contract management and performance meetings with LPP. This was a marked improvement over previous years were the Council had had to report a breach to The Pensions Regulator.

**The Pensions Regulator (TPR)**

3.16 A presentation from The Pension Regulator (TPR), at the Board's March 2019 meeting focussed on the TPR's expectations and responsibilities of the Pension Board and Scheme Manager.

3.17 Expectations of Board members included forming a basis of knowledge and understanding on scheme rules, administration, policies, conflicts of interest, publishing of information, recording of meetings and decision making.

3.18 The Board was also informed that TPR had been carrying out a detailed engagement with the Council as a Scheme Manager. As at the March 2019 meeting, five meetings had been held between Council and TPR officers.

3.19 The Board was pleased to be notified that TPR had written to the Scheme manager confirming closure of their enquiry and no further action was to be taken against the Council as Scheme Managers.

3.20 The Board was informed at its October meeting that The Pensions Regulator's (TPR) had held wider engagement sessions with Local Authorities. During this meeting, the Board were informed that the review had commenced due to TPR identifying slower levels of improvements across most LGPS funds and therefore, wanted to gain a better understanding of the reasoning. The reviews and sessions with TPR, covered various risk areas including the following:

- Administration, data and communication.
- Internal controls and complaint handling.
- Contributions, employer compliance and funding affordability.

- Pension Board knowledge and understanding, relationship between Board and Scheme manager and conflicts of interest.
- Fraud, mitigation of scams and cyber security.

These meetings gave TPR a strong insight into current governance, administration practice and standards of LGPS funds in general. As a result, a number of recommendations were made across each element.

**2019 Triennial Valuation Results and Funding Strategy Statement**

3.21 The Board was due to receive a report on the outcome of the 2019 Triennial Valuation at the March 2020 meeting. Members of the Board were aware from previous reports that the Fund is required by law to undertake an actuarial valuation every three years. All funds in the England and Wales are required to carry out a valuation as at 31 March 2019. The purpose of the valuation was to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates. This will result in each employer’s liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).

3.22 The Board would have been informed that, Hymans Robertson, the Fund’s actuary who had attended the October 2019 meeting of the Pension Fund Sub Committee, had outlined the valuation process, the assumptions used and the initial results. During this meeting, the Committee were given a presentation of the whole fund results including the funding level, assets, liabilities and the overall deficit level. It was also explained that different employers within the Fund would have different funding levels due to the profile of their members and contribution rates in the past.

3.23 Since the meeting, draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, have been produced for the Council and employers within the Fund. The draft valuation report was provided as a restricted document. This summarised the process that has taken place while presenting the valuation results, funding position and employer contribution rates for 2020/21 to 2022/23.

3.24 The Board was pleased to note that the data used for the valuation was much improved compared to the last valuation in 2016. The funding levels were also markedly improved (from 55% to 78%) which had allowed officers to propose freezing the Council’s contribution rate at 35% of pay for next three financial years and stabilised thereafter.

3.25 The Board would also have been informed that at the October 2019 Sub Committee meeting, the Committee had agreed the draft Funding Strategy Statement (FSS), a document detailing how employer contributions to the Pension Fund are calculated. This document is updated in line with the triennial valuation to ensure consistency for consultation with employers. An employer forum was organised by officers to launch the consultation and hold 1-1 meetings with certain employers. It is also worth noting that the draft results were produced five months earlier than the previous draft valuation results in

2016. This allowed for more time for consultation with employers as well as demonstrating significantly improved systems of financial control and project management.

**Other Matters Considered**

3.25 Including the above, the Board considered a number of other issues while also reviewing the reports presented to the Brent Pensions Sub-Committee. Key items included:

- The 2018/19 Annual Accounts and Report.
- LGPS Updates.
- Terms of Reference.
- Investment Strategy.
- Responsible Investment reports further integrating Environmental, Social and Governance (ESG) factors.

## 4.0 Matters drawn to the Council’s attention

4.1 As a result of discussions held, the Board would like to draw the following matters to the Council’s attention:

- The Fund’s funding level - The Board is pleased to note improvement in the Brent Pension Fund’s funding level as shown by the 2019 actuarial valuation and the performance of the Fund’s investments particularly in 2019/20 (prior to the Covid-19 outbreak). The Board however notes that The Council should continue to monitor the contribution rates agreed from March 2020, to bring the level of funding back to full funding over the recovery period.
- The Performance of the Pension Fund Administration Function - The Board are very pleased to note the current level of improvement in the services provided to its members. This is a matter no longer required to draw to the Council’s attention, but the Board would like to express thanks to all those involved in achieving this position. That being said, there is a need to continue and build on the work undertaken to date to seek further improvements with regards to the quality of member data, engagement with employers and the general governance and administration of the scheme. The Pension Board will of course have a fundamental role to play in this regard

## 5.0 Conclusion

5.1 I would like to conclude by again thanking the members of the Board for their input and assistance during the year and particularly the member that has stood down. I would also like to thank the Head of Finance and their staff for all their help and support during the year, as well as the Governance Office and his colleagues for all their support to the Board during the year.

## 6.0 Financial Implications

7.1 Not applicable.

## 7.0 Legal Implications

7.1 Not applicable.

## 8.0 Equality Implications

8.1 Not applicable.

## 9.0 Consultation with Ward Members and Stakeholders

9.1 Not applicable.

## 10.0 Human Resources

10.1 Not applicable.

***Report sign off:***

***Minesh Patel***
Director of Finance

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| | |
|---|---|
| Brent | **Pension Board**<br>05 August 2020 |
| | **Report from the Director of Finance** |

# Pensions Administration Update

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | OPEN |
| **No. of Appendices:** | 1. Breaches policy<br>2. Internal Audit Report – Pension Fund |
| **Background Papers:** | N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst |

## 1.0 Purpose of the Report

1.1 This report updates the Pensions Board on various pensions administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

## 2.0 Recommendation(s)

The board is recommended to:

2.1 Note the overall report;

2.2 Note the position in relation to annual benefit statements and that the scheme manager may consider actions against employers who do not comply with the Pensions Administration Strategy.

## 3.0 Pensions Administration Performance Report

3.1 The administration of the Brent Pension scheme was transferred to LPP on 1 October 2018. This report reviews the performance of the LPP contract against agreed Service Level Agreements (SLA's) during June 2020.

3.2 The Pensions administration team are holding monthly meetings with LPP to monitor the performance of the contract looking at both the individual month and trends across months.

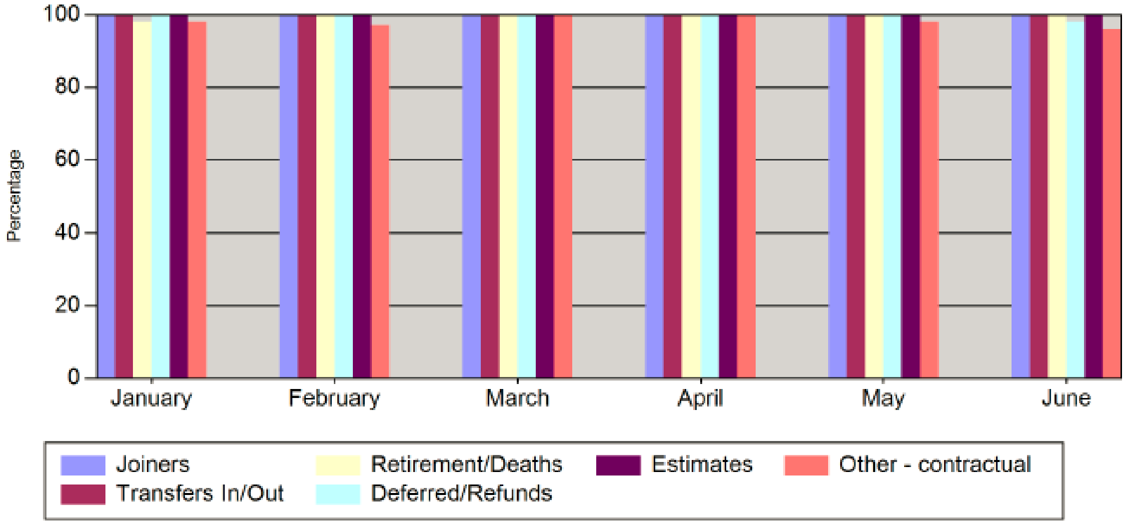
3.3 As of 30 June 2020, the Brent Pension Fund had 6,974 active members, 7,010 pensioners (including dependants), and 7,882 deferred pensioners.

3.4 Table 1 shows contract statistics for cases that have been processed, grouped by category. This includes cases bought forward, received, completed, completed on time and carried forward. Chart 1 below shows progress by month for the last 6 months.

Table 1:

| Description | B/fwd | Rec'd | Complete | On Time | % OT | C/fwd | Average Completed Time | Average Elapsed Time |
|---|---|---|---|---|---|---|---|---|
| Joiners | 30 | 63 | 39 | 39 | 100.00 | 54 | 45 | 80 |
| Transfers In/Out | 236 | 76 | 78 | 78 | 100.00 | 234 | 20 | 44 |
| Retirement/Deaths | 657 | 96 | 89 | 89 | 100.00 | 660 | 17 | 29 |
| Deferred/Refunds | 315 | 68 | 53 | 52 | 98.11 | 330 | 52 | 76 |
| Estimates | 35 | 28 | 32 | 32 | 100.00 | 31 | 2 | 8 |
| Other - contractual | 139 | 143 | 60 | 58 | 96.67 | 222 | 7 | 12 |
| Total | 1412 | 474 | 351 | 348 | 99.15 | 1531 | | |

Chart 1:




3.5 In detail, the percentage of cases completed on time has remained high with an average of 99.1% of cases being completed on time in June. In 4 categories, all cases were completed on time.

3.6 The amount of overall cases carried forward has decreased since January. This is due to large reductions in cases carried forward in the Deferred/Refunds category and Transfers In/Out. There were increases recorded in the Retirement/Deaths and Other categories.

3.7 Table 2 provides detail on the number of cases that have been completed early. Overall 85% of the 348 cases completed on time were completed early.

| Description | 1 Day Early | 2 Days Early | 3 Days Early | 4+ Days Early |
|---|---|---|---|---|
| Joiners | 0 | 16 | 13 | 10 |
| Transfers In/Out | 2 | 28 | 34 | 14 |
| Retirement/Deaths | 8 | 16 | 23 | 4 |
| Deferred/Refunds | 0 | 24 | 21 | 7 |
| Estimates | 2 | 5 | 11 | 7 |
| Other - contractual | 13 | 22 | 14 | 2 |
| | **25** | **111** | **116** | **44** |

3.8 Since January 2020, 5 new complaint cases have been received. Of the 6 cases that were outstanding in August, 5 cases were resolved. Brent and LPP are taking action to ensure that these cases are resolved swiftly however the complex nature of some cases means that this is not always possible. In addition, following the completion of each case, a process is undertaken to ensure any lessons learned are reviewed and consequently, if necessary, processes and procedures will be updated.

## 4.0 Coronavirus Update

4.1 The outbreak of COVID-19 has led to all members of the Pensions Team, both Brent and LPP working from home. Both parties have successfully adapted their working processes to the new environment and are continuing with this arrangement.

4.2 In line with government guidance, the pension administration team are considered key workers as they are 'delivering essential public services such as the payment of benefits'.

4.3 Volumes dropped significantly across all channels (post/calls/emails) at the start of the lockdown period however, they have picked up since mid-April and returned to more normal levels. Members and employers have been encouraged to use web-based channels and email where possible if their query is not urgent.

4.4 The Pensions Regulator (TPR) issued guidance to all pension funds which recommended that administrators focus their activities on making sure they deliver critical processes. For the LGPS, it was recommended to prioritise:

- paying existing pensioners
- processing new pensions benefit cases
- dealing with bereavement cases

4.5 Performance relating to cases is provided in section 3 of this report and the Fund has continued to process and pay member benefits as normal.

4.6 The Fund has seen an increase in the amount of pensioner deaths over recent weeks, although data on how many deaths are directly related to Covid-19 is not available, further detail is provided in a separate report on this agenda.

**5.0 Annual Benefit Statements**

5.1 It is a statutory responsibility for the scheme manager to issue an annual benefit statement (ABS) to all eligible active and deferred members by 31 August each year.

5.2 Scheme employers are required to submit an end of year return in order to be able to produce an ABS. Following submission of the return, employers may be required to respond to queries to clarify any data on the return before an ABS can be produced.

5.3 Overall, the timeliness of year-end returns from employers has been disappointing. Many returns were not received by the 30th April deadline; this may be due to changes in working arrangements related to Covid-19.

5.4 The Fund and LPP are closely monitoring submission of returns and outstanding queries and many employers have since submitted their return. At the time of dispatch of this report, eight employers which represent 6% of active members in the Fund had not submitted their end of year return. Officers have contacted senior management at these employers to ensure that these returns are received promptly.

5.5 The Pensions Administration Strategy allows the scheme manager to take action against employers that do not comply with their statutory and legal obligations to the Pension Fund. These actions will be considered should employers not respond to requests for information.

5.6 As part of The Pensions Regulators Code of Practice, employers and other individuals involved in running a pension scheme have a legal duty to report a breach of the law where it is likely to be of material significance to the regulator. This occurred in 2018 following the late delivery of 2016 and 2017 annual benefit statements.

5.7 The scheme manager will also consider reporting non-compliant employers to The Pensions Regulator. In order to clarify the decision making process with regards to reporting breaches, a breaches policy for the Brent Pension Fund was produced and agreed by the Pension Board in July 2018. This is attached as Appendix 1 for reference. At this stage, it is not considered that a material breach will need to be reported to TPR. Officers are in communication with these employers, and their payroll providers, to ensure an end of year return is completed as soon as possible.

## 6.0 Data Cleanse and GAD Valuation

6.1 Following the transition to LPP on 1 October 2018, regular monthly contract performance meetings have been arranged where performance against agreed service level agreements has been discussed.

6.2 In addition, a separate project was commissioned to review, cleanse and fix any errors identified in member data. This was to ensure that the Fund's data scores were compliant with The Pensions Regulator's expectations (for common and conditional data) and that the 2019 valuation was as accurate as possible.

6.3 The first phase of the project was completed ahead of submission of membership data for the 2019 triennial valuation.

6.4 The Fund submitted this data to the Government Actuary's Department (GAD) in October 2019 and GAD require the Fund to submit data again in September this year, but as at 31 March 2020 to carry out the 2020 cost cap assessment.

6.5 The Fund has recently received analysis of the initial exercise from GAD and the Fund has engaged with LPP and Hymans to understand that the main discrepancies relate to records that are historical unprocessed leavers. The Fund was already aware of this issue following the feedback received from Hymans during the valuation process and the Fund had been working to address this issue prior to the GAD analysis. Assumptions were made during the valuation which included marking a record as deferred where no recent contributions were recorded to ensure the valuation was materially correct.

6.6 Ahead of the September 2020 submission, the Fund is carrying out a focussed exercise with a view to clearing a large proportion of the backlog. Brent has responded to all of the queries raised and LPP are in the process of reviewing these responses.

6.7 The process for clearing the leavers will depend on the case. Options include: using data available through previous end of year returns, an aggregation of member records in line with the scheme regulations or contacting the employer to resolve the query. The majority of records relate to very old suspected leavers from employers that were not Brent and where the payroll provider may have changed multiple times. A further verbal update will be provided at the board meeting.

6.8 The Fund's Record Keeping Plan (RKP) formally documents the actions being taken to review and address the data issues facing the Fund. The RKP has been previously presented to the Pension Board. The RKP is being updated to reflect phase two of the data cleanse project incorporating new activities that are being undertaken. These include actions in relation to requirements of the GAD data collection exercise and the tracing of pensioner addresses. The new RKP will be presented to the board at the next meeting.

## 7.0 Internal Audit of Pension Fund Investments

7.1 An audit of the Pension Fund's investment arrangements was carried out in Q1 2020.

7.2 The objective of the audit was to provide assurance on the effectiveness and robustness of the Council's arrangements in regards to current investments, strategic asset allocation and compliance with MHCLG regulations. The full audit report is attached in Appendix 2.

7.3 During the audit, internal audit identified a number of examples of good practice including:

- The comprehensive governance compliance statement is included within the Brent Pension Fund Annual report and accounts 2018/19;
- The Fund has clear investment beliefs and funding principles embedded into the consideration of new investments;
- Asset diversification is a consideration for the sub-committee and investment advisors to ensure that not 'all eggs are in one basket'.
- There is a comprehensive Pension Fund risk register in place, which included nine overarching risks. The 'risk register' is a standing item on the Pension Board's agenda.

7.4 No high risk issues were identified during the audit. There were two medium and two low risk issues identified which are summarised below.

Medium risk:

- Terms of Reference for the Pension Fund Sub Committee and vacant posts within the two governing bodies;
- Absence of a skills matrix for members of both Pension Fund Sub Committee and Pension Board;

Low risk:

- Insufficient Monitoring arrangements to oversee the administration of LCIV;
- Absence of investments in passive trackers that exclusively follow Environmental, Social and Governance (ESG) indexes.

7.5 Overall, the scheme manager is pleased with the outcome of this audit and actions have been taken to address some of the issues identified. A decision to invest in a low carbon passive tracker fund was taken at the Pension Fund Sub Committee on 16 July and the Fund maintains regular contact with London CIV to enable sufficient monitoring of the organisation. The scheme manager is working to address the remaining issues identified.

## 8.0 Financial Implications

8.1 There are no direct financial implications from this report.

## 9.0 **Legal Implications**

9.1 Not applicable.

**10.0 Equality Implications**

10.1 Not applicable.

**11.0 Consultation with Ward Members and Stakeholders**

11.1 Not applicable.

**12.0 Human Resources**

12.1 Not applicable.

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|---|
| ***<u>Report sign off:</u>***<br><br>***Minesh Patel***<br>Director of Finance |

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# London Borough of Brent

# Breaches Policy

Table of Contents

## 1. Breaches Policy

The London Borough of Brent Pension Fund (“the Fund”) Breaches Policy sets out policy and procedures on identifying, managing, and reporting breaches of the law as covered in paragraphs 241 to 275 of The Pensions Regulator’s Code of Practice no 14, Governance and administration of public service pension schemes.

This policy sets out the responsibility of elected members, officers of The London Borough of Brent (“the Council”), and the Brent Pension Board in identifying, managing and where necessary reporting breaches of the law as they apply to the management and administration of the Fund.

This policy does not cover the responsibility of other reporters in relation to their obligation to report breaches in accordance with the Code of Practice where they relate to the management and administration of the Fund.

Where a breach of the law is identified all parties will take the necessary steps to consider the breach and report it to the Regulator, rather than having the breach solely reported by any of the other reporters.

This policy will be reviewed and approved by the Council annually. The Council will monitor all breaches and will ensure that adequate resources are allocated to managing and administering this process.

The Council’s Section 151 Officer is responsible for the management and execution of this breaches policy.

The Chair of the Pension Board will ensure that training on breaches of the law and this policy is conducted for all relevant officers and elected members.

## 2. Overview

The identification, management and reporting of breaches is a required by the Code of Practice.

In addition to identifying, rectifying and where necessary reporting a particular breach, such breaches will be used to review and improve processes in the areas where the breach occurred.

All staff involved in the administration and management of the Fund will take a pro-active approach to the identification, management and reporting of all breaches that have occurred, or are likely to occur.

The Council, as the scheme manager for the Brent Pension Fund, will maintain a log of all breaches of the law (Breaches Log) as applicable to the management and administration of the Fund.

Where a breach has occurred it will be identified and logged as either an area of non-compliance under the LGPS Regulation, a breach under Pension Law as defined within section 13 of the 2004 Pension Act, or the Pension Regulator’s Code of Practice 14.

Where a breach has occurred and has been identified by the Council, officers or members of the Pension Board, or our third party administrators, it will be recorded, assessed and where necessary reported as soon as reasonably practicable.

## 3. Responsibility Breach Reporting

Responsibility to report identified breaches of the law in relation to the Code of Practice falls on the following (known as "reporters"):

- Elected members and officers of the Council (the Scheme Manager);
- Members of the Pension Board;
- Scheme employers;
- Professional advisers including the Fund actuary, investment advisers, legal advisers;
- Third party providers (where so employed).

This policy applies only to elected members and officers of the Council, and members of the Pension Board. It is for the other reporters to ensure adequate procedures and policies are put in place in order to identify, assess and where necessary report breaches. Both the Council and the Pension Board will take all necessary steps to consider the breach and report to the Regulator, rather than having the breach solely reported by any of the other reporters.

## 4. Reporting Requirements

Breaches of the law which affect pension schemes will be considered for reporting to the Pensions Regulator.

The decision whether to report an identified breach depends on whether:

- there is reasonable cause to believe there has been a breach of the law
- and if so, is the breach likely to be of material significance to the Regulator.

All incidents of breaches identified are recorded in the Council's Breaches Log. This log is reviewed on an on-going basis to determine if there are any occurrences that indicate any serious failings or fraudulent behaviour. Where such failings or fraudulent behaviour are identified immediate action will be taken to put in place a plan of action to rectify the matter and prevent such an occurrence in the future.

## 5. Breaches required to be reported

A breach will be notified to the Regulator as soon as is reasonably practicable once there is reasonable cause to believe that a breach has occurred and that it is of material significance to the Regulator. Where a breach is considered to be of material significance it will be reported to the Regulator no later than one month after becoming aware of the breach or likely breach.

Where it is considered that a breach is of such significance that the Regulator is required to intervene as a matter of urgency, the matter will be brought to the attention of the Regulator immediately. A formal report will then be submitted to the Regulator marked as urgent.

## 6. Assessing reasonable cause

The Council and the Pension Board must be satisfied that a breach has actually occurred rather than acting on a suspicion of such an event.

Robust checks will be made by officers and elected members when acting on any suspicion of a breach having occurred drawing on legal advice from Brent's legal services and specialist external legal advice if necessary, as well as other advisers such as internal or external audit, the Fund actuary or investment advisers.

## 7. Determining if a breach is materially significant

When determining the materiality of any breach or likely breach, Council officers and the Pensions Board will consider the following:

- cause, e.g. dishonesty, poor governance, incomplete or inaccurate information, acting or failing to act in contravention of the law;
- effect, does the nature of the breach lead to an increased likelihood of further material breaches;
- reaction – e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate; and
- wider implications – e.g. where a breach has occurred due to lack of knowledge or poor systems and processes making it more likely that other breaches will occur in the future.

The Council uses The Pensions Regulator's decision tree as a means of identifying whether any breach is to be considered as materially significant and will need to be reported to the Regulator.

Green breach situations are not of material significance and do not have to be reported but should be recorded.

- **Green** – not caused by dishonesty, poor governance or a deliberate contravention of the law and its effect is not significant and a plan is in place to rectify the situation. In such cases the breach will not be reported to the Regulator, but will be recorded in the Council's Breaches Log.

Amber breach situations are less clear cut; a reporter must take into account the context of the breach in order to decide whether it is of material significance and should be reported.

- **Amber** – does not fall easily into either green or red and requires further investigation in order to determine what action to take. Consideration of other recorded breaches may also be relevant in determining the most appropriate course of action. The Council will make a decision on whether to informally inform the Regulator of the breach or likely breach, formally reporting the breach if it is subsequently decided to categorise the breach as red.

Red breach situations are always of material significance to the Pensions Regulator and should be reported.

- **Red** - caused by dishonesty, poor governance or a deliberate contravention of the law and having a significant impact, even where a plan is in place to rectify the situation. The Council will report all such breaches to the Regulator.

Once a breach or likely breach has been identified the relevant officer, in consultation with the Section 151 Officer, will review the circumstances of the breach in order to understand why it has occurred, the consequences of the breach and agree the corrective measures required to prevent re-occurrence, including an action plan where necessary.

All breaches will be recorded in the Council's Breaches Log.

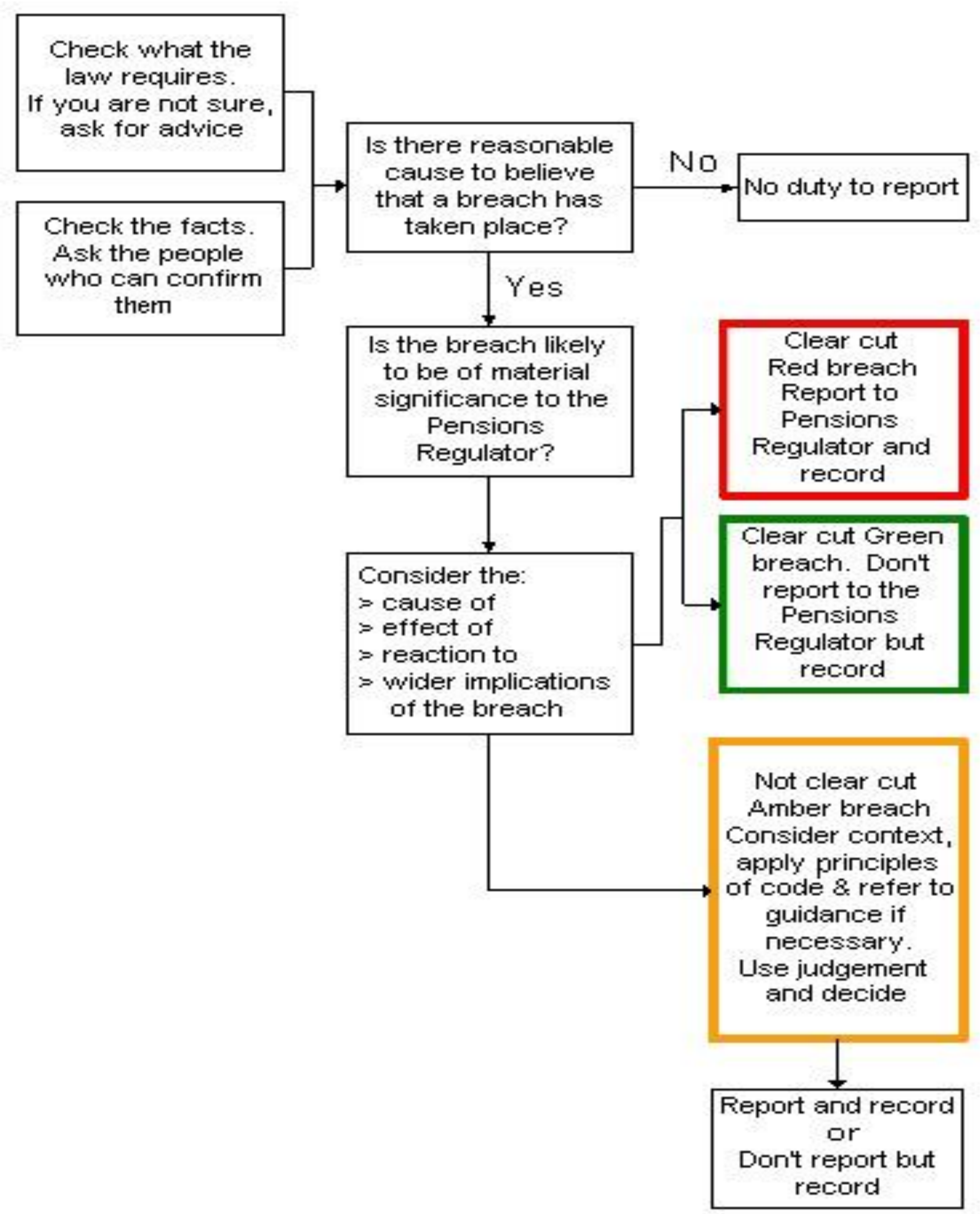
**The Pensions Regulator Decision Tree**

Deciding whether to report:

1. Reasonable cause to believe that a breach has taken place
    - No     No duty to report
    - Yes     Go to 2.

2. Is the breach likely to be of material significance, consider the:
    - Cause of
    - Effect of
    - Reaction to
    - Wider implications of the breach

**The Pensions Regulator Decision Tree**



## 8. Process for reporting breaches

All relevant officers and members of the Pension Board have a responsibility to:

- identify and assess the severity of any breach or likely breach
- report all breaches or likely breaches to the section 151 officer
- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, and obtaining appropriate legal or other advice where necessary
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from re-occurring
- co-operate with and assist in the reporting of breaches and likely breaches to the Pensions Board, and where necessary, the Regulator.

## 9. Responsible officer

The Section 151 Officer will be responsible for recording and reporting breaches and likely breaches as follows:

- record all identified breaches and likely breaches of which they are aware in the Councils Breaches Log
- investigate the circumstances of all reported breaches and likely breaches
- ensure where necessary that an action plan is put in place and acted on to correct the identified breach and ensure further breaches of a similar nature do not re-occur.

Report to the Pension Fund Sub Committee and Pension Board:

- all materially significant breaches or likely breaches that will require reporting to the Regulator as soon as practicable, but no later than one month after becoming aware of the breach or likely breach
- all other breaches at least quarterly as part of the Committee cycle

The Section 151 Officer will determine whether any breach or likely breach is materially significant having regard to the guidance set out in the Code of Practice and after consultation with parties they deem appropriate.

If appropriate, the matter will be referred to specialist advisors, such as Legal, the Fund actuary, audit or other advice before deciding if the breach is considered to be of material significance to the Regulator.

## 10. Maintaining breaches record

All breaches and likely breaches identified will be reported to the Section 151 Officer as soon as they are identified. All breaches will be recorded on the Council's breaches log, including the following information:

- date the breach or likely breach was identified
- name of the scheme
- name of the employer where appropriate
- any relevant dates
- a description of the breach its cause and effect including the reasons it is or is not believed to be of material significance

- whether the breach is considered to be red, amber or green
- a description of the actions taken to rectify the breach
- a brief descriptions of any longer term implications and actions required to prevent similar types of breaches recurring in the future.

The Section 151 Officer is responsible for ensuring the effective management and rectification of any breach identified, including submission of any report to the Regulator.

Any documentation supporting the breach will be retained.

## 11. Whistleblowing

The Council will ensure it adheres to the requirements of the Employment Rights Act 1996 in protecting an employee making a whistleblowing disclosure to the Regulator.

## 12. Training

The Section 151 officer will ensure that all relevant officers and members of the Pension Board receive appropriate training on this policy at the commencement of their employment or appointment to the local pension board as appropriate and on an ongoing basis.

End.

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# INTERNAL AUDIT REPORT

## Pension Fund 2019/20

19th February 2020

| Number of issues | |
|---|---|
| Medium | 2 |
| Low | 2 |

**CONTENTS**



**Audit information**

| | |
|---|---|
| Fieldwork started | 05 December 2019 |
| Fieldwork completed | 31 January 2020 |
| Draft report issued | 19th February 2020 |
| Auditor | Lakshmi Lal |
| Audit Manager | Colin Garland |

## EXECUTIVE SUMMARY

### Introduction and background

Brent Council is the Administering Authority of the Brent Pension Fund (the Fund) and administers the Local Government Pension Scheme (LGPS) on behalf of its participating employers. There were 36 employer organisations with active members within the Brent Pension Fund at 31 March 2019.

The Pension Fund Sub-Committee (PFSC) is responsible for the strategic management of the assets of the Fund and the administration of benefits. The sub-committee meets on a quarterly basis. In addition, the Pension Board (the Board) is in place to provide a scrutiny function to the work of the Council's Pension Fund Sub-Committee. It does not have decision-making powers but its purpose is to provide an oversight role in the administration and governance of the Pension Fund. Its remit therefore covers both pension administration and investment.

The London Collective Investment Vehicle (LCIV) is a designated asset pool for all London boroughs. Current Ministry of Housing Communities and Local Government (MHCLG) guidance suggests that all new investments should be made with the pool.

The Brent Pension Fund has the following investments with the London CIV: Emerging Market equities (through JP Morgan), Diversified Growth Funds (Baillie Gifford/Ruffer) and Multi Asset Credit (CQS). Additionally, the Fund's passive equity investments through Legal and General and Gilts through Blackrock are arranged through the LCIV's negotiated mandate where the Fund benefits from lower negotiated fees.

### Objective

The objective of this audit was to provide assurance on the effectiveness and robustness of the Council's arrangements in regards to current investments, strategic asset allocation and compliance with MHCLG regulations.

### Scope

To provide assurance over the following sub-processes and control objectives. The audit focused on key controls in place in relation to the sub-processes listed below, to mitigate the potential risks:

- Governance;
- Governance compliance statement;
- Risk management;
- Investments;
- Monitoring;
- Environmental, social and governance factors;
- Independent Advisor, and

- Policies.

**Summary of findings**

All the scope areas were examined during the audit. Internal audit has identified a number of examples of good practice, in particular:

- The comprehensive governance compliance statement is included within the Brent Pension Fund Annual report and accounts 2018/19. It shows how Brent Council as the Administering Authority of the Brent Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Administration) Regulations 2008;
- The Fund has clear investment beliefs and funding principles embedded into the consideration of new investments;
- Asset diversification is a consideration for the sub-committee and investment advisors to ensure that not 'all eggs are in one basket'. For example, in November 2018, the Fund's regional listed equity allocation had a notable bias toward UK equities and no exposure to emerging markets. In order to gain exposure to returns generated in emerging markets, as well as considering diversification as one of the key investment beliefs of the Fund, there was a full divestment from Henderson's UK Small Cap and an initial allocation to Henderson's Emerging Markets equity fund by February 2019, and
- There is a comprehensive Pension Fund risk register in place, which included nine overarching risks. The 'risk register' is a standing item on the Pension Board's agenda.

There were two medium and two low risk issues identified which are summarised below. Further details of each of the issues are set out in the detailed findings section of this report:

Medium risk:

- The Terms of Reference for the PFSC is out of date and there are vacant posts within the two governing bodies;
- Absence of a clear skills matrix for members of both PFSC and Pension Board (This issue also contains an advisory finding about the selection and suitability standards of the members of the governing bodies), and

Low risk:

- Insufficient monitoring arrangements to oversee the administration of LCIV.
- Absence of investments in passive trackers that exclusively follow Environmental, Social and Governance (ESG) indexes.

## Follow up

Agreed management actions will be followed up to ensure the actions have been implemented and are operating effectively.

We would like to thank all those who were involved in and contributed to this audit.

## DETAILED FINDINGS – MEDIUM RISK ISSUES

### 1. Governance

**Issue**

PFSC

In May 2019, the General Purposes Committee appointed seven Councillors and one non-voting co-optee from Unison, to the PFSC. The Terms of Reference for the PFSC state that the governing body should comprise of '*7 councillors and 2 non-voting co-opted members from the College of North West London and Brent Care at Home'*.

We confirmed that the Terms of Reference are outdated and do not reflect the current composition of the PFSC. Both College of North West London and Brent Care at Home opted out of the Brent Pension Fund in excess of two years ago.

Furthermore, the PFSC currently consists of only six Councillors. The post for one full member (Labour party) of the Brent PFSC has been vacant since July 2019.

Pension Board

There is currently a vacant post of 'non-Brent Council employer member' within the Pension Board. Management informed us that a new member is expected to be appointed prior to the upcoming Board meeting in March 2020.

**Risk exposure**

If the governing bodies (PFSC and Board) do not have adequate members to oversee the funding and administration of the pension fund, then this could result in unethical investments that do not provide desirable rates of returns.

**Recommendations**

The Fund should ensure that:

- The Terms of Reference for PFSB is updated to reflect the current membership composition, in line with appointments made by the General Purpose Committee, and
- Suitable members are promptly appointed to the following vacant positions:
    - Labour party Councillor- PFSC, and
    - Non-Brent Council Employer Member- Pension Board.

**Management action plan**

| Agreed action | Action owner | Due date |
|---|---|---|
| Agreed – management will ensure that Terms of Reference for PFSB are updated to reflect the current membership composition and that suitable members are appointed to the vacant positions as soon as possible. | Ravinder Jassar<br><br>Head of Finance | 30 June 2020 |

## 2. Suitability standards and skills matrix

### Issue

Suitability standards

The General Purpose Committee determines the appointments to the PFSC and Board to ensure that there is adequate political representation in each governing body.

Membership should be subject to minimum suitability standards, such as "fit and proper" criteria in order to ensure a high level of integrity, competence, experience and professionalism in the governance of the pension fund. Causes of automatic disqualification include conviction for fraud, theft or other criminal offences, and gross mismanagement of a pension or other fund that led to significant civil penalties, and, in some cases, personal bankruptcy.

Membership of the PFSC and Board is not subject to minimum suitability (or non-suitability) standards.

No specific recommendation has been raised in this report in respect of the suitability standards as this function is administered by the General Purpose Committee (GPC) and thus, is outside the remit of the Pension Fund Team.

This is therefore an advisory finding, to be considered by the GPC and Head of Committee Services.

Skills matrix and training

Ideally, governing bodies should collectively have the necessary skills and knowledge to oversee all the functions performed by a pension fund, and to monitor those delegates and advisors to whom such functions have been delegated.

Each member of the two governing bodies should contribute to a balanced set of skills and knowledge that enables the PFSC/Board to execute successfully its obligations.

The skills, behaviours, knowledge and understanding of the PFSC/Board members are not currently assessed. This could be done using a skills matrix to identify strengths and any gaps. However, there is no matrix or similar mechanism, currently in place.

Training plans are therefore not designed specifically to address any skill or knowledge gaps identified.

### Risk exposure

If there are no suitability standards in place for the members within the sub-committee, then there is a risk that unsuitable members govern The Fund.

If members of the PFSC and Board do not have the appropriate collective skill set to oversee the funding and administration of the pension fund, this could result in ill-advised investments that do not provide desirable rates of return.

If the PFSC does not identify and offer training opportunities in line with any skill gaps identified, then this could result in committee members not being conversant with the details of the scheme and therefore, having a lack of relevant knowledge.

**Recommendations**

The Fund should ensure that:

- An annual skills inventory is undertaken (via interviews/questionnaires) based on the matrix to identify strengths and any skills gaps of the existing sub-committee/ Board members. Any skill gaps identified should be included within a training plan for the following year.

**Management action plan**

| Agreed action | Action owner | Due date |
|---|---|---|
| Agreed. A knowledge/skills assessment will be undertaken in order to develop a formal training plan. | Ravinder Jassar<br><br>Head of Finance | 30 June 2020 |

## DETAILED FINDINGS – LOW RISK ISSUES

### 3. Monitoring of the LCIV

#### Issue

Quarterly investment reports provided by LCIV include an ESG summary of each of the funds invested by the Brent Pension Fund.

LCIV underwent a Strategic (ESG) Stock Take by an independent consultant in November, 2019. This resulted in numerous recommendations aiming to ensure that LCIV provides integrated and value added responsible investment and ESG services to its Local Authorities.

Implementation of the recommendations should ensure that LCIV improve their reporting and communication on ESG, thereby providing greater transparency and understanding on fund manager selection, fund manager investment processes, risk management and fund manager monitoring.

Quarterly face-to-face sessions and monthly phone calls between LCIV and the Fund were intended to enable sufficient monitoring and oversight of LCIV and investments. However, these sessions and calls have not occurred in the past few months.

Audit therefore consider that additional steps are required to obtain assurance that the LCIV is appropriately implementing all the recommendations from the Stock Take report.

#### Risk exposure

If the PFSC does not oversee the administration of LCIV on an on-going basis, there is a risk that the recommendations from the Stock Take Pool may not be fully implemented.

If there are insufficient arrangements (such as regular reviews) in place, there is a risk that ESG issues are not considered whilst undertaking acquisition, retention and realisation of investments.

#### Recommendations

The Fund should ensure that:

- Regular one-to-one sessions are in place with LCIV to facilitate sufficient monitoring and oversight. In particular, the progression in implementing recommendations from the ESG Stock Take report, and
- Any concerns resulting from the LCIV ESG reporting should be communicated during one-to-one sessions and included in an action plan to ensure improvement.

**Management action plan**

| Agreed action | Action owner | Due date |
|---|---|---|
| The Fund aims to maintain regular contact with London CIV to enable sufficient monitoring of all aspects of the Fund's investment related activity including fund performance, risk management and ESG related issues. Due to staffing changes at London CIV, these meetings have not occurred at the frequency that the Fund would prefer in recent months however the Fund continues to engage with London CIV through other means including quarterly investment forums, attendance at workshops and any meetings arranged related to specific issues. | Ravinder Jassar<br><br>Head of Finance | Implemented |

## 4. Passively managed investments

**Issue**

The Fund has UK and Global equity investments through Legal and General Investment Managers (LGIM). These investments are passively managed and aim to replicate the performance of the FTSE All-Share/World indexes.

Although passive funds are cheaper and less complex than actively managed funds, a feature of funds such as FTSE All-Share is that the Brent Pension Fund cannot select which assets are held. This increases the likelihood that the Fund invests in companies that do not align with Brent's investment beliefs surrounding ESG factors.

As part of Brent Pension Fund's 2019/20 investment plan, there will be consideration of other forms of indexation such as low carbon strategies.

Investment Managers now offer investments in funds that exclusively track ESG indexes (one that consists only of stocks with the best ESG profiles). For example, LGIM offers Future World ESG Developed Index Fund, which aims to provide a combination of growth and income by tracking the performance of the Solactive L&G ESG Developed Index. This fund provides exposure to global developed-market equities while integrating ESG factors and as a result, does not hold 'pure' coal miners, manufacturers of controversial weapons and perennial offenders of the UN Global Compact.

Alternatively, LGIM also offers investments in Future World Climate Change Equity Factors Index Fund, which replicates the performance of the FTSE All-World ex CW Climate Balanced Factor Index. The fund targets better risk-adjusted equity returns than a traditional index strategy by incorporating 'factors' into index design, while also seeking to address the investment risks and opportunities associated with climate change.

**Risk exposure**

If the Fund's passive investments invest in companies that do not consider ESG factors, this could give rise to reputational risks to Brent's Pension Fund.

**Recommendations**

The Fund should consider:

- The benefits and implications (costs, risk appetite, long-term returns) of investing in passive funds that track exclusive ESG indexes.
- Investing in funds that track ESG/climate change indexes, if it aligns with the Pension Fund's funding and investment principles.

**Management action plan**

| Agreed action | Action owner | Due date |
|---|---|---|
| The recommendations are agreed and have already been implemented. The pensions sub committee on 25 February 2020 considered a range of low carbon equity passive funds and agreed an investment, in line with the revised investment strategy. | Ravinder Jassar<br><br>Head of Finance | Implemented |

**APPENDIX 1 – Distribution list**

| | |
|---|---|
| Shazia Hussain | Assistant Chief Executive |
| Debra Norman | Head of Legal, HR, Audit and Investigations |
| Minesh Patel | Finance Director |
| Ravinder Jassar | Head of Finance |
| Katie Smith | Head of Committee Services |
| Sawan Shah | Senior Finance Analyst |
| Saagar Raithatha | Finance Analyst |
| Grant Thornton | External Auditor |

## APPENDIX 2 – Basis of Classifications

**Individual Finding Ratings**

Critical

A finding that could have a:

- Critical impact on operational performance; or
- Critical monetary or financial statement impact; or
- Critical breach in laws and regulations that could result in material fines or consequences; or
- Critical impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- Significant impact on operational performance; or
- Significant monetary or financial statement impact; or
- Significant breach in laws and regulations resulting in significant fines and consequences; or
- Significant impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- Moderate impact on operational; or
- Moderate monetary or financial statement impact; or
- Moderate breach in laws and regulations resulting in fines and consequences; or
- Moderate impact on the reputation or brand of the organisation.

Low

A finding that could have a:

- Minor impact on the organisation's operational performance; or
- Minor monetary or financial statement impact; or
- Minor breach in laws and regulations with limited consequences; or
- Minor impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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**London Borough of Brent – Scheme Administration Report**

**Performance Indicators**

The LPP Pensions Administration Service is measured against key performance indicators that measure compliance, efficiency, and effectiveness of the service.

**Workflow summary**

The table below shows a summary of the total top 10 cases received and completed for the year 1 April 2019 to 31 March 2020.

Overall performance over the last 12 months was 91.33%. The overall 12-month performance was impacted as LPP continued to process large number of outstanding backlog cases, which had transferred from the previous Pensions Administration provider. Since this backlog has been cleared, performance has regularly achieved the agreed service levels, achieving 98%+.

LPP currently has 3.5 FTE working on Brent administration with a ratio of 1 member of staff to 5,642 fund members. The team completed a total of 6,572 cases including other contractual cases outside of the top 10 for the period 1st April 2019 to 31st March 2020 which is an average of 1,878 cases per staff member

| Description – Top 10 Cases | Received | Completed | On Time | On Time % |
|---|---|---|---|---|
| Joiners | 1,479 | 1,718 | 1,628 | 94.76% |
| Transfer In | 278 | 322 | 246 | 76.40% |
| Transfer Out | 416 | 487 | 418 | 85.83% |
| Estimates - Members | 363 | 393 | 369 | 93.89% |
| Estimates - Employers | 119 | 116 | 115 | 99.14% |
| Retirements | 569 | 599 | 585 | 97.66% |
| Deferred Benefits | 712 | 755 | 681 | 90.20% |
| Refunds | 704 | 822 | 790 | 96.11% |
| Deaths | 305 | 442 | 316 | 71.49% |
| Correspondence | 495 | 575 | 541 | 94.09% |
| **Totals** | **5,440** | **6,229** | **5,689** | **91.33%** |

**Cases completed**

Of the 5,866 cases completed on time 2,836 were completed early as detailed below

| Description – Top 10 cases | 1 Day Early | 2 Days Early | 3 Days Early | 4+ Days Early |
|---|---|---|---|---|
| Joiners | 143 | 42 | 139 | 684 |
| Transfer In | 42 | 14 | 14 | 53 |
| Transfer Out | 69 | 18 | 11 | 81 |

| | | | | |
|---|---|---|---|---|
| Estimates - Members | 71 | 24 | 25 | 67 |
| Estimates - Employers | 18 | 13 | 13 | 11 |
| Retirements | 74 | 27 | 13 | 88 |
| Deferred Benefits | 103 | 42 | 28 | 174 |
| Refunds | 128 | 49 | 50 | 192 |
| Deaths | 41 | 21 | 6 | 43 |
| Correspondence | 91 | 25 | 22 | 67 |
| **Totals** | **780** | **275** | **321** | **1,460** |

### Ill health and employer consents

| Reason | Total |
|---|---|
| Ill- Health – Tier 1 | 2 |
| Ill Health Tier 2 | 0 |
| Ill health Tier 3 | 1 |
| Flexible Retirement | 5 |
| Redundancy | 24 |

### Complaints

LPP now have a dedicated complaints team who deal with all complaints. This allows the complaint to be dealt with independently of the administration team and gives consistency when responding to complaints. There was a total of 25 complaints received during the year, broken down by quarter below.

| **Quarter** | **Number of complaints** |
|---|---|
| **Q1** | **6** |
| **Q2** | **4** |
| **Q3** | **3** |
| **Q4** | **12** |
| **Totals** | **25** |

### Dispute resolution procedure

There were 3 Dispute resolutions received during the period 1st April 2019 to 31st March 2020.

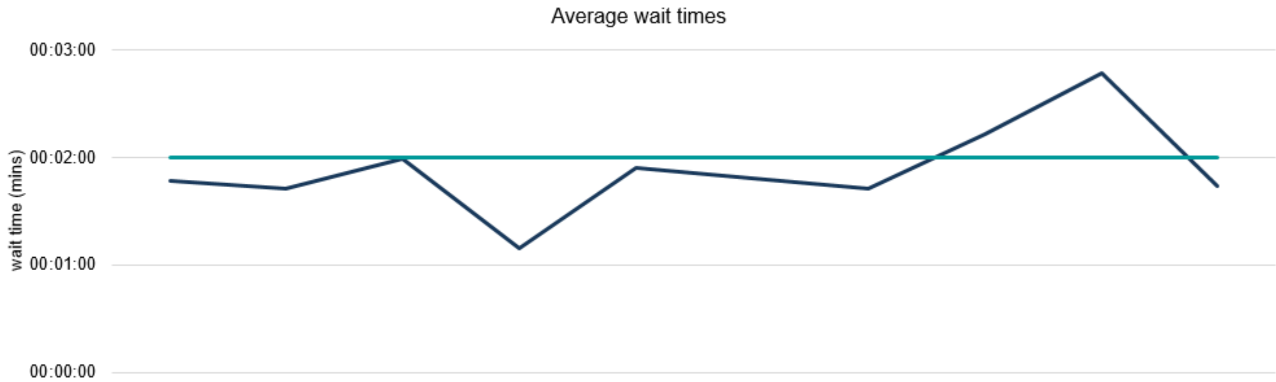
Where a member is unsure of their benefit entitlement or has problems with their benefits, the Local Pensions Partnership (LPP) should be contacted. If a member is not satisfied with any decision they have a right to ask for it to be re-examined under the formal complaints procedure, which is officially called ‘internal dispute resolution procedure’. The formal complaints procedure has 2 stages and full details can be obtained from the LPP by either phone on 01708 952299 or by writing to Local Pensions Partnership, PO Box 1383, Preston, PR2 0WR.

**Pensions Helpdesk Performance**

Performance across our Pensions Helpdesk is below. The data is in respect of all LPP clients.

## Trend Analysis


| | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Performance | 93% | 94% | 94% | 95% | 94% | 94% | 95% | 92% | 91% | 94% |
| Target | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |




| | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Performance | 00:01:47 | 00:01:43 | 00:01:59 | 00:01:09 | 00:01:54 | 00:01:49 | 00:01:43 | 00:02:13 | 00:02:47 | 00:01:44 |
| Target | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 | 00:02:00 |

## Satisfaction Surveys

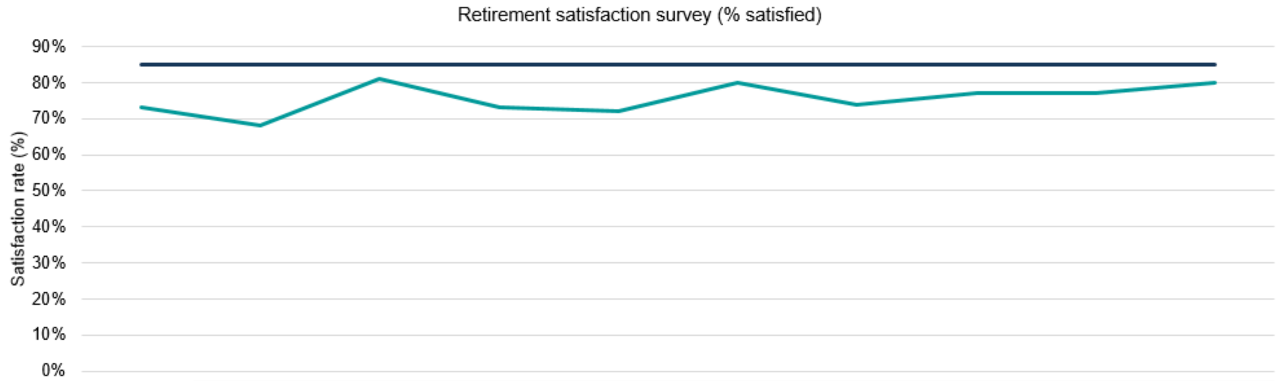
### Call handling

**Trend Analysis**


| | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Satisfaction - Call handler | 96% | 96% | 98% | 98% | 98% | 99% | 98% | 98% | 98% | 99% |
| Satisfaction - Overall service | | | 83% | 83% | 84% | 84% | 83% | 84% | 85% | 84% |
| Satisfaction Target | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% |

### Satisfaction Survey – Retirements

**Trend Analysis**




| | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Performance | 73% | 68% | 81% | 73% | 72% | 80% | 74% | 77% | 77% | 80% |
| Satisfaction Target | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% |

### Satisfaction Survey – Emails

**Trend Analysis**


| | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Performance | 61% | 68% | 68% | 71% | 65% | 66% | 71% | 77% | 74% | 79% |
| Satisfaction Target | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% |

**Accuracy of data**

Each year, following year-end processing, LPP raise queries with Brent employers such as missing joiners, leavers, change of hours and pay queries. In most instances the queries are reducing year on year, however we continue to identify errors and work with employers prior to the queries being created. To this end we have listened to employers and have improved our templates and literature to ensure the data supplied by Brent employers is accurate and continues to improve the overall data quality position.

During 2019/20, we tracked the TPR scores on a quarterly basis. We continue to develop an ongoing program of work to maintain/improve data scores to above the targets outlined below.

## Common data score

| Fund | Target | Q2 2019/20 | Q3 2019/20 | Trend | Q4 2019/20 | Trend |
|---|---|---|---|---|---|---|
| LB of Brent | 95% | 87.00% | 93.4% | 6.4% | 93.4% | 0.00% |

## Conditional data score

| Fund | Target | Q2 2019/20 | Q3 2019/20 | Trend | Q4 2019/20 | Trend |
|---|---|---|---|---|---|---|
| LB of Brent | 90% | 71.00% | 62.4% | -8.6% | 63.3% | 0.9% |

## LGPS Regulatory Update

A. Opposite sex Civil Partnerships

Opposite sex partnerships were introduced in May 2019 and have been written into the LGPS with effect from 31 December 2019, all systems and documentation has been updated to include this level of benefit.

B. Miscellaneous amendment regs

The amended miscellaneous regulations which allowed all members aged over 55 with deferred benefits who were not in ongoing LGPS employment to access their benefits. These regulations also incorporated the impact of the Walker v Innospec ruling

C. Late retirement factors (September)

As referred to in the 2019 update an adjusted late retirement set of factors was introduced from September 2019, however these were introduced without any cliff edge approach. The new factors are more generous to members who have delayed claiming their pension by greater than 2 year but less generous for those with shorter delays to claiming their benefits.

D. 5 year CARE anniversary (Refunds)

From April 2019 we had pasted the 5 year anniversary of the establishment of the CARE scheme, this also meant that we had our first cases of members with unclaimed refunds reaching the 5 year point which the regulations state must be paid at this point. Unfortunately we are not always able to elicit a response from members, this could trigger an unauthorised payment if the member does belated request their refund. The LGA are aware that this is a national issue and are seeking to amend the regulations to be consistent with previous LGPS and other public sector schemes which would avoid such refunds benefits being treated as unauthorised payments.

E. Exit payment cap consultation

Amended regulations on exit credits were issued and effective from 20 March 2020 and backdated to 14 May 2018, these allow administering Authorities to take a wider view on pension liabilities which will limit the risk to the fund of exiting employers.

F. Fair Deal consultation closed 4 April 2019

The fair deal consultation closed over a year ago but is still considered that actual regulations will follow.

G. Valuation and employer risk consultation closed 31 July 2019

The consultation on the potential to move the LGPS to a 4 yearly valuation cycle to coincide with the other unfunded public sector schemes closed on 31 July 2019. We await guidance from MHCLG on whether this will occur and how we would move to bring the schemes into alignment.

H. McCloud/Sargeant (age discrimination case)

The Government were not granted the option of appealing the decision that the move to the CARE schemes failed to meet the age discrimination requirements and therefore we are expecting a further consultation on the approach on ‘remedy’ for the LGPS as well as all the unfunded schemes. The LGPS is unique in having had the protection for those within 10 years of retirement performed under the underpin arrangements, it may be that for the LGPS ‘remedy’ may be extending the underpin rather than individual recalculations of those who had service from before the 1 April 2012.

I. Cost management (Cost cap)

The cost cap which is a crucial part of the Hutton review which introduced the CARE scheme in 2014, was triggered in 2019 and would have led to an improvement in the benefits from April 2019. However in view of the age discrimination case, referred to above, the Government placed the changes on hold pending the results of the age discrimination with a planned revisit to the cost cap calculations before making changes to the scheme.

J. Exit cap

The consultation on the introduction of the exit cap (£95k) was closed on 3 July 2019, we await a response from Government.

K. CoVid-19

Since March the MHCLG together have introduced a life assurance payment guarantee of £60,000 for employees in NHS or social care. This payment would be payable in addition to any scheme death grant and is paid by the HMRC.

Also the LGA have produced a series of FAQ documents and webinars aimed at Administrators, employers and members, covering:

- Furlough staff
- Contributions
- Emergency Volunteering leave, secondment, re-employment and Reserve Forces Leave
- Information for members
- Life assurance payments
- Pension Administration
- Payment of benefits
- Governance and resilience
- Pension tax
- Annual Scheme events

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**Complaint data – 2019/2020**

A dedicated Complaints Manager was appointed in June 2019 and has monthly meetings with the pension administration operational teams to identify service improvements from the lessons learned from the complaints received.

In 2019/2020 LPP received a total of 25 complaints. The complaints have been broken down into categories in to separate categories the split over 4 quarters.

Brent received 6 complaints during Quarter 1 2019/20 (April 2019 – June 2019):

| Month | Total | Topic and No. of complaints | % of Complaints Attributed to LPP | % of Complaints Upheld or not |
|---|---|---|---|---|
| April 2019 | 1 | Delays – 1<br>Payments - 0<br>General Service – 0<br>Regulatory – 0 | 0% LPP Error | 100% Upheld |
| May 2019 | 4 | Delays – 2<br>Payments - 2<br>General Service – 0<br>Regulatory – 0 | 0% LPP Error<br>25% Shared Error | 100% Upheld |
| June 2019 | 1 | Delays – 0<br>Payments – 0<br>General Service – 1<br>Regulatory – 0 | 100% Shared Error | 100% Upheld |

66% of complaints received are in relation to incorrect information being given by the previous scheme administrator

---------------------------------------------------------

Brent received 4 complaints during Quarter 2 2019/20 (July 2019 – September 2019):

| Month | Total | Topic and No. of complaints | % of Complaints Attributed to LPP | % of Complaints Upheld or not |
|---|---|---|---|---|
| July 2019 | 1 | Delays – 1<br>Payments - 0<br>General Service – 0<br>Regulatory – 0 | 100 % LPP Error | 100% Upheld |
| August 2019 | 0 | N/A | N/A | N/A |
| September 2019 | 3 | Delays – 0<br>Payments – 0<br>General Service – 3<br>Regulatory – 0 | 33.3% LPP Error | 33.33% Partially Upheld<br>33.33% Upheld |

---------------------------------------------------------

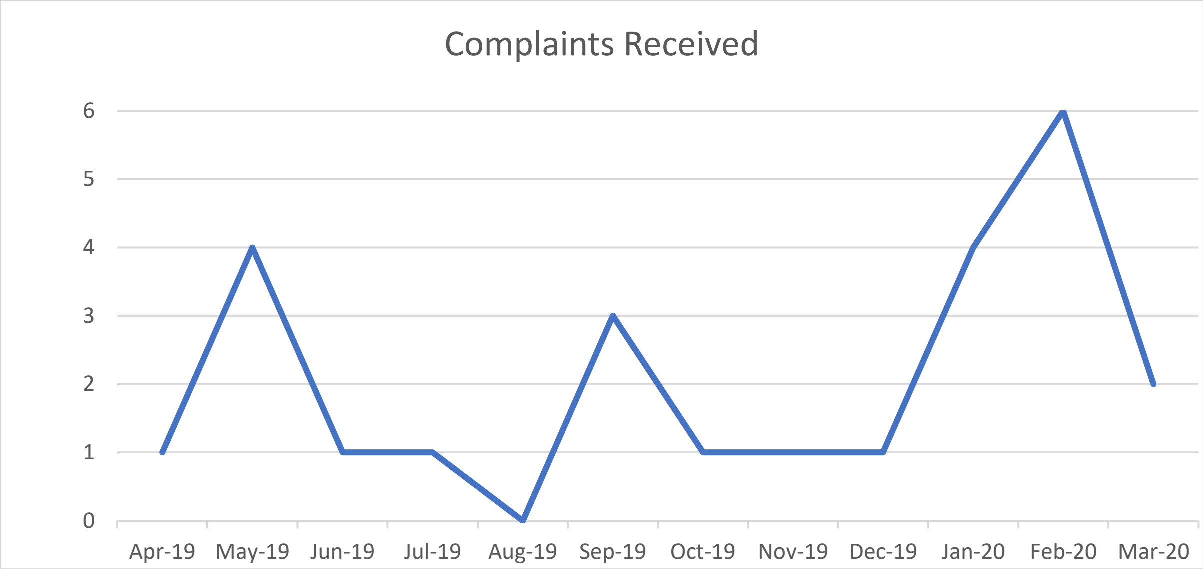
Brent received 3 complaints during Quarter 3 2019/20 (October 2019 – December 2019):

| Month | Total | Topic and No. of complaints | % of Complaints Attributed to LPP | % of Complaints Upheld or not |
|---|---|---|---|---|
| October 2019 | 1 | Delays – 1<br>Payments - 0<br>General Service – 0<br>Regulatory – 0 | 0% LPP Error | 100% Upheld |
| November 2019 | 1 | Delays – 0<br>Payments - 1<br>General Service – 0<br>Regulatory – 0 | 0% LPP Error | 0% Upheld |
| December 2019 | 1 | Delays – 0<br>Payments – 0<br>General Service – 1<br>Regulatory – 0 | 100% LPP Error | 100% Upheld |

---------------------------------------------------------

Brent received 12 complaints during Quarter 4 2019/20 (January 2020 – March 2020):

| Month | Total | Topic and No. of complaints | % of Complaints Attributed to LPP | % of Complaints Upheld or not |
|---|---|---|---|---|
| January 2020 | 4 | Delays – 2<br>Payments - 0<br>General Service – 2<br>Regulatory – 0 | 25% Shared Error | 75% Upheld |
| February 2020 | 6 | Delays – 4<br>Payments - 0<br>General Service – 2<br>Regulatory – 0 | 50% LPP Error<br>16% Shared Error | 33% Upheld<br>40% Partially Upheld |
| March 2020 | 2 | Delays – 1<br>Payments – 1<br>General Service – 0<br>Regulatory – 0 | 50% Shared Error | 50% Partially Upheld |




**IDRP data - Brent – 2019/2020**

There were 3 dispute resolutions received during the period 1st April 2019 to 31st March 2020.

Where a member is unsure of their benefit entitlement or has problems with their benefits, the Local Pensions Partnership (LPP) should be contacted. If a member is not satisfied with any decision, they have a right to ask for it to be re-examined under the formal complaint's procedure, which is officially called 'internal dispute resolution procedure'. The formal complaints procedure has 2 stages and full details can be obtained from the LPP by either phone on 01708 952299 or by writing to Local Pensions Partnership, PO Box 1383, Preston, PR2 0WR.

Brent received 3 IDRP cases during April 2019 – March 2020):

| Month | Total | Reason for IDRP submission | Level of IDRP | Was IDRP Upheld or Dismissed |
|---|---|---|---|---|
| June 2019 | 1 | Membership of the pension scheme – investigation showed that member should have been part of TPS and not LGPS | Stage 1 | Upheld |
| September 2019 | 1 | Early Payment of benefits on Ill Health Grounds | Stage 1 | Not Upheld |

| | | | | |
|---|---|---|---|---|
| September 2019 | 1 | Service recorded and the calculation of the benefits that were provided | Stage 1 | Not Upheld |

**Complaints Overview**

During the year 19/20 all complaints were captured by the Complaints team to enable LPP to review trends and establish what lessons need to be learned to improve the overall service being provided to members. The majority of complaints received were in respect of historic data issues which pre-date LPP.

LPP monitor complaints regularly, which helps us to gain an understanding of how we can improve the member journey and overall experience. There are a number of areas that are being reviewed as below:

- A review carried out of all letters ensuring that they meet all regulatory guidelines and are understandable to the recipient. i.e. Jargon will be removed
- The new member website will go live during Q3 of 2020/21. Content of the website is currently being reviewed along with the site structure to ensure that it is user friendly and easy to navigate.
- Client reports have been enhanced to provide a broader overview of performance against the service being provided to Brent members and employers
- More in-depth reporting is now available which outlines the customer journey for a range of processes and helps us target the right areas through use of our Engagement team

| | |
|---|---|
| Brent | **Pension Board**<br>5 August 2020 |
| | **Report from the Director of Finance** |
| **LPP COVID-19 Impact Analysis** | |

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | Two<br>1. July 2020 Brent Pension Fund COVID-19 Impact Analysis Report<br>2. July 2020 Brent Teachers Pension Fund COVID-19 Impact Analysis Report |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance |

**1.0 Purpose of the Report**

1.1 This report presents analysis from the Fund's administration provider Local Pensions Partnership (LPP) regarding the impact of the COVID-19 coronavirus pandemic, on the number of death notifications (bereavements) received, relating to members in the Brent Pension Fund and Brent Teachers Pension Fund since the start of this year.

**2.0 Recommendation(s)**

2.1 The Committee is asked to note this report.

**3.0 Detail**

3.1 Whilst LPP cannot track the specific number of COVID-19 related deaths, it is possible to measure the total number of deaths notified each week and compare these figures to the same period in 2019. The report set out in Appendix 1 and Appendix 2 provides insight, for both the Brent Pension Fund and the Brent Teachers Pension Fund, on the period when the peak number of notifications were recorded, and how this compares to the overall national picture.

3.2 Appendix 1 illustrates that death notifications for members of the Brent Pension Fund were higher in April than in the same period last year. However the largest year-on-year increase was seen in week commencing 15th June (28 vs 3 notifications in the same week in 2019). Most age categories experienced increases in notifications during April and June (compared to 2019).

3.3 Appendix 2 illustrates that death notifications for members of the Brent Teachers Pension Fund have been higher since April this year, compared to the same period last year (16 vs 6). The largest difference in notifications in April, was seen in the 81+ age category (7 more than in the same period in 2019).

3.4 Despite an increase in the number of death notifications, this it is not considered material to the extent of affecting the value of the Fund’s liabilities.

3.5 The appendices also provide details on the service measures implemented by LPP to improve membership experience during this period.

**4.0 Financial Implications**

4.1 There are no specific financial implications associated with noting this report.

**5.0 Legal Implications**

5.1 Not applicable.

**6.0 Equality Implications**

6.1 Not applicable.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable.

**8.0 Human Resources**

8.1 Not applicable.

***Report sign off:***

***Minesh Patel***
Director of Finance
-

# COVID-19, client update

## LPPA impact analysis and service measures

**Produced for: Brent Pension Fund**



Chris Dawson – Head of Engagement and Communications
Local Pensions Partnership Administration, July 2020

Local Pensions Partnership

# Deaths registered weekly in England and Wales

including deaths involving the coronavirus (COVID-19) pandemic

01

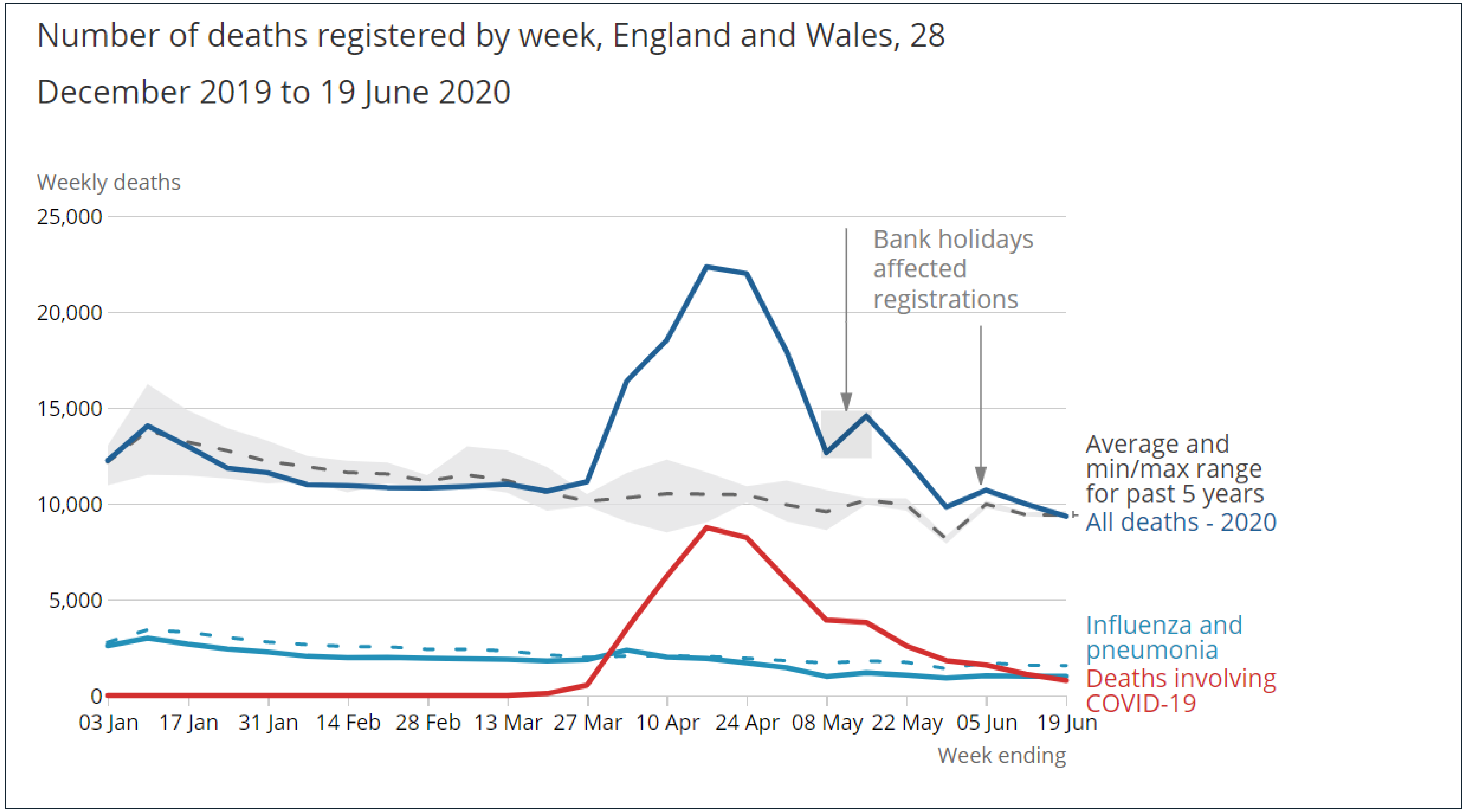


LPP
Local Pensions Partnership

# Deaths registered weekly in England and Wales

## including deaths involving the coronavirus (COVID-19) pandemic

**Source: Office for National Statistics – Deaths registered weekly in England and Wales (w/e 19 June 20, release date 30/06/20)**




The number of deaths involving COVID-19 decreased for the ninth consecutive week

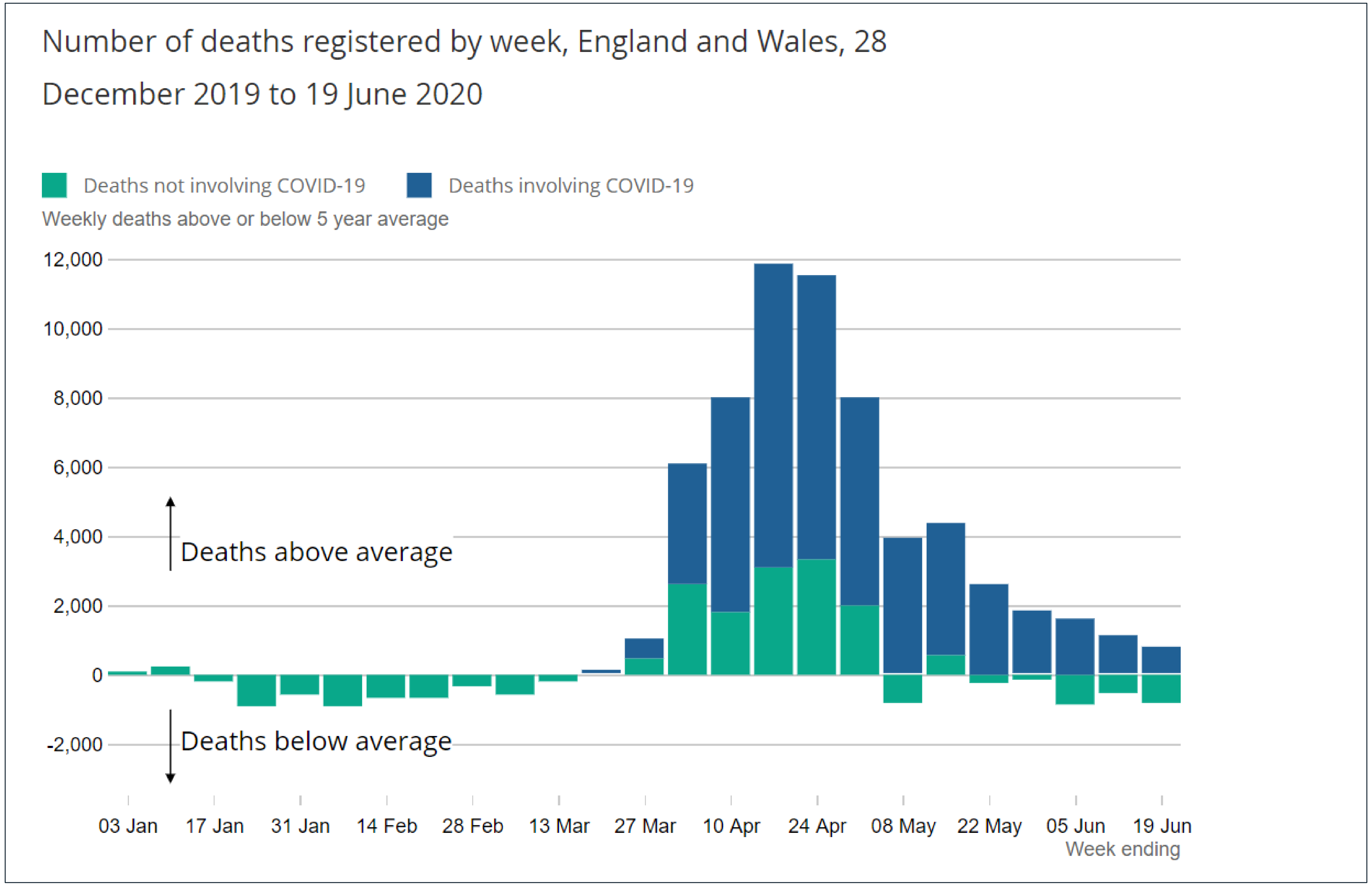


LPP
Local Pensions Partnership

**Source: Office for National Statistics – Deaths registered weekly in England and Wales** **(w/e 19 June 20, release date 30/06/20)**

# Deaths registered weekly in England and Wales

## including deaths involving the coronavirus (COVID-19) pandemic




The number of excess deaths involving COVID-19 continued to decrease

LPP
Local Pensions Partnership

# Notification of member bereavements into LPPA

Brent Pension Fund

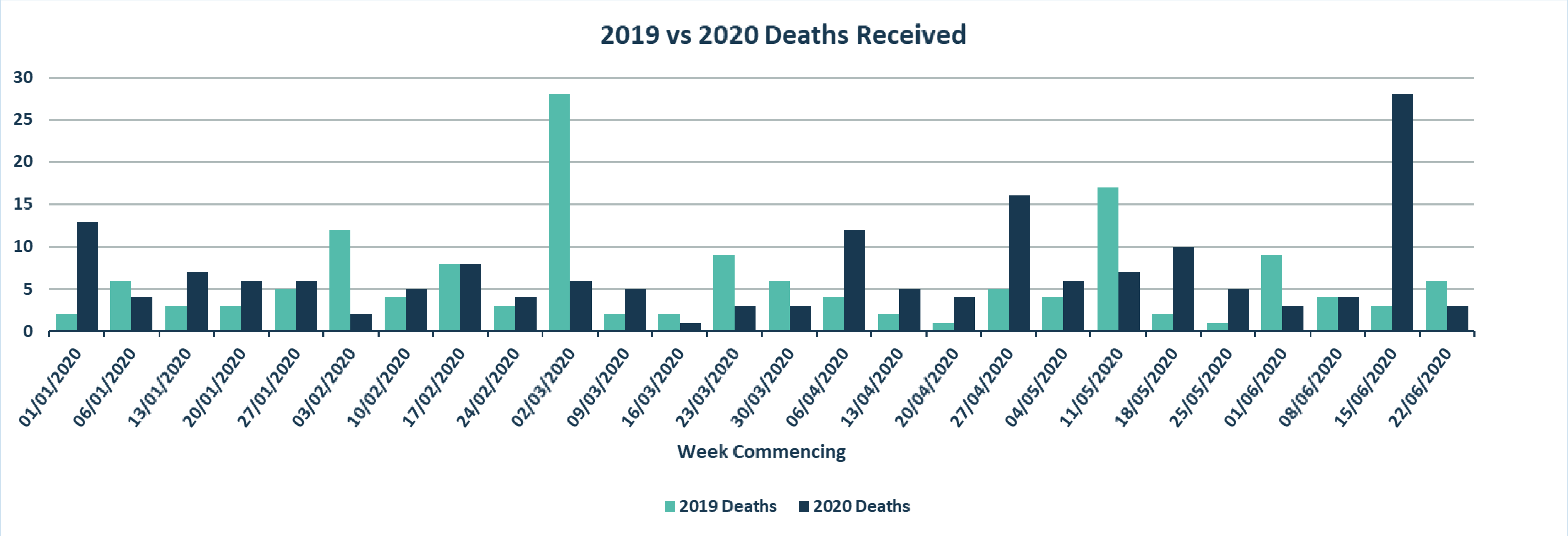
02



LPP
Local Pensions Partnership

# Notification of member bereavements into LPPA

**Source: LPPA Management Information team (data at 29th June 2020)**






## Brent Pension Fund

- LPPA cannot track the specific number of Covid-19 related deaths, but is able to measure the number of deaths per week, and compare it to the same period in 2019
- The chart illustrates that death notifications for members of the Brent Pension Fund were higher in April than in the same period last year. However the largest year-on-year increase was w/c 15th June (28 vs. 3 in the same week in 2019)

Note. The data reports on when LPPA is notified, not necessarily when (week) the death has occurred

LPP
Local Pensions Partnership

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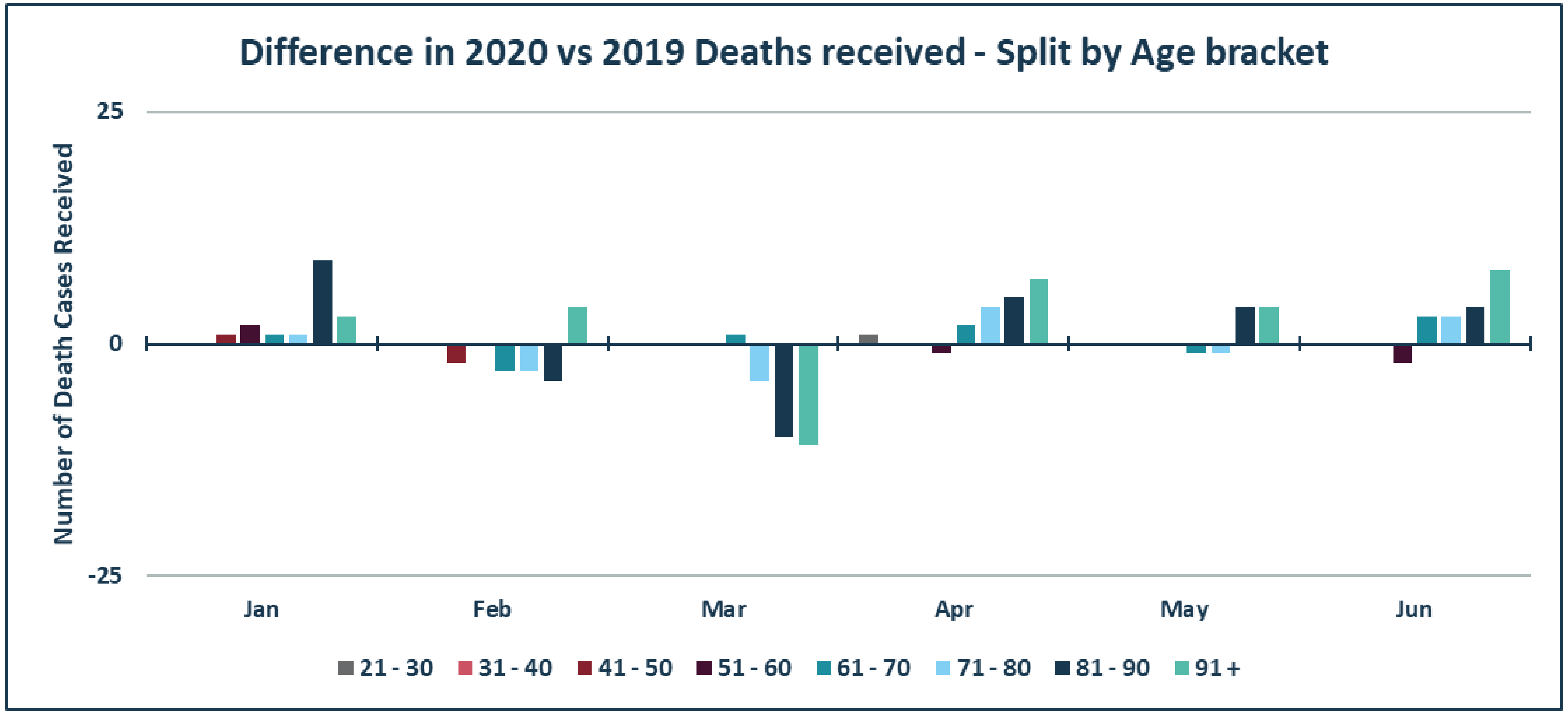


Brent Pension Fund

- The chart illustrates the difference in monthly death notifications (2020 vs. 2019), for members of the Brent Pension Fund, split by age category
- Most age categories experienced increases in notifications during April and June (compared to 2019), with less noticeable increases in May



LPP
Local Pensions Partnership

# LPPA Process Improvements

Brent Pension Fund

03



Local Pensions Partnership

# Continually improving our member experience …

Additional resource added to the LPPA deaths team

Dedicated and prioritised option for death notifications into the Helpdesk

Reducing elapsed time to resolve death cases

Introduction of a bereavement survey

LOCAL PENSIONS PARTNERSHIP ADMINISTRATION

# COVID-19, client update

## LPPA impact analysis and service measures

**Produced for: Brent Teachers Pension Fund**

Chris Dawson – Head of Engagement and Communications
Local Pensions Partnership Administration, July 2020

LPP
Local Pensions Partnership

# Deaths registered weekly in England and Wales

including deaths involving the coronavirus (COVID-19) pandemic

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# Deaths registered weekly in England and Wales

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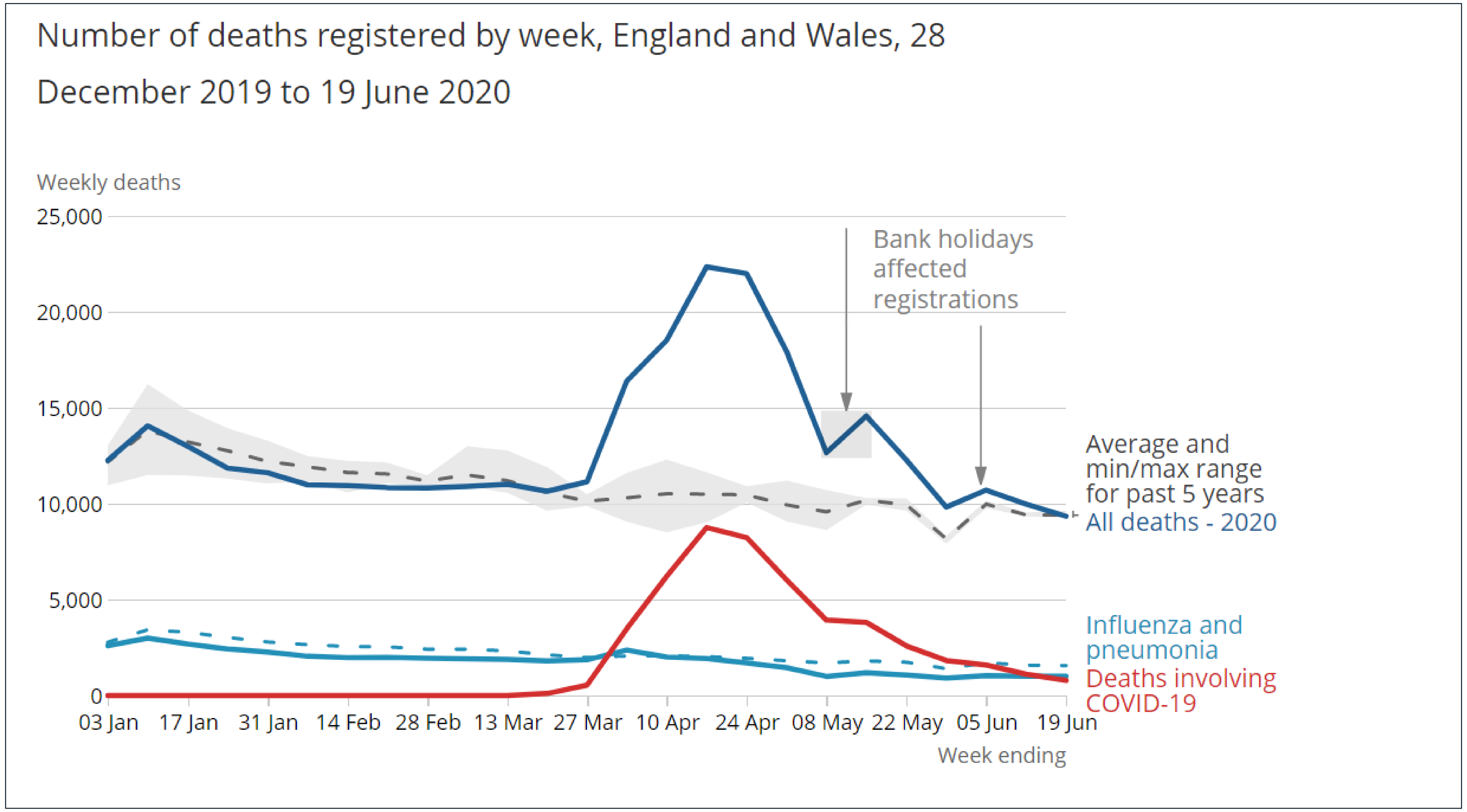


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LPP
Local Pensions Partnership

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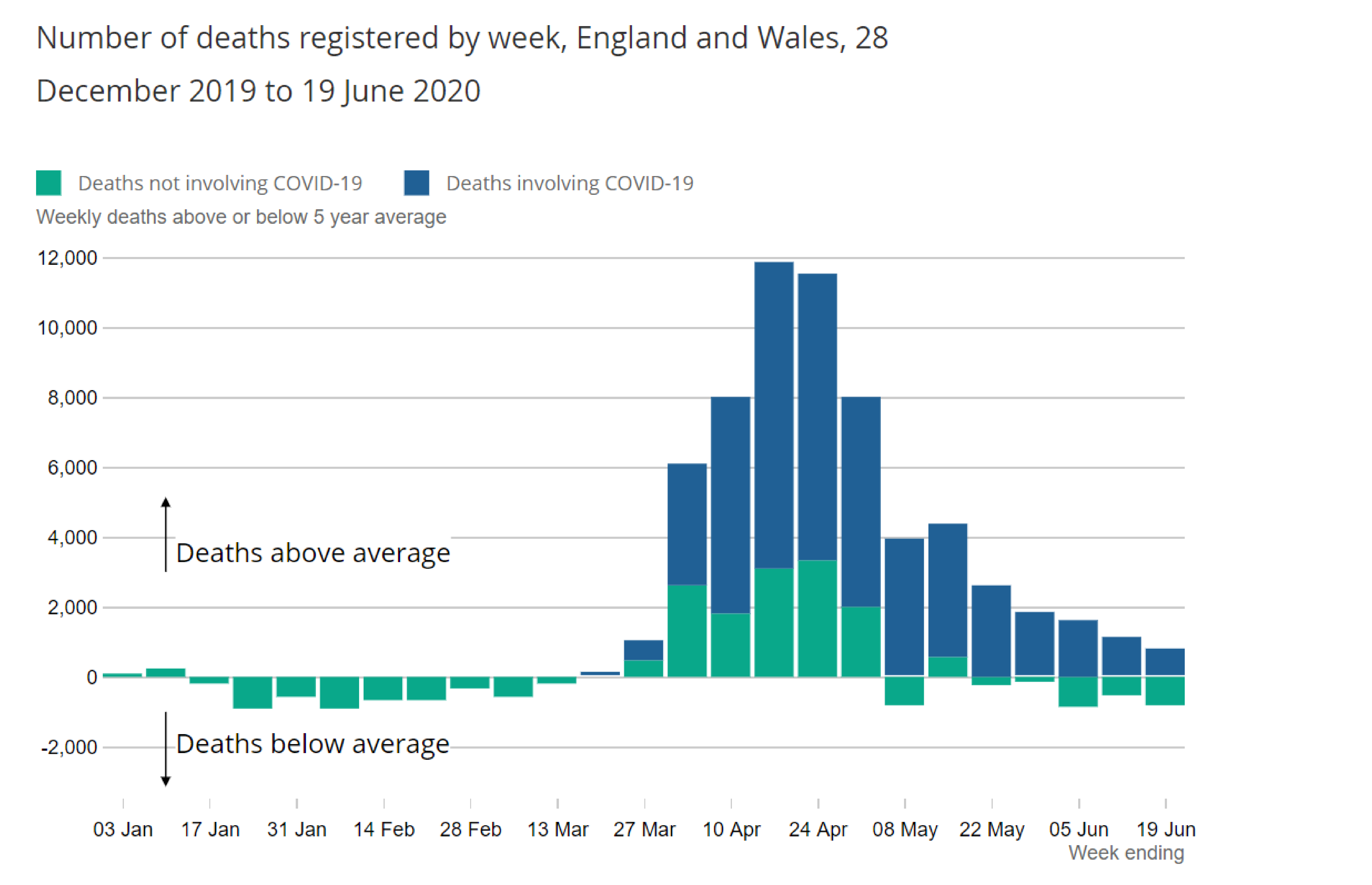


The number of excess deaths involving COVID-19 continued to decrease



LPP
Local Pensions Partnership

# Notification of member bereavements into LPPA

Brent Teachers Pension Fund

02



Local Pensions Partnership

# Notification of member bereavements into LPPA

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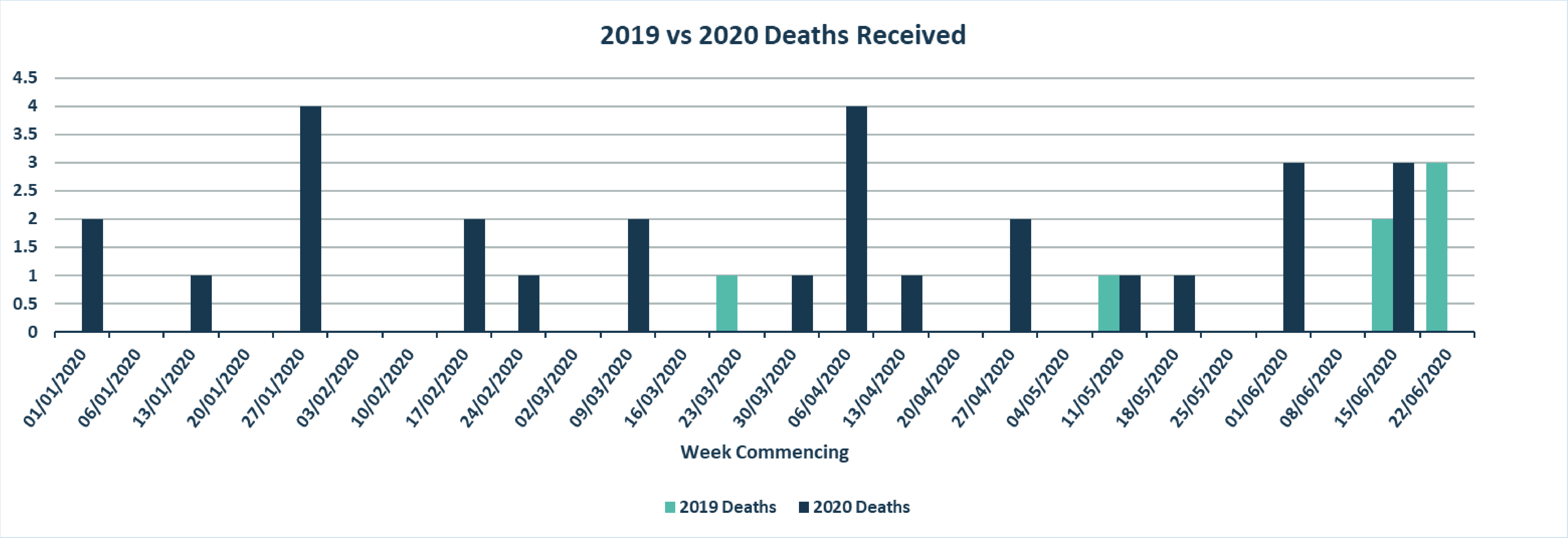




## Brent Teachers Pension Fund

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LPP
Local Pensions Partnership

# Notification of member bereavements into LPPA

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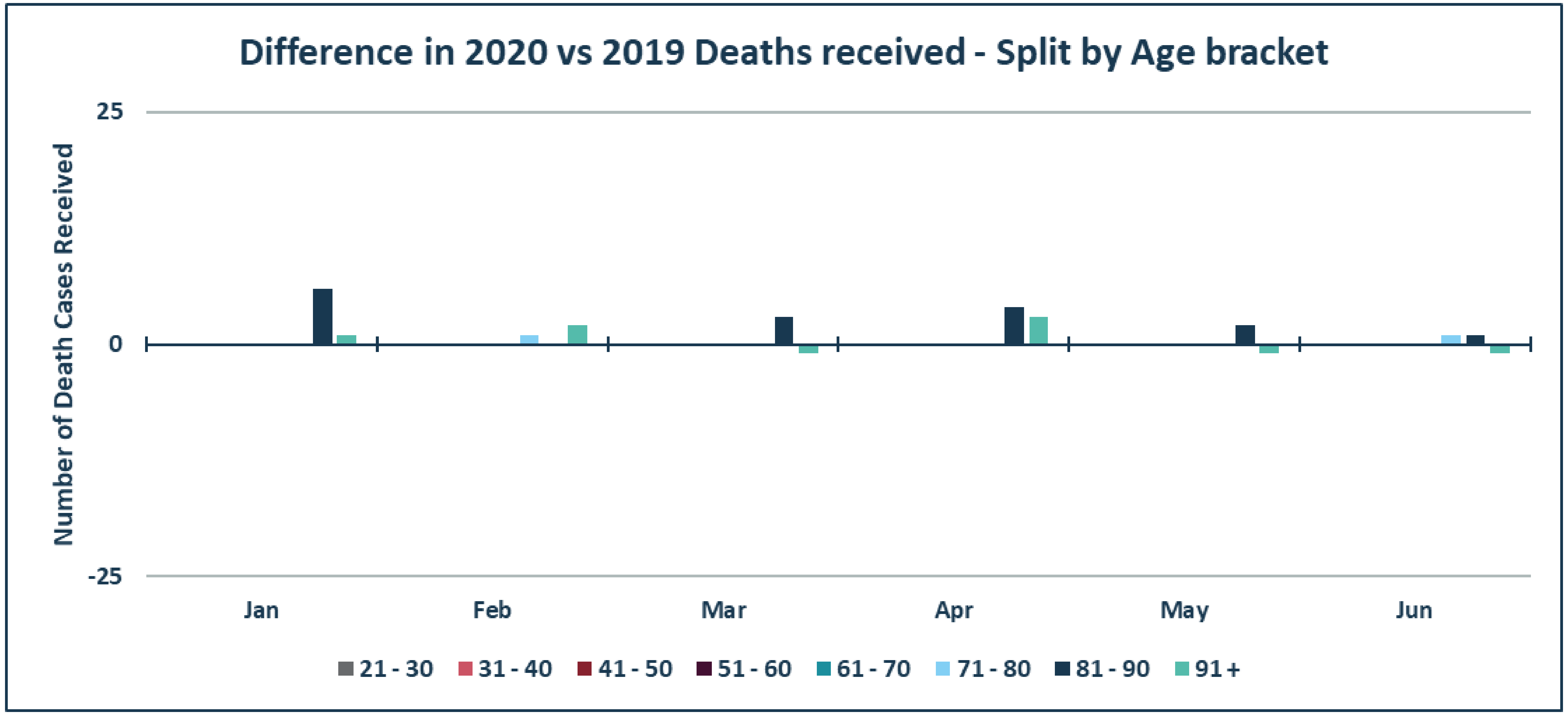




## Brent Teachers Pension Fund

- The chart illustrates the difference in monthly death notifications (2020 vs. 2019), for members of the Brent Teachers Pension Fund, split by age category
- The largest difference in notifications in April, was seen in the 81+ age category (7 more
- than in the same period in 2019)

# LPPA Process Improvements

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03

Brent Teachers Pension Fund

# Continually improving our member experience …

Additional resource added to the LPPA deaths team

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Reducing elapsed time to resolve death cases

Introduction of a bereavement survey

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| | |
|---|---|
| Brent | **Pension Board**<br>5 August 2020 |
| | **Report from the Director of Finance** |

**LGPS Update**

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | Seven<br>1. McCloud Consultation<br>2. Public Sector exit payments Consultation response<br>3. LGPC Bulletin – March 2020<br>4. LGPC Bulletin – Mid March 2020<br>5. LGPC Bulletin – April 2020<br>6. LGPC Bulletin – May 2020<br>7. LGPC Bulletin – June 2020 |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst<br>Saagar Raithatha, Finance Analyst |

**1.0 Purpose of the Report**

1.1 The purpose of this report is to update the committee on recent developments within the LGPS regulatory environment and any recent consultations issued by the Ministry of Housing, Communities and Local Government (MHCLG) which have would have a significant impact on the Fund.

**2.0 Recommendation(s)**

2.1 The Committee is asked to note the recent developments in the LGPS.

## 3.0 Detail

### McCloud Case

3.1 On 21 December 2018, it was reported that the Court of Appeal ruled that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.

3.2 The Supreme Court denied the Government leave to appeal the McCloud and other associated cases on 27 June 2019 confirming that as 'transitional protection' was offered to members of all the main public service pension schemes, the difference in treatment will need to be remedied across all those schemes including LGPS. As the remedy will involve 'levelling up' member benefits, it has been widely expected that any agreed outcome will increase the cost of LGPS pensions.

3.3 Given that no remedy had been agreed by 31st August 2019, Funds had been left to consider locally how best to manage the uncertainty and risk. During this period, the Fund Actuary acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations. The Fund had also elected to make an approximate allowance for the potential impact of McCloud in the 2019 valuation in the assessment of employer contribution rates by including a slightly higher required likelihood of reaching funding target. Further information on the background of McCloud case has been provided in previous LGPS updates to the committee.

3.4 On Thursday 16th July, MHCLG published a consultation set out in Appendix 1 on the proposed remedies for the LGPS to remove age discrimination. It is government's intention for legislation to be in place by April 2022. The proposed remedy will require a significant amount of administration and communication. Early analysis indicates that around 1.2 million members across LGPS, equivalent to roughly a quarter of all members, may be affected. Officers will be working together with the Fund's actuary, Hymans Robertson and the Fund's admin provider LPP to further work through the details of the consultation before preparing a response. At this stage, this is likely to be a large piece of work to be conducted and will likely require further admin resource in order to understand exact costs to the pension scheme.

3.5 In summary, the remedy extends the 'transitional protections' underpin (that was promised to active members in 2012 who were within 10 years of normal retirement age) to all other active members, regardless of age. The underpin gives the member the better of career average revalued earnings (CARE) or final salary benefits for the eligible period of service. In summary, the key features of the underpin are as follows:

- Eligibility is restricted to members who were active in the LGPS on 31 March 2012 and have accrued benefits since 1 April 2014;

- The underpin period applies between 1 April 2014 and 31 March 2022, but ceases when the member leaves active membership or dies in service;
- The final salary for comparison purposes applies at the point that the member leaves active status or reaches age 65.

3.6 Members who meet the criteria will have an “underpin date” and an “underpin crystallisation date” (Appendix 1 - paragraph 61).

3.7 The purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member’s 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:

(i) leaves active service in a relevant scheme membership,
(ii) reaches their 2008 Scheme Normal Pension Age (NPA), or
(iii) dies.

Regardless of the outcome of this provisional comparison, there would be no adjustment to a member’s pension at their underpin date. The purpose of the comparison at a member’s underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member’s underpin date and their underpin crystallisation date, when the final comparison is due to take place.

3.8 The purpose of the underpin crystallisation date would be to provide a final check at the point the qualifying member’s benefits from the scheme are ‘crystallised’ (when the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors such as early/ late retirement adjustments. The test will be based on the member’s final salary at leaving/retirement, thus preserving the final salary link beyond 2022 as long as they are accruing benefits (Appendix 1 - paragraph 65).

3.9 Alongside the changes outlined to remedy the discrimination found by the Courts, it has also been proposed to make some changes to underpin provisions in order to ensure that the underpin works effectively and consistently for all members (Appendix 1 – paragraphs 42 to 59).

(i) Early Leavers - The existing protection only applied if a member left with immediate entitlement to benefits, which will be much less likely to be the case with the extended membership coverage. Therefore, the proposals extend eligibility to those leaving with deferred benefits.

(ii) Death in service and Survivors benefits - An underpin calculation will now be required for death in service and survivor benefits, which was not previously the case.

(iii) Breaks in service - To address existing issues surrounding breaks in service, the new regulations will require that a member must meet the underpin criteria in a single LGPS record. This means that the member would need to aggregate both periods of membership in order to apply for underpin protection. If the service was not aggregated, the member would lose their underpin protection.

3.10 Key questions outlined on the consultation document are as follows:

- Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?
- Question 2 – Do you agree that the underpin period should end in March 2022?
- Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?
- Question 13 – Do you agree with the two-stage underpin process proposed?

3.11 Next steps to be conducted by officers in coordination with the Fund's actuary and admin provider will be to analyse the membership of the Fund in order to identify those affected. In addition to this, a dedicated McCloud project is to be set up to agree workstreams and identify the resource required ahead of responding to the consultation.

3.12 The closing date of this consultation will be on 8 October 2020. Comments from any member of the Board regarding the consultation should be sent to Rav Jassar ahead of the closing date.

**4.0 Exit Payments Cap**

4.1 The government first announced plans to cap exit payments in the public sector in 2015. On 10 April 2019, HM Treasury (HMT) launched a consultation on draft regulations, guidance and directions to implement the cap. The consultation closed on 3 July 2019 and received around 600 responses.

4.2 In the consultation, the exit payment cap is set at £95,000 and redundancy payments (including statutory redundancy payments), severance payments, pension strain costs – which arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age – and other payments made as a consequence of termination of employment are included in the cap.

4.3 The cap applies where two or more relevant public sector exits occur in respect of the same person within any period of 28 consecutive days. The total amount of all exit payments made to that person must not exceed £95,000.

4.4 Following the consultation, the LGA prepared a response following the proposed draft regulations and have raised concerns on the feasibility and consequences of implementing the Policy in the manner set out in HM Treasury's Consultation Document.

4.5 From the response, the LGA noted that the scope of the cap set out in the consultation could cover local government workers who have decades of service and earn less than £23,500 a year while an absence of reviews to the £95,000 cap limit would mean that over time, more people with salaries below the UK Average would be affected.

4.6 The LGA had also noted that due to the volume of consequential regulation changes required and the substantial changes needed to administrative systems, a minimum of nine months from the date the regulations are passed would be required for the necessary reforms to the Local Government Pension Scheme to be introduced and the actuaries, payroll providers and others to respond accordingly.

4.7 On Thursday 16th July HM Treasury published an update on the employer cost cap process set out in Appendix 2, alongside the consultation on proposals to rectify McCloud age discrimination in the LGPS. The employer cost cap process, applicable to all public service pension schemes including the LGPS was currently paused but will now be restarted. The objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination as set out in the McCloud consultations.

4.8 Following consultation, the government has decided to no longer implement the cap in two stages and will instead capture the whole public sector as soon as possible, with few exceptions. The final schedule listing all public sector bodies the cap will apply to is contained within the regulations.

4.9 As part of the update, regarding the types of payments in scope, the government noted that it was far to include all payments related to exit within scope of the cap.

4.10 The government has expressed its expectation that pension schemes, employment contracts, and compensation schemes will be amended to reflect the introduction of the cap. The exit payment cap legislation will allow relevant employers and authorities to pay the pension scheme member an equivalent sum if the pension scheme has not been amended to reflect the introduction of the cap. Any further changes should be taken forward by the relevant scheme.

4.11 In addition, the government commented that the waiver process is designed to ensure that the cap can be relaxed in exceptional circumstances where it is necessary or desirable. The government is committed to making the process for considering waivers efficient in order to not cause any unnecessary delays for public sector employers and employees, whilst ensuring that cases receive sufficient and appropriate scrutiny.

4.12 In response to the concerns that there was no provision to update the £95,000 figure over time, the update mentioned that primary legislation allows the government to change the level of the cap through further secondary legislation. It has not been proposed to change the level of the cap at this stage, however the level of the cap will be kept under review in order to allow for a flexible approach to make decisions on the level of the cap with reference to full contextual factors.

4.13 The government is to publish updated regulations and guidance documents alongside the regulations coming into force. These documents will take into account the detailed responses provided by stakeholders as part of the consultation process. Further details on this update are set out in Appendix 2.

## 5.0 Financial Implications

7.1 This report is for noting, so there are no direct financial implications. However, the outcome of the consultations could have financial implications for the Fund, in particular the exit cap and the McCloud consultation. Further work will be done with the Fund's actuary and admin provider to analyse the implications of the consultation and report back to the committee.

## 6.0 Legal Implications

6.1 Not applicable.

## 7.0 Equality Implications

7.1 Not applicable.

## 8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

## 9.0 Human Resources

9.1 Not applicable.

***<u>Report sign off:</u>***

***Minesh Patel***
Director of Finance

-

Ministry of Housing,
Communities &
Local Government

# Local Government Pension Scheme (England and Wales)

## Amendments to the statutory underpin

July 2020
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

July 2020

# Contents

# Scope of the consultation

| | |
|---|---|
| Topic of this consultation: | This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members. |
| Scope of this consultation: | MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS). |
| Geographical scope: | These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland. |
| Impact Assessment: | <u>Public Sector Equality Duty</u><br>The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to:<br><br>1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act<br>2) advance equality of opportunity between people who share a protected characteristic and those who do not<br>3) foster good relations between people who share a protected characteristic and those who do not.<br><br>The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the |

firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes.

Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences.

1) **Qualification for the underpin -** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming.

2) **Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and
- this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases).

These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

| | |
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| | government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.<br><br>In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019.<br><br>Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).<br><br>These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.<br><br>Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.<br><br>Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise.<br><br>The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be |

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| | undertaken following the consultation at the appropriate juncture.<br><br><u>Other impacts</u><br>The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa).<br><br>As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate.<br><br>None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015. |

## Basic Information

| | |
|---|---|
| To: | This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives.<br><br>Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties. |
| Body/bodies responsible for the consultation: | Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government |
| Duration: | This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020 |
| Enquiries: | For any enquiries about the consultation please contact:<br><br>LGPensions@communities.gov.uk |
| How to respond: | Please respond by email to:<br><br>LGPensions@communities.gov.uk |

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| | Alternatively, please send postal responses to:<br><br>Local Government Finance Stewardship<br>Ministry of Housing, Communities and Local Government<br>2nd floor, Fry Building<br>2 Marsham Street<br>London<br>SW1P 4DF<br><br>When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:<br><br>- your name,<br>- your position (if applicable),<br>- the name of your organisation (if applicable),<br>- an address (including post-code),<br>- an email address, and<br>- a contact telephone number. |

# Introduction

1. This consultation contains proposals to amend the rules governing 'transitional protection' in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters' and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme's benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members' normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory 'underpin'.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least at high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member's career average pension to make up the shortfall.

5. In the 'McCloud' and 'Sargeant' court cases (which related to the judicial and firefighters' pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts' findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

**7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.**

# Background

## Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes[1].

10. In their final report[2], the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)[3], as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

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[1] Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf
[2] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton
[3] In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer[4].

# Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013[5] (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service[6], but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.

- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.

- a move from a 1/60th accrual rate to a 1/49th accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.

- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.

- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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4 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions

5 http://www.legislation.gov.uk/uksi/2013/2356/contents, as amended

6 Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

## The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes[7] where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014[8] (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

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[7] With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.
[8] http://www.legislation.gov.uk/uksi/2014/525/contents/made, as amended

applicable to the member under the 2008 Scheme (usually 65[9])[10] (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
    - in active membership in the 2014 Scheme the day before their 'underpin date' (see below),
    - do not have a disqualifying break in service after 31st March 2012, and
    - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual's 'underpin date' which is the earlier of:
    - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
    - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the 'assumed benefits' (i.e. the career average benefits the protected member has accrued) against the 'underpin amount' (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member's pension account is to be increased by the difference (regulation 4(4)).

## The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters' pension schemes ('McCloud' and 'Sargeant', respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

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[9] By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.

[10] By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018[11] that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019[12], the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants[13]. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

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

[12] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/

[13] The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

# Addressing the discrimination

## Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation[14] seeking views on this matter as it applies to most of the other main public service pension schemes[15]. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

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[14] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[15] The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

**Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?**

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went to on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

**Question 2 – Do you agree that the underpin period should end in March 2022?**

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay[16].

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

[16] Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

**Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?**

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

# Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

**Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?**

**Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?**

**Question 6 – Do you have other comments on technical matters related to the draft regulations?**

## The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

### Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require[17] that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

[17] Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection[18].

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitled to a pension[19] would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

**Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?**

**Question 8 – Are there any other comments regarding the proposed underpin qualifiying criteria you would like to make?**

## Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together[20]. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic[21] - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

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[18] For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.

[19] This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.

[20] This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.

[21] Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations.

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply[22].

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link[23] on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

a) active in the LGPS on 31st March 2012,

b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and

c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
    - Membership one – active from 2011 to 2016, and
    - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

[22] By virtue of regulation 22(8) of the 2013 Regulations.
[23] By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare[24].

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection[25]. Good communications with members

[24] Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.
[25] However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority[26] proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))[27]. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

**Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?**

**Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?**

**Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?**

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[26] Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.
[27] Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

## Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women[28] or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

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[28] http://www.parliament.uk/briefing-papers/sn06838.pdf

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

**Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?**

## A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:
    - leaves active service in a relevant scheme membership,
    - reaches their 2008 Scheme NPA, or
    - dies.

  Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.

- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.

- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.

- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

**Question 13 – Do you agree with the two-stage underpin process proposed?**

## Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.

- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,

- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

## The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

### Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

### Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.[29]

### At date of leaving (without taking scheme benefits)

70. Where an active qualifting member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

### Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

### Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account[30], they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

### Age retirement

73. When a qualifying member takes voluntary payment[31] of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving[32]. The underpin crystallisation date will take place upon their pension coming into payment.

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[29] Under regulations 22(6) or (7) of the 2013 Regulations
[30] Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.
[31] Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.
[32] As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

### Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date[33]. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'[34] or 'tier 2'[35] benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'[36] benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

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[33] With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

[34] Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[35] Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[36] Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

## Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

### Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club[37]. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting[38] on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

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[37] https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/
[38] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations[39] that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

## Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a ‘Club’ transfer[40], a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:

   a) the member’s accrued rights,

   b) the member’s ‘provisional assumed benefits’ (see **annex C**), and

   c) the member’s ‘provisional underpin amount’ (see **annex C**).

[39] Regulation 9(1) and (2) of the 2014 Regulations
[40] Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

## Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**[41] – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**[42] – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

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[41] This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.
[42] This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations[43]. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate the trivial commutation sum due of the following:

a) the member's total accrued rights,

b) the member's 'provisional assumed benefits' (see **annex C**), and

c) the member's 'provisional underpin amount' (see **annex C**).

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.

3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

**Question 14 – Do you have any comments regarding the proposed approaches outlined above?**

**Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?**

# Supplementary matters

## Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

[43] Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds thoughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year[44] was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.

- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

- For deferred and deferred pensioner members[45], their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

**Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?**

**Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?**

## Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance[46] to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

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[44] Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.
[45] Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[46] However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual[47]. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)[48], LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.

- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period[49].

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

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[47] https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual
[48] 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), http://lgpsregs.org/resources/guidesetc.php
[49] Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

**Question 18 – Do you have any comments on the potential issue identified in paragraph 110?**

# Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
2) advance equality of opportunity between people who share a protected characteristic and those who do not
3) foster good relations between people who share a protected characteristic and those who do not.

### Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.

- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.

- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.

- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an "average" member at each particular age. Allowing for variations in individual members' future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)[50] and the Annual Population Survey (APS) (2019)[51] in looking at the potential impacts of the following characteristics.

## Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin –** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government's view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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50 https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

51 https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

118. **Members who benefit from the underpin** – GAD's analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and

- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

## Sex

120. In relation to sex, GAD's analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male

- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male

- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

## Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also incudes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforfce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won’t be explicitly affected by any changes to transitional arrangements.

## Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

**Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the ‘McCloud’ and ‘Sargeant’ cases?**

**Question 20 – Do you agree with our equalities impact assessment?**

**Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?**

**Question 22 – Are there other comments or observations on equalities impacts you would wish to make?**

# Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation[52] on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

## Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

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[52] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

**Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?**

## Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Priorisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

**Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?**

**Question 25 – What principles should be adopted in determining how to prioritise cases?**

**Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?**

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

**Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?**

**Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?**

# Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022[53]. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the peformance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressureon liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

[53] Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary[54], the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions[55] the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism[56]. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board[57] which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

**Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?**

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[54] As appointed under regulation 114 of the 2013 Regulations
[55] Based on directions issued by HM Treasury and LGPS experience
[56] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[57] Regulation 116 of the 2013 Regulations

# About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

# Annex A

**Personal data**

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

**2. Why we are collecting your personal data**
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

**3. Our legal basis for processing your personal data**
Section 21(1) of the Public Service Pension Act 2013 states:

*'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.*

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

**3. With whom we will be sharing your personal data**
We do not anticipate sharing personal data with any third party.

**4. For how long we will keep your personal data, or criteria used to determine the retention period.**
Your personal data will be held for two years from the closure of the consultation.

**5. Your rights, e.g. access, rectification, erasure**
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

**6. Your personal data will not be sent overseas**

**7. Your personal data will not be used for any automated decision making.**

**8. Your personal data will be stored in a secure government IT system.**

# Annex B – Draft regulations

STATUTORY INSTRUMENTS

## 2020 No.

## PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

## The Local Government Pension Scheme (Amendment) Regulations 2020

| | |
|---|---|
| *Made - - - -* | *** |
| *Laid before Parliament* | *** |
| *Coming into force - -* | *** |

The Secretary of State makes the following Regulations:

**Citation, commencement and extent**

**1.**—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.

(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.

(3) These Regulations extend to England and Wales.

**Amendment of the Local Government Pension Scheme Regulations 2013**

**2.** The Local Government Pension Scheme Regulations 2013([58]) are amended in accordance with regulations 3 and 4.

**3.** In regulation 89 (annual benefit statement) after paragraph (4) insert—

"(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

which would apply if the member's underpin date was the closing date of the Scheme year to which the statement relates.

([58]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493,S.I.2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

**4.**—(1) In Schedule 1 (interpretation) after the definition of "registered pension scheme" insert—

"relevant scheme membership" has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;"

**Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014**

**5.** The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014([59]) are amended in accordance with regulation 6.

**6.** In regulation 4 (statutory underpin)—

(a) in paragraph (1)(a) omit the words from "and who on 1st April 2012" to the end;

(b) for paragraph (1)(b) substitute—

"(b) is or has been an active member of the 2014 Scheme; and"

(c) in paragraph (1)(c) substitute "; and" with ".";

(d) omit paragraph (1)(d);

(e) at the end insert—

"(1A) For the purpose of this regulation a member's relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member's scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

([59]) S.I. 2014/525.

(a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),

(b) regulations 10(5) or (6) of these Regulations, or

(c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

(a) an active or deferred member would otherwise have relevant Scheme membership;

(b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

(f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

(g) for paragraph (2)(b) substitute—

"(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";

(h) after paragraph 2(b) insert—

"(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."

(i) after paragraph 2 insert—

"(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

(a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

(b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."

(j) for paragraph (3) substitute—

"(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."

(k) for paragraph (4) substitute—

"(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."

(l) after paragraph (4) insert—

"(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."

(m) for paragraph (5) substitute—

"(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

(n) in paragraph (5)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(o) in paragraph (5)(b) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(p) after paragraph (5) insert—

"(5A) Where the member's pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022.

(5B) Where a member's underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

(q) for paragraph (6) substitute—

"(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if–"

(r) in paragraph (6)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(s) in paragraph (6)(b)(iii)—

(i) substitute "the member's assumed benefits" with "the member's provisional assumed benefits";

(ii) at the end add "but limited to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022"

(t) after paragraph (6) insert—

"(6A) Where a member's underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

"(7) Subject to paragraph (8) a member's underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—

(a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;

(b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;

(c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;

(d) the date the member receives payment under regulation 34 of the 2013 Regulations;

(e) the date the member transfers their benefits out of the 2013 Regulations following;

(i) an application made under regulation 96 of the 2013 Regulations; or

(ii) by virtue of regulation 98 of the 2013 Regulations.

(f) the date a member dies.

(8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

(9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.

(10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.

(11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.

(12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.

(13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971([60]) between a member's underpin date and their underpin crystallisation date; and

(b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or

(b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

([60]) 1971 c. 56.

(18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000([61]) is not to be treated as a member's underpin date or underpin crystallisation date.

(19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.

(20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.

(21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

| *2013 Regulation* | *Rate* |
|---|---|
| 41(4) | 49/160 |
| 42(4) | 49/320 |
| 42(5) | 49/160 |
| 42(9) | 49/240 |
| 42(10) | 49/120 |
| 44(4) | 49/160 |
| 45(4) | 49/320 |
| 45(5) | 49/160 |
| 45(9) | 49/240 |
| 45(10) | 49/120 |
| 47(4) | 49/160 |
| 48(4) | 49/320 |
| 48(5) | 49/160 |
| 48(9) | 49/240 |
| 48(10) | 49/120 |

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

*Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

*Name*
Parliamentary Under Secretary of State
Date
Ministry of Housing, Communities and Local Government

([61]) S.I. 2000/1052.

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations"). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

# Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

### The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
    - the date they leave active service with an immediate or deferred entitlement to a pension,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
    - was active in the LGPS on 31st March 2012,
    - had membership of the 2014 Scheme, and
    - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
    - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly[62], the career average benefits they have accrued in the 2014 Scheme over the underpin period[63], and
    - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period[64].

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[62] For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.
[63] The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.
[64] If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.

- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount[65]. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.

- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:

  - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:

    - the date they leave active service,

    - the date they reach their 2008 Scheme NPA, or

    - the date they die.

  - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:

    - the date they leave active service,

    - the date they reach their 2008 Scheme NPA, or

    - the date they die.

- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

[65] Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

**The underpin crystallisation date – proposed approach**

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.

- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general[66], a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:

    - the date a member takes voluntary payment of their pension, at any age between 55 and 75,

    - the date a member takes flexible retirement,

    - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,

    - the date a member retires on ill-health grounds,

    - the date a member transfers out or trivially commutes their benefits, or

    - the date a member dies.

- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

| **Circumstance giving rise to a member's underpin crystallisation date** | **How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date** |
|---|---|

[66] An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

| | |
|---|---|
| Voluntary age retirement or flexible retirement | • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and<br><br>• To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes. |
| Redundancy[67] and ill-health pension being paid (from active or deferred status) | • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and<br><br>• To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme. |

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.

- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:

    - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
    - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
    - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

[67] Including termination on grounds of business efficiency

# Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age (‘SPa’)
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

# Example 1 (retirement at age 65)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

| 2014 Scheme (age 65): | 2008 Scheme (age 65): |
|---|---|
| £6,100 pa | £6,060 pa |

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required.**

## Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

| 2014 Scheme (age 65): | 2008 Scheme (age 65): |
|---|---|
| £6,100 pa | £6,670 pa |

The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required**.** The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

# Example 2 (retirement at SPa)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| **2014 Scheme** | **2008 Scheme** |
|---|---|
| 1/49th of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

| 2014 Scheme (age 65): £6,770 pa | 2008 Scheme (age 65): £6,060 pa |
|---|---|

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

| 2014 Scheme (SPa): £7,040 pa | 2008 Scheme (SPa): £6,770 pa |
|---|---|

For this member **no underpin addition** would be required.

## Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

| 2014 Scheme (age 65): £6,770 pa | 2008 Scheme (age 65): £6,670 pa |
|---|---|

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be untaken when the member takes their pension at their underpin crystalisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

| 2014 Scheme (SPa): £7,040 pa | 2008 Scheme (SPa): £7,440 pa |
|---|---|

# Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

| 2014 Scheme (age 60): £4,350 pa | 2008 Scheme (age 60): £4,070 pa |
|---|---|

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

## Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

| 2014 Scheme (age 60): £4,350 pa | 2008 Scheme (age 60): £4,460 pa |
|---|---|

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required**.** The 2014 Scheme benefit would be increased by £110 pa.

# Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| **2014 Scheme** | **2008 Scheme** |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58,** the pensions over the underpin period would be as follows:

| 2014 Scheme: | 2008 Scheme: |
|---|---|
| £5,890 pa | £4,930 pa |

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,040 pa | £6,320 pa |

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

## Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

| 2014 Scheme: | 2008 Scheme: |
|---|---|
| £6,040 pa | £5,670 pa |

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,220 pa | £7,270 pa |

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

# Example 5 (retirement from deferment #2)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, **an additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63,** the relative pensions over the underpin period would be as follows:

| 2014 Scheme: | 2008 Scheme: |
|---|---|
| £6,830 pa | £6,870 pa |

In this example there is a **'provisional guarantee amount'** of £40 pa**.**

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known.  In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,390 pa | £7,980 pa |

This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £490.  The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

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HM Treasury

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## Response to the consultation

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# Contents

# Chapter 1

# Introduction

1.1 The government published a consultation on 10 April 2019 seeking views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed on 3 July 2019.

1.2 The consultation received around 600 responses.

1.3 These responses highlighted complexities different bodies and workforces may experience in applying the regulations. We are extremely grateful for all responses received and the government will continue to refer to them whilst finalising the regulations.

1.4 The draft documents that were consulted on including: regulations, guidance document, consultation document and directions, can be found here.

1.5 Based on responses to the consultation, the government will make revisions to the regulations and guidance, as explained below. The final versions of these documents will be published at a later date.

1.6 The government will take forward these proposals through secondary legislation in the form of affirmative regulations. The final regulations will include details on when the cap will come into force.

# Chapter 2

# Summary of policy

2.1 The Small Business, Enterprise and Employment Act 2015 ('the 2015 Act') as amended by the Enterprise Act 2016 ('the 2016 Act) provides the power for HM Treasury to make regulations implementing a £95,000 cap on exit payments in the public sector.

2.2 The cap of £95,000 will apply to the aggregate sum of payments made in consequence of termination of employment. The relevant payments in scope remain the same as in the regulations published on 10 April 2019.

2.3 The cap also applies where two or more relevant public sector exits occur in respect of the same person within any period of 28 consecutive days. The total amount of all exit payments made to that person must not exceed £95,000.

2.4 Following consultation, the government has decided to no longer implement the cap in two stages and will instead capture the whole public sector as soon as possible, with few exceptions. The final schedule listing all public sector bodies the cap will apply to is contained within the regulations.

2.5 The Scottish Government introduced a £95,000 cap on exit payments made by devolved bodies in September 2019 by updating the Scottish Public Finance Manual.

2.6 The guidance and directions published at consultation set out circumstances and the process for when the mandatory waiver must be used to relax the cap, and the discretionary waiver can be used. Any relaxation outside of the circumstances outlined in the directions can only be done with HM Treasury consent. Updated versions of these documents will be published alongside the final regulations.

2.7 The power to relax the cap may be exercised by a Minister of the Crown, unless the regulations provide for that power to be exercised ay another person.

2.8 Updated regulations and guidance documents will be published alongside the regulations coming into force.

2.9 The government remains committed to ensuring exit payments can be recovered when high-paid public servants move between jobs and will take forward further regulations in due course.

# Chapter 3
# Consultation response

3.1 This document forms the government response to the consultation on the regulations to implement the public sector exit payment cap.

3.2 Section 1 of this chapter reviews responses to consultation questions 1, 2 and 3, focusing on public sector organisations within scope of the exit payment cap.

3.3 Section 2 of this chapter reviews responses commenting on payments in scope of the cap.

3.4 Section 3 of this chapter reviews responses to consultation questions 4, 5 and 6, focusing on the guidance and the waiver process.

3.5 Section 4 of this chapter reviews responses to consultation questions 7 and 8, regarding the impact of the cap.

3.6 Section 5 of this chapter details other drafting changes made during and as a result of the consultation process.

## Section 1: Bodies in scope

### Summary of responses

3.7 The majority of respondents agreed that draft schedule 1 accurately captured the public sector bodies and office holders intended.

3.8 A significant amount of responses did not agree with the staged approach and believed the cap should apply to the whole of the public sector immediately. Some respondents also subsequently disagreed with the proposed exemptions for the Armed Forces, the Secret Intelligence Service, the Security Service, and Government Communications Headquarters.

3.9 Other responses requested additional exemptions for particular bodies for other reasons, including the government's typical role in overseeing the organisation and the contractual nature of the relationship between the individuals and the employer.

3.10 Some responses expressed concern that a newly created public sector body will not be in scope until it has been added to the schedule.

### Government response

3.11 Following consultation, the government has decided to no longer proceed with a staged approach. The cap will now apply across all of the public sector when implemented. This approach will ensure that the cap applies where intended to ensure value for money as soon as feasible.

3.12 The final schedule listing all public sector bodies the cap will apply to will be published at a later date ahead of the regulations coming into force.

3.13 The Armed Forces, the Secret Intelligence Service, the Security Service, and Government Communications Headquarters will continue to be exempted due to the unique natures of the careers of their staff and the core role of compensation and resettlement packages within remuneration arrangements. The government expects that these bodies will ensure they are making value for money exit payments that are fair to the taxpayer.

3.14 The Royal Bank of Scotland Group plc, NRAM Limited, and Bradford & Bingley will be excluded from the scope of the regulations. Government intervened in these firms to protect financial and economic stability, with policy being to return them to the private sector when it represents value for money to do so and market conditions allow. Excluding these firms is deemed to be proportionate to ensure Government can exit its temporary ownership of these companies in a way that represents value for money.

3.15 The power to make regulations implementing a cap is provided in the 2015 Act as amended by the 2016 Act and as a result the cap will take precedence over existing contractual agreements where they are less stringent than the exit payment cap regulations.

3.16 The schedule will be kept under review to assess whether any further bodies should be added, including as a result of Machinery of Government changes. It is our expectation that government departments will inform HM Treasury of any new bodies which should be in scope of the cap, and if any bodies listed on the schedule cease to exist.

## Section 2: Payments in scope

### Summary of responses

3.17 Respondents generally did not comment on the overall list of exit payments in scope.

3.18 A significant amount of responses, however, expressed concern over the inclusion of employer funded early access to pensions (pension top-up payments) within scope of the exit payment cap and how this could affect long serving lower earning employees. Some also argued that this would be discriminatory towards older workers.

3.19 Respondents welcomed the exemption for specific payments connected to the Firefighters Pension Scheme.

3.20 Some responses requested clarity on the order in which payments should be capped.

### Government response

3.21 The government believes it is right to include all payments related to exit within scope of the cap. The option of employer-funded early retirement is often the most costly element of an exit payment and is ultimately funded by the taxpayer so it is right that it is included.

3.22 The government has expressed its expectation that pension schemes, employment contracts, and compensation schemes will be amended to reflect the introduction of the cap. The exit payment cap legislation will allow relevant employers and authorities to pay the pension scheme member an equivalent sum if the pension scheme has not been amended to reflect the introduction of the cap. Any further changes should be taken forward by the relevant scheme and sponsoring department.

3.23 The government has reviewed payments exempt from the cap and believes it is fair and consistent to also exempt payments made in respect of injury to feelings.

3.24 The order in which payments made in respect of an exit are to be capped has not been prescribed with the exception relating to multiple exit payments made by an employer which includes a statutory redundancy payment. This allows employers and employees discretion and flexibility based on individual circumstances. Individuals are entitled to receive their full statutory redundancy sum and our expectation is that, in the majority of cases, employers would cap the contractual redundancy lump-sum in excess of the statutory entitlement to allow for the full pension top up and statutory redundancy to be paid.

# Section 3: Waiver

## Summary of responses

3.25 Respondents were typically welcoming of the inclusion of a discretionary waiver but questioned how the overall waiver system would work in practice. This was particularly the case for local authorities, where the power to waive the cap is delegated to full council, who raised concerns over how long the process would take.

3.26 Respondents confirmed the guidance was clear on how to apply the waiver in the case of whistleblowers. Many responses highlighted that the mandatory waiver for discrimination and whistleblowing claims should also be extended to health and safety related detriment and unfair dismissal claims.

3.27 Respondents that commented on the mandatory waiver for workers transferred under TUPE were welcoming of this being included within scope of the relaxation criteria.

## Government response

3.28 The waiver process is designed to ensure that the cap can be relaxed in exceptional circumstances where it is necessary or desirable. The government is committed to making the process for considering waivers efficient in order to not cause any unnecessary delays for public sector employers and employees, whilst ensuring that cases receive sufficient and appropriate scrutiny.

3.29 The waiver process has been designed to ensure there is accountability for the way the waiver is being used at all stages, therefore it's appropriate that uses of the waiver receive ministerial clearance. If needed, further guidance may be provided by the sponsoring department or employer.

3.30 The government will provide policy direction in the published guidance document, however, employers should consult legal advisors on specific cases, including with regards to the mandatory TUPE waiver, once the cap comes into force.

3.31 The government agrees that the mandatory waiver should be extended to include health and safety related detriment and unfair dismissal claims and will update the directions to reflect this.

3.32 The mandatory waiver provisions in the directions made under the regulations will also be extended to employees of UK Asset Resolution (UKAR) if necessary in due course. The waiver will cover any payment on account of dismissal by reason of redundancy. Other exit related payments to UKAR employees, such as payment in lieu of notice, will remain in scope of the cap. This is on the basis that UKAR may need to make redundancy payments in the future as part of its activities to wind down the government's holdings in NRAM Limited and Bradford & Bingley. The guidance and directions will be updated when required to reflect this.

# Section 4: Impacts

## Summary of responses

3.33 Responses raised concern that the government had not published an equalities impact assessment since the previous consultation in 2016.

3.34 A significant amount of responses raised concerns that there was no provision to uprate the £95,000 figure over time. They flagged that this would lead to more lower earning employees being captured. Many suggested index linking the cap with the rate of inflation.

## Government response

3.35 An impact assessment was conducted ahead of the passage of the primary legislation and published along with the consultation on the primary legislation. An updated assessment has been conducted based on the final regulations amended in line with this consultation response. This updated impact assessment will be published with the final guidance alongside the regulations coming into force.

3.36 The primary legislation allows the government to change the level of the cap through further secondary legislation. Whilst we do not propose to change the level of the cap at this stage, the level of the cap will be kept under review in order to allow for a flexible approach to make decisions on the level of the cap with reference to full contextual factors.

## Section 5: Regulations

3.37 The government will publish updated regulations and guidance documents alongside the regulations coming into force. These documents will take into account the detailed responses provided by stakeholders as part of the consultation process.

3.38 Respondents highlighted discrepancies between the draft regulations and draft guidance which have been amended to ensure clarity.

3.39 We have adjusted the guidance to clarify that the only part of any payment in lieu of notice that will be capped is the amount that exceeds a quarter of the individuals' salary.

# Annex A

# List of respondents

The following organisations submitted responses to the consultation:

Arun District Council
Aylesbury Vale District Council
Barnsley Metropolitan Borough Council
Basildon Borough Council
Bedford Borough Council
Birmingham City Council
Blackburn with Darwen Borough Council
Blaenau Gwent County Borough Council
Bracknell Forest Council
Brent Council
Bridgend County Borough Council
Bristol City Council
Broxtowe Borough Council
Buckinghamshire County Council
Bury Council
Cambridge City Council
Cambridgeshire County Council
Canterbury City Council
Carmarthenshire County Council
Chelmsford City Council
Cheltenham Borough Council
Cheshire East Council
Cheshire West and Chester Council
Chiltern and South Bucks District Councils
City of Lincoln Council
City of Wolverhampton Council
Colchester Borough Council
Cornwall Council
Costessey Town Council
Cotswold District Council
Crawley Borough Council
Cumbria County Council
Darlington Borough Council
Daventry District Council
Derby City Council
Derbyshire County Council
Devon County Council
East Midlands Councils
East Riding of Yorkshire Council
East Staffordshire Borough Council
East Sussex County Council
Eastbourne Borough Council
Erewash Borough Council
Exeter City Council
Flintshire County Council
Forest of Dean District Council
Gateshead Council
Gedling Borough Council
Gloucester City Council
Greater London Authority
Guilford Borough Council
Gwynedd Council
Hampshire County Council
Hartlepool Borough Council
Huntingdonshire District Council
Kent County Council
Kettering Borough Council
Lancashire County Council
Leeds City Council
Lincolnshire County Council
London Borough of Camden
London Borough of Enfield
London Borough of Hackney
London Borough of Hammersmith and Fulham
London Borough of Havering
London Borough of Tower Hamlets
Manchester City Council
Melton Borough Council
Middlesbrough Council
Milton Keynes Council
Monmouthshire County Council
Neath Port Talbot County Borough Council
Newcastle City Council
Newport Pagnell Town Council
North East Lincolnshire Council
North Kesteven District Council
North Lincolnshire Council
North Tyneside Council
North Yorkshire County Council
Northamptonshire County Council

Oldham Council
Oxfordshire County Council
Peterborough City Council
Plymouth City Council
Portsmouth City Council
Redcar and Cleveland Borough Council
Rhondda Cynon Taf Council
Ribble Valley Borough Council
Rotherham Metropolitan Borough Council
Royal Borough of Kensington and Chelsea
Royal Borough of Windsor and Maidenhead
Rushcliffe Borough Council
Rushmoor Borough Council
Salford City Council
Sefton Council
Selby District Council
Sevenoaks District Council
Shropshire Council
South Hams District Council
South Somerset District Council
South Tyneside Council
St Albans City and District Council
Liverpool City Council
Staffordshire County Council
Stockton-on-Tees Borough Council
Suffolk County Council
Sunderland City Council
Surrey County Council
Swansea Council
Teignbridge District Council
Thanet District Council
West Devon Borough Council
West Oxfordshire District Council
West Suffolk Council
West Sussex County Council
Westminster City Council
Worcester City Council
Worcestershire County Council
Wyre Borough Council
Wyre Forest District Council

Association of Local Authority Chief Executives and Senior Managers
Association of School and College Leaders
British Dental Association
British Medical Association
Chartered Society of Physiotherapy
FDA
Federation of Clinical Scientists
Fire Brigades Union
GMB
GMB – Dudley branch
GMB – Halton branch
GMB - Merthyr Tydfil County Borough branch
GMB – North West Ambulance branch
GMB - Rhondda Cynon Taff branch
GMB – Sefton branch
GMB – West Yorkshire Police branch
GMB – Yorkshire and North Derbyshire branch
Managers in Partnership
National Association of Head Teachers
National Education Union
Prospect
Prospect – Magnox Ltd branch
Public and Commercial Services Union
Royal College of Nursing
The National Association of Schoolmasters Union of Women Teachers
Trades Union Congress
Transport Salaried Staffs' Association
UNISON
UNISON - Cambridge City & South
UNISON – Gateshead branch
UNISON – Haringey branch
UNISON – Harrogate branch
UNISON – Knowsley branch
UNISON – Solihull branch
UNISON – Worcestershire branch

Chief Police Officers Staff Association
Civil Nuclear Constabulary branch of the Police Superintendents Association
Gwent Police
Hampshire Constabulary
Lancashire Constabulary
Leicestershire & Northamptonshire Police
Metropolitan Police Service
National Police Chiefs' Council
Nottinghamshire Police & Crime Commissioner
Office of the Police and Crime Commissioner for Hampshire
Police Advisory Board for England and Wales
Police and Crime Commissioner for Dyfed-Powys Dafydd Llywelyn
Police and Crime Commissioners Treasurers' Society

Police Federation of England and Wales
Police Superintendents' Association
South Wales Police
West Yorkshire Police

All Wales Workforce and OD Directors Peer Group
NHS Employers
Nursing and Midwifery Council
York Teaching Hospital NHS Foundation Trust

Anthony Collins Solicitors
Association of Pension Lawyers
Barnett Waddingham LLP
Birmingham Law Society
Employment Lawyers Association
Eversheds Sutherland LLP
Hymans Robertson
Lawyers in Local Government

Bedfordshire Fire and Rescue Service
Cambridgeshire Fire and Rescue Service
East Sussex Fire and Rescue Authority
Essex Fire and Rescue Service
Fire Officers Association
Firefighters (England) Pension Scheme Advisory Board
Hampshire Fire and Rescue Authority
Hereford & Worcester Fire and Rescue Service
Kent and Medway Fire and Rescue Authority
Lancashire Fire & Rescue Service
London Fire Commissioner
National Fire Chiefs Council
North Wales Fire and Rescue Service
Nottinghamshire Fire and Rescue Service
Royal Berkshire Fire Authority
Shropshire Fire and Rescue Service
Staffordshire Fire and Rescue Service
Suffolk Fire and Rescue Service
West Midlands Fire Service

Avon Pension Fund
Bedfordshire Pension Fund
Buckinghamshire County Council Pension Fund
Cambridgeshire Pension Fund
Cheshire Pension Fund
Clwyd Pension Fund
Cornwall Pension Fund
Cumbria Local Government Pension Scheme Pension Committee
Dorset County Pension Fund
Essex Pension Fund
Greater Manchester Pension Fund
Gwynedd Pension Fund
Hampshire Pension Fund
Lincolnshire Pension Fund
Local Government Pension Scheme Advisory Board
London Borough of Hackney Pension Fund
Merseyside Pension Fund
Northamptonshire Pension Fund
Royal County of Berkshire Pension Fund
Shropshire County Pension Fund
Suffolk Pension Fund
The City & County of Swansea Pension Fund
The Pensions Regulator
Tyne and Wear Pension Fund
West Midlands Pension Fund
Wiltshire Pension Fund

Children and Family Court Advisory and Support Service
Civil Nuclear Constabulary
Department for Work and Pensions
HM Prison and Probation Service
National Gallery
Network Rail Limited
Post Office Limited
TaxPayers' Alliance
Transport for London
Valuation Tribunal Service

Auditor General for Wales
Cavendish Learning Trust
Cornwall College
District Councils Network
East of England Local Government Association
Heads of Human Resources Network for London Councils
Local Government Association
North West Employers
North West Employers – Greater Manchester authorities
Publica Group Limited
Society of District Council Treasurers
Society of London Treasurers
Solace

Solace Wales
South East Employers
South West Councils
St Leger Homes of Doncaster Ltd
The Gateshead Housing Company
Welsh Local Government Association
West Midlands Employers
Yorkshire & Humber Employers Association
Yorkshire Dales National Park Authority

Local Government Pensions Committee
Secretary, Lorraine Bennett

# LGPC Bulletin 195 – Annual Update March 2020

This bulletin sets out the rates and bands that apply from April 2020 for various purposes. Please email rachel.abbey@local.gov.uk with any comments about the contents of this bulletin. You can find LGPC contacts at the end of this document.

## Contents

## Employee contribution rates – England and Wales

The table below shows the pay ranges and corresponding employee contribution rates that apply to the LGPS in England and Wales from 1 April 2020.

**Table 1: Employee contribution bands England and Wales 2020/21**

| Band | Actual pensionable pay for an employment | Main section contribution rate for that employment | 50/50 section contribution rate for that employment |
|---|---|---|---|
| 1 | Up to £14,600 | 5.50% | 2.75% |
| 2 | £14,601 to £22,800 | 5.80% | 2.90% |
| 3 | £22,801 to £37,100 | 6.50% | 3.25% |
| 4 | £37,101 to £46,900 | 6.80% | 3.40% |
| 5 | £46,901 to £65,600 | 8.50% | 4.25% |
| 6 | £65,601 to £93,000 | 9.90% | 4.95% |
| 7 | £93,001 to £109,500 | 10.50% | 5.25% |
| 8 | £109,501 to £164,200 | 11.40% | 5.70% |
| 9 | £164,201 or more | 12.50% | 6.25% |

Employers must determine the employee contribution rate for each employee from 1 April 2020 and inform payroll. The process for allocating contribution rates may have been automated on the payroll system. Any reduction in pensionable pay due to sickness, child related leave, reserve forces services leave or other absence from work should be ignored when setting the employee contribution rate.

An employer may decide to change an employee's contribution band during a Scheme year if their pay changes. You can read more information about allocating an employee to a contribution band each April and when their pay changes in section 10 of the HR guide and section 5.1 of the Payroll guide. You can find both guides on the Guides and sample documents page of www.lgpsregs.org.

## Employee contribution rates – Scotland

The contribution rates applicable to specified pay bands are set out in statutory guidance issued by Scottish Ministers. The following pay ranges and employee contribution rates apply to the LGPS in Scotland from 1 April 2020.

**Table 2: Employee contribution rates Scotland 2020/21**

| Contribution rate | Actual Pay Min | Actual Pay Max | Contribution rate | Actual Pay Min | Actual Pay Max |
|---|---|---|---|---|---|
| **5.5%** | Up to | 22,852 | **8.4%** | 64,090 | 65,894 |
| **5.6%** | 22,853 | 24,281 | **8.5%** | 65,895 | 67,804 |
| **5.7%** | 24,282 | 25,900 | **8.6%** | 67,805 | 69,828 |
| **5.8%** | 25,901 | 27,443 | **8.7%** | 69,829 | 71,976 |
| **5.9%** | 27,444 | 28,519 | **8.8%** | 71,977 | 74,261 |
| **6.0%** | 28,520 | 29,683 | **8.9%** | 74,262 | 76,696 |
| **6.1%** | 29,684 | 30,946 | **9.0%** | 76,697 | 79,296 |
| **6.2%** | 30,947 | 32,322 | **9.1%** | 79,297 | 82,078 |
| **6.3%** | 32,323 | 33,825 | **9.2%** | 82,079 | 85,063 |
| **6.4%** | 33,826 | 35,475 | **9.3%** | 85,064 | 88,273 |
| **6.5%** | 35,476 | 37,262 | **9.4%** | 88,274 | 91,735 |
| **6.6%** | 37,263 | 38,570 | **9.5%** | 91,736 | 95,479 |
| **6.7%** | 38,571 | 39,972 | **9.6%** | 95,480 | 99,542 |
| **6.8%** | 39,973 | 41,481 | **9.7%** | 99,543 | 103,966 |
| **6.9%** | 41,482 | 43,107 | **9.8%** | 103,967 | 108,802 |
| **7.0%** | 43,108 | 44,867 | **9.9%** | 108,803 | 114,109 |
| **7.1%** | 44,868 | 46,776 | **10.0%** | 114,110 | 119,961 |
| **7.2%** | 46,777 | 48,855 | **10.1%** | 119,962 | 126,445 |
| **7.3%** | 48,856 | 50,306 | **10.2%** | 126,446 | 133,671 |
| **7.4%** | 50,307 | 51,412 | **10.3%** | 133,672 | 141,772 |
| **7.5%** | 51,413 | 52,567 | **10.4%** | 141,773 | 150,919 |
| **7.6%** | 52,568 | 53,775 | **10.5%** | 150,920 | 161,327 |
| **7.7%** | 53,776 | 55,041 | **10.6%** | 161,328 | 173,277 |
| **7.8%** | 55,042 | 56,367 | **10.7%** | 173,278 | 187,140 |
| **7.9%** | 56,368 | 57,759 | **10.8%** | 187,141 | 203,413 |
| **8.0%** | 57,760 | 59,221 | **10.9%** | 203,414 | 222,785 |
| **8.1%** | 59,222 | 60,759 | **11.0%** | 222,786 | 246,236 |
| **8.2%** | 60,760 | 62,380 | **11.1%** | 246,237 | 275,205 |
| **8.3%** | 62,381 | 64,089 | **11.2%** | 275,206 | and above* |

For members in the 50/50 section, divide the appropriate rate by two.

** Contribution rates will increase beyond 11.2% of pay for higher salaries, but SPPA were not asked to provide bands above 11.2%.*

Employers must determine the employee contribution rate for each employee from 1 April 2020 and inform payroll. The process for allocating contribution rates may have been automated on the payroll system. Any reduction in pensionable pay due to sickness, child related leave, reserve forces services leave or other absence from work should be ignored when setting the employee contribution rate.

An employer may decide to change an employee's contribution band during a Scheme year if their pay changes. You can read more information about allocating an employee to a band each April and when their pay changes in section 10 of the HR guide and section 5.1 of the Payroll guide. You can find both guides on the Guides and sample documents page of www.scotlgpsregs.org.

## Additional pension limit for 2020/21 in England and Wales

Regulations 16(6) and 31(2) of the LGPS regulations 2013 state that the additional pension limit increases on 1 April each year as if it were a pension beginning on 1 April 2013 to which the Pensions (Increase) Act 1971 applied.

The increase due on 1 April 2020 is the increase that applied on 8 April 2019 (as the 2020 increase does not take effect until 6 April 2020). The additional pension limit of £7,026 that applied in 2019/20 is increased by 2.4% to £7,194 from 1 April 2020.

## Additional pension limit for 2020/21 in Scotland

Regulations 16(6) and 30(2) of the LGPS (Scotland) Regulations 2018 state that the additional pension limit is increased on 1 April each year as if it were a pension beginning on 1 April 2015 to which the Pensions (Increase) Act 1971 applied.

The pensions increase due on 1 April 2020 is that from 8 April 2019 (as the 2020 increase does not take effect until 6 April 2020). The additional pension limit of £6,761 is increased by 2.4% to £6,923 from 1 April 2020.

## Annual and lifetime allowance limits from 6 April 2020

The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2020 [SI 2020/342] amend the lifetime allowance limit to £1,073,100 from 6 April 2020.

The standard annual allowance, defined in section 228 of the Finance Act 2004, is unchanged at £40,000 for 2020/21.

Annual allowance taper provisions will change from 6 April 2020. From that date, a member's pension growth will be measured against a tapered annual allowance if their Threshold income is more than £200,000 and their Adjusted income is more than £240,000.

The minimum tapered annual allowance will reduce from £10,000 to £4,000. This means that a member with Adjusted income of £312,000 or more will have their pension growth measured against the new minimum annual allowance of £4,000.

These changes were announced in the Budget 2020 and are contained in The Finance Bill 2019-21 which was given its first reading in the House of Commons on 17 March 2020.

## Automatic enrolment earnings bands

All employers will need to know the earnings bands that apply for 2020/21 for the purposes of automatic enrolment under the Pensions Act 2008. The Department for Work and Pensions (DWP) published Automatic enrolment: review of the earnings trigger and qualifying earnings band for 2020/21 on 27 February 2020. The tables below show the limits that apply for the 2020/21 year. Please note that the earnings trigger of £10,000 is unchanged since the 2015/16 year.

**Table 3: Automatic enrolment (AE) earnings bands 2020/21**

| Earnings** | Age 16-21 | Age 22 to <SPA* | Age SPA* to <75 |
|---|---|---|---|
| Under lower earnings threshold (£6,240***) | Entitled worker | Entitled worker | Entitled worker |
| Between £6,240*** and £10,000 | Non-eligible jobholder | Non-eligible jobholder | Non-eligible jobholder |
| Over earnings trigger for automatic enrolment (£10,000) | Non-eligible jobholder | Eligible jobholder | Non-eligible jobholder |

* State Pension Age
** Earnings: separate contracts are treated separately
*** To align with National Insurance contributions lower earnings limit

**Table 4: AE earnings bands per period**

| Pay reference period | Lower earnings threshold | Earnings trigger for automatic enrolment |
|---|---|---|
| Annual | £6,240.00 | £10,000.00 |
| 6 months | £3,120.00 | £4,998.00 |
| 3 months | £1,560.00 | £2,499.00 |
| 1 month | £520.00 | £833.00 |
| 4 weeks | £480.00 | £768.00 |
| 2 weeks | £240.00 | £384.00 |
| 1 week | £120.00 | £192.00 |

The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2020 [SI2020/372] was laid on 1 April 2020.

## National Insurance thresholds

The NI limits and thresholds for 2020/21 are shown in the table below. The limits are set out in The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2020 [2020/299] and take effect from 6 April 2020.

**Table 5: Class 1 National Insurance thresholds 2020/21**

| Class 1 National Insurance thresholds | Threshold per period |
|---|---|
| Lower earnings limit (LEL) | £120 per week<br>£520 per month<br>£6,240 per year |
| Primary threshold (PT) | £183 per week<br>£792 per month<br>£9,500 per year |
| Secondary threshold (ST) | £169 per week<br>£732 per month<br>£8,788 per year |
| Upper secondary threshold (under 21) (UST) | £962 per week<br>£4,167 per month<br>£50,000 per year |
| Apprentice upper secondary threshold (apprentice under 25) (AUST) | £962 per week<br>£4,167 per month<br>£50,000 per year |
| Upper earnings limit (UEL) | £962 per week<br>£4,167 per month<br>£50,000 per year |

**Table 6:**
**Class 1 National Insurance rates, Employee (primary) contribution rates**

| National Insurance category letter | Earnings at or above LEL up to and including PT | Earnings above PT up to and including UEL | Balance of earnings above UEL |
|---|---|---|---|
| A | 0% | 12% | 2% |
| B | 0% | 5.85% | 2% |
| C | nil | nil | nil |
| H (Apprentice under 25) | 0% | 12% | 2% |
| J | 0% | 2% | 2% |
| M (under 21) | 0% | 12% | 2% |
| Z (under 21 – deferment) | 0% | 2% | 2% |

**Table 7:**
**Class 1 National insurance rates, employer (secondary) contribution rates**

| National Insurance category letter | Earnings at or above LEL up to and including ST | Earnings above ST up to and including UEL/UST/AUST | Balance of earnings above UEL/UST/AUST |
|---|---|---|---|
| A | 0% | 13.80% | 13.80% |
| B | 0% | 13.80% | 13.80% |
| C | 0% | 13.80% | 13.80% |
| H (Apprentice under 25) | 0% | 0% | 13.80% |
| J | 0% | 13.80% | 13.80% |
| M (under 21) | 0% | 0% | 13.80% |
| Z (under 21 – deferment) | 0% | 0% | 13.80% |

## Annual Revaluation Order

The full year increase to be applied at one second after midnight on 31 March 2020 to the career average pension earned up to 31 March 2020 is 1.7%. This is set out in The Public Service Pensions Revaluation Order 2020 [SI 2020/230]. You can view the Order on the:

- Related legislation page of www.lgpsregs.org – LGPS England & Wales, or
- Related legislation page of www.scotlgpsregs.org – LGPS Scotland

## Annual Pensions Increase

LGPS administering authorities must increase a qualifying pension from 6 April 2020. Employers who pay their own annual compensation benefits, which relate to historical awards of compensatory added years, must also increase qualifying pensions from 6 April 2020. The increase that applies to pension that began (ie has a pensions increase date) before 8 April 2019 is 1.7%. The percentage and part year percentage increases are detailed in The Pensions Increase (Review) Order 2020 [SI2020/290]. You can find the Order and the multiplier tables on the:

- Related legislation page of www.lgpsregs.org – LGPS England & Wales, or
- Related legislation page of www.scotlgpsregs.org – LGPS Scotland

## Retail Prices Index (RPI) Increase

The annual increase that applies to any additional pension purchased under an Additional Regular Contributions contract that started between 1 April 2008 and 31 March 2012 is based on RPI in the previous September. The increase that applies on 6 April 2020 is 2.4%.

## Annual GMP increase

An increase of 1.7% should be applied from 6 April 2020 to:

- the post-5 April 1988 GMP element of a pension in payment, and
- the pre-6 April 1988 GMP element of a pension in payment if the individual reached SPA after 5 April 2016, provided the member's pension increase (PI) date is 8 April 2019 or earlier.

If the individual reached SPA after 5 April 2016 and their PI date is after 8 April 2019, then a pro-rata increase will apply to the pre-6 April 1988 GMP element of their pension in payment.

The GMP increase is set out in The Guaranteed Minimum Pension Increase Order 2020 [SI2020/235]. You can view the Order on the:

- Related legislation page of www.lgpsregs.org – LGPS England & Wales, or
- Related legislation page of www.scotlgpsregs.org – LGPS Scotland.

You can find out more about how increases are applied to pensions in payment in the Pensions Increase Technical guide published by the LGPC. You can find the guide on the:

- Guides and sample documents page of www.lgpsregs.org, and
- Guides and sample documents page of www.scotlgpsregs.org.

## The Social Security Revaluation of Earnings Factors Order 2020

The Social Security Revaluation of Earnings Factors Order 2020 [SI 2020/193] comes into force on 6 April 2020. The earnings factors are used to calculate a Scheme member's GMP. The percentage increase for the tax year 2020/21 is 4.0%. The increase is based on the increase in the general level of earnings in Great Britain. You can view the Statutory Instrument on the:

- Related legislation page of www.lgpsregs.org – LGPS England & Wales, or
- Related legislation page of www.scotlgpsregs.org – LGPS Scotland.

## Redundancy payments

The Employment Rights (Increase of Limits) Order 2020 [SI 2020/205] comes into force on 6 April 2020. It increases the maximum week's pay for calculating a statutory redundancy payment from £525 to £538 per week if the appropriate date is after 5 April 2020. In the case of entitlement to a redundancy payment by virtue of section 135(1)(a) of the Employment Rights Act 1996 (dismissal by reason of redundancy), the appropriate date means the relevant date as defined by sections 145 or 153 of that Act.

## Actions for administering authorities

Administering authorities may wish to update Scheme literature and guides for employees and employers to reflect the updates in this bulletin. The LGPC leaflets and guides will be updated in the coming weeks. Administering authorities may also wish to send this bulletin to Scheme employers, or direct them to the:

- LGPC bulletins page of www.lgpsregs.org – LGPS England and Wales, or
- LGPC bulletins page of www.scotlgpsregs.org – LGPS Scotland.

## Other information

### Useful links

LGA Pensions page

LGPS members' website – England and Wales

LGPS 2015 members' website – Scotland

LGPS Advisory Board website – England and Wales

LGPS Regulations and Guidance website – England and Wales

LGPS Regulations and Guidance website – Scotland

LGPS Discretions lists all the potential discretions available within the LGPS in England and Wales.

LGPS Discretions lists all the potential discretions available within the LGPS in Scotland.

Recognised Overseas Pension Schemes approved by HMRC and who agreed to have their details published.

The Timeline Regulations for Final Salary Scheme

The Timeline Regulations for Career Average in England and Wales

The Timeline Regulations for Career Average in Scotland

## Pensions Section contact details

If you have a technical query, please email **query.lgps@local.gov.uk** and one of the team's LGPS pensions advisers will get back to you.

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Local Government Association
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London
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or email: query.lgps@local.gov.uk.

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Local Government Pensions Committee
Secretary, Lorraine Bennett

# LGPC Bulletin 196 – March 2020

## Foreword

This bulletin contains important updates for administering authorities, scheme employers and software suppliers. It also provides a general update for all LGPS stakeholders.

This bulletin contains important articles on:

- Coronavirus (COVID-19) resources
- McCloud communication for administering authorities and employers

which need action by certain stakeholders.

If you have any comments or articles for future bulletins, please contact query.lgps@local.gov.uk.

## Index

## Coronavirus (COVID-19) resources

### LGA pensions team

The pensions team is working as normal, albeit we are all working from home. You can contact us by email or on our mobile phones. Video calls can be arranged via MS Teams or Zoom. We have suspended all face to face meetings for the foreseeable future.

We continue to liaise closely with other LGA teams such as workforce, finance and legal in order to deal with issues which require a multi team approach.

### Dedicated COVID-19 web pages

We have set up dedicated COVID-19 news and information pages on both www.lgpsregs.org and www.scotlgpsregs.org. They can be accessed from the homepage of each site.

The news pages contain the latest news and information including links to publications from other organisations such as the Pensions Regulator (TPR) and the Pensions Administration Standards Association (PASA). We will continue to update these pages as things develop, so please check them regularly.

The Scheme Advisory Board to England and Wales also has a dedicated COVID-19 page on www.lgpsboard.org

### FAQs for LGPS administrators

We have published a set of FAQs for administrators – these can be accessed from the news and information pages. We will be adding to these regularly as we receive clarification from Government and other bodies on relevant issues.

**Action for administering authorities**
Please check the 'COVID-19 news and information' page regularly for updates and notifications that the FAQs have been updated.

### FAQs for scheme members

A Coronavirus FAQs document for Scheme members is available to view on the guides and sample documents pages of www.lgpsregs.org and www.scotlgpsregs.org. Each administering authority will need to update the highlighted sections of the document with their own details / information. We would like to thank the Communications Working Group for putting the FAQs together. The FAQs are also available to view on the new 'latest news' section of the member website for England and Wales.

### Surveys

Thank you to all the funds that completed the recent surveys. Both surveys (abatement and LGPS resilience) are now closed. The COVID-19 news and information pages on www.lgpsregs.org and www.scotlgpsregs.org contain a summary of LGPS resilience survey responses.

The LGPS resilience survey asked what issues you would like us to address in the administrator FAQs. Any suggestions that are not already present are under active review. All points raised about regulatory flexibility have been raised with MHCLG and/or TPR.

### Remote working tools

- Microsoft are offering councils who do not already have access to Microsoft Teams or their productivity platform Office 365 a free six month trial of the Office 365 E1 license for unlimited users. Further details of their free tools for councils, which also includes solutions to coordinate and automate emergency responses and help support demands on contact centres, are available on the Microsoft website.
- Skype have a new 'Meet Now' feature, created as a "hassle-free way to connect" with others that doesn't require an account or downloading software. You can simply head over to a web page and start a meeting in a few clicks directly from there, inviting anyone you wish, who can then subsequently join just as easily.

Please note that the LGA does not endorse private companies providing services of this kind nor benefit in any way. We are simply sharing information that may be of interest to LGPS administering authorities.

Finally, we recommend that introducing any new software or technologies is done while bearing in mind the guidance from the National Cyber Security Centre. Their guidance on cloud security and advice on home working is particularly useful at the moment.

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## LGPS England & Wales Scheme Advisory Board (SAB)

### SAB working

Face to face Board and committee meetings are currently suspended; however, the Chair and Vice chair will continue to meet virtually with the secretariat to ensure support for the scheme and contact with relevant Government departments is maintained.

The secretariat remains available by mobile, email or video (MS Teams or Zoom) – contact details are available at the end of this bulletin.

### SAB virtual meeting

A virtual meeting of the chairs of the SAB and its two committees was held on 6 April 2020. The participants were Cllr Roger Phillips (SAB Chair), Jon Richards (UNISON, SAB vice-chair), Cllr Yvonne Johnson (chair of the Investment, Governance and Engagement committee), George Georgiou (GMB, chair of Cost Management, Benefits and Administration committee). Jeff Houston, Bob Holloway and Liam Robson from the Board's Secretariat also participated.

The following points were agreed:

- Hymans Robertson's work on Phase three of the Good Governance project should proceed on a limited basis. It was agreed that the Hymans team should continue to prepare papers for the SAB's consideration based on discussions already undertaken with the implementation group. They should avoid engaging with members of the implementation group, or local government in general at this time.
- the follow-up Local Pension Board survey should not be circulated at the current time.

A summary of the meeting will be circulated to LGPS fund and non-fund contacts in due course.

## COVID-19 practitioner group

To help measure and manage the impact of the COVID-19 on the Scheme's administration, the SAB has set up a COVID-19 practitioner group. The group will be chaired by the Board's practitioner representative, Rachel Brothwood.

The terms of reference include:

- considering queries raised by LGPS administering authorities associated with the impact of the COVID-19 pandemic on pensions administration
- assisting LGA/SAB staff in the delivery of online resources for administrators and employers, as well as scheme members
- advising on further information that could usefully be collected via online surveys
- advising the SAB secretariat on matters that should be referred to MHCLG
- considering and responding to proposals submitted to the group by either the LGA or SAB
- providing a representative (normally the Chair) to participate in weekly practitioner calls with the LGA, SAB, MHCLG and representatives from Scotland and Northern Ireland.

The practitioner group is made up of Rachel Brothwood (WMPF); George Graham (SYPA); Phil Latham (Flintshire); Jo Quarterman (Norfolk); Heather Chambers (Tyne & Wear); Neil Mason (Surrey); Kevin Gerard (Dyfed); Jenna Fisher (NILGOSC); Linda Welsh (Strathclyde) and Glyn Jenkins (UNISON).

The first meeting of the group has been scheduled for 16 April 2020.

## SAB updates on McCloud

**McCloud communication for administering authorities and employers**

On 4 March 2020, the McCloud page of the Scheme Advisory Board's website was updated with a communication for LGPS administering authorities and employers.

As you will be aware, the Government has confirmed that the McCloud judgment applies to all public service pension schemes. Despite this, we are aware that companies are actively encouraging members of these schemes to lodge costly claims. The pensions challenge website is one example of this.

**Action for administering authorities**
Please alert your Scheme employers to this update. It is important that members are made aware that if they qualify for protection it will apply automatically. They do not need to make an employment tribunal claim.

**McCloud Q&A updated**
On 25 March 2020, Lord Agnew made a ministerial statement about the progress toward remedy in public service pension schemes following the McCloud/Sergeant age discrimination case. The statement confirms that no qualifying scheme member will need to make a claim for the remedy to apply to them. The McCloud Q&A for administering authorities was updated on 30 March 2020 to reflect the statement.

### Board statement on LGPS valuations

On 2 April 2020, the Board issued a statement concerning the 2019 valuations and the recent movement in equity markets.

### Cost transparency compliance system now live

On 1 April 2020, the SAB and Byhiras issued a press statement to announce that the Cost Transparency compliance and validation system is now live.

Investment manager and pension fund users have begun to log on and access the system. We will keep you updated on this over the coming months.

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## LGPS England & Wales

### New Minister responsible for the LGPS

Simon Clarke is the new Minister responsible for the LGPS. He replaced Luke Hall MP who was the Minister from July 2019.

### Survivor benefits guide updated

On 13 March 2020, Jayne Wiberg notified administering authorities that version 3.0 of the Survivor Benefits technical guide (clean and tracked) is available to view on the Guides and Sample Documents page of www.lgpsregs.org.

The guide has been updated to take into account the LGPS (Amendment) Regulations 2019 which came into force on 31 December 2019. These regulations provide that the benefits of survivors of opposite sex civil partnerships are equivalent to those paid to widows and widowers, depending on their gender.

### Consultation on the proposed merger of the Northumberland and Tyne and Wear pension funds

On 20 March 2020, MHCLG opened a consultation on the proposed merger of the Northumberland and Tyne and Wear pension funds. The consultation closes on 1 May 2020.

### Regulations on virtual council meetings published

Regulations enabling councils to hold electronic and digital meetings using virtual locations such as internet locations, web addresses or conference call telephone numbers came into force on 4 April 2020.

See regulations 5 and 6 of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

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## LGPS Scotland

### SPPA circulars

**Circular 2020/02**

On 9 March 2020, SPPA issued circular 2020/02 confirming public service pensions indexation. The circular confirms that the following LGPS benefits will both increase by 1.7% in April 2020:

- pensions in payment, and
- active member career average benefits.

**Circular 2020/03**

On 18 March 2020, Roddy MacLeod circulated the tiered contribution rates and guidance for 2020/21. Both the circular and guidance are available to view on the SPPA circulars and guidance page of www.scotlgpsregs.org.

On 1 April 2020, Kimberley Linge (SPPA) contacted all Scottish administering Authorities concerning employee contribution bandings. An employer has contacted SPPA because they are unable to make changes to their system to implement the new tiered contribution rates due to the current remote working arrangements. SPPA has confirmed that, where the contribution rates cannot be amended remotely, that the change can be delayed. Employee contribution rates must be reviewed later in the year, once it is possible to update the system, and any under/over payments corrected.

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## HMT

### Spring Budget
On 11 March 2020, the Chancellor of the Exchequer presented his Budget. He announced:

**Tapered annual allowance**
From 6 April 2020, both threshold income and adjusted income increased by £90,000 to £200,000 and £240,000 respectively. In addition, the minimum tapered annual allowance decreased from £10,000 to £4,000.

**Lifetime allowance (LTA)**
The LTA increased in line with the consumer price index to £1,073,100 with effect from 6 April 2020.

A update from HMRC on these changes can be found in Pension schemes newsletter 118 – this includes a message for your members.

On 13 March 2020, the Government Actuary's Department (GAD) published Budget 2020: a GAD technical bulletin. The bulletin focuses on measures announced in Budget 2020 that are relevant to GAD's advice, including pension taxation.

**Pensions tax relief**
The Government announced a 'call for evidence' on how to address the different outcomes for lower earners, depending on whether pension schemes use the relief at source or net pay method of tax relief. The call for evidence will be published in the spring and will seek views from a wide range of stakeholders on how the two systems could be aligned.

### Consultation on the Reform to Retail Prices Index (RPI) Methodology
On 11 March 2020, the Government and the UK Statistics Authority (UKSA) launched a consultation on UKSA's proposal to address the shortcomings of the Retail Prices Index (RPI) measure of inflation.

The consultation will cover, among other things, the issue of timing, including whether the UKSA's proposal might be implemented at a date other than 2030, and if so, when between 2025 and 2030 and issues on technical matters concerning the implementation of its proposal. The consultation will be open for a period of six weeks, closing on 22 April 2020. The government and UKSA will respond to the consultation before the parliamentary summer recess.

## HMRC

### Tax information and impact note
On 11 March 2020, HMRC published a tax information and impact note about changes to the two income thresholds in calculating the tapered annual allowance and reducing the minimum tapered annual allowance.

### Pensions schemes newsletters

On 28 February 2020 and 26 March 2020, HMRC published pensions schemes newsletters 117 and 118 respectively. Topics of interest include:

- guidance from the Regulator on pension scams
- spring Budget 2020
- temporary changes to pension to processes to help with COVID-19
- annual allowance calculator
- managing Pension Schemes service
- GOV.UK updates
- moving pension recipients from one payroll to another
- pensions Schemes online service.

### Managing Pension Schemes service newsletter – April 2020

On 1 April 2020, HMRC issued the Managing Pension Schemes service newsletter to update stakeholders on the latest news for pension schemes. It has information about:

- Accounting for Tax return launched on the Managing Pension Schemes service
- updated Phase 2 timeline
- further help and information
- how you can help

### Countdown bulletin 52

On 1 April 2020, HMRC published countdown bulletin 52 which contains an update on the timeline for issuing final data cuts.

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## DWP

### Tell Us Once (TUO) – replacement tokens

In last month's bulletin we reported that DWP are in the process of upgrading the tokens used to access online death notifications. They have since announced that, due to COVID-19, they are placing the planned token replacement exercise on hold. This will not have any impact on the current tokens in use which continue to be operational.

Our contact at DWP has asked us to remind you that it is important that all users access the TUO notification service at least once a month to prevent deactivation of their account. It is enough to log into the first screen to keep an account active.

### Tell Us Once – COVID-19

The Tell Us Once service is continuing to operate. Where a local authority can no longer offer face to face death registrations, the requirement for a death informant to attend the register office to provide details and sign the register is removed. If an informant registers the death by telephone or email and they elect to use the TUO service, they will be provided with a unique reference number to enable use of the service online or by telephone.

The GOV.UK website sets out the process and confirms that, from 9 April 2020, the time limit for using the TUO service after registering a death has been extended from 28 days to 84 days.

**Action for administering authorities**
The extended time limit for using the TUO service means that there may a delay in the receipt of death notifications from the TUO service. Although the extension is only temporary, you may wish to review your processes to take this into account.

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## TPO

### COVID-19 update

The Pensions Ombudsman's COVID-19 update confirms that they will not be able to process any new enquiries or complaints whether received by post or email. They will be focusing on existing queries and complaints only during the lockdown period.

They will, wherever possible, use their discretion to extend the three-year time limit for new applicants affected by this period of restricted service.

### The Pensions Ombudsman (TPO) News

TPO issued the eighth edition of 'Pensions Ombudsman News' in April 2020. The newsletter includes:

- the changes to the service TPO is providing due to COVID-19
- MPs event
- a legal update
- website redevelopment

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## TPR

### COVID-19 guidance

TPR's website provides guidance to support trustees, employers and advisers facing difficult decisions and circumstances as a result of COVID-19 (coronavirus).

They have confirmed they will publish further guidance in the coming weeks and months once they have a better idea of the extent of the crisis, its possible impacts and the package of measures that governments and other organisations intend to adopt.

Our COVID-19 FAQs for administrators refers to the guidance where it is applicable to the LGPS.

### Regulators publish warning to savers on increased threat of pension scams

The Financial Conduct Authority (FCA), Money and Pensions Service (MaPS) and The Pensions Regulator (TPR) have warned savers against the rising threat of pension scams amid the current coronavirus crisis.

The regulators issued a joint statement to raise awareness of pension scams, highlighting that the rising levels of vulnerability stemming from COVID-19 lockdown are likely to be targeted by scammers.

They have urged savers not to rush decisions about their pension, pointing consumers to the support services in place, such as the Pensions Advisory Service, Pension Wise and ScamSmart.

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## Other news and updates

### Annual update bulletin

On 31 March 2020, we published bulletin 195 which contains the annual updates for 2020/21. The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2020 [SI2020-372] has since been laid. We have updated bulletin 195 to include details of this Order.

You can find links to all the annual updates legislation on the Related legislation (E&W) and Related Legislation (Scot) pages of the administrator websites.

We will update the member, councillor and employer guides (England and Wales) and factsheets in response to these annual changes in the coming weeks. We are in the process of updating the online calculators.

### Parental Bereavement Leave and Pay

On 30 March 2020, the Parental Bereavement Leave and Pay (Consequential Amendments to Subordinate Legislation) Regulations 2020 [2020/354] were made. The regulations introduce changes to the LGPS Regulations 2013 and the LGPS (Scotland) Regulations 2018 from 6 April 2020 which mean that assumed pensionable pay (APP) will apply during an absence of this type. The England and Wales Timeline Regulations and the Scottish Timeline Regulations have been updated.

The Parental Bereavement (Leave and Pay) Act 2018 provides for at least two weeks' leave for employees following the loss of a child under the age of 18 or a stillbirth after 24 weeks of pregnancy. Employees with 26 weeks' continuous service will be entitled to two weeks of paid leave at the statutory rate and other employees will be entitled to unpaid leave.

The Parental Bereavement Leave Regulations 2020 [2020/249] introduce parental bereavement leave, and the Statutory Parental Bereavement Pay (General) Regulations 2020 [2020/233] introduce parental bereavement pay.

We will update our guides and other resources shortly.

## LGPC minutes published

Draft minutes from the meeting held on 3 February 2020 are now available to view. Updates from the three LGPS schemes and the national LGPS technical group are included. The meeting of 4 May 2020 has been cancelled due to the social distancing measures currently in place.

## National LGPS technical group minutes published

Minutes from the meeting held on 9 March 2020 are now available to view. There are several actions for standing members of the group to communicate to their regional Pensions Officer Group (POG). These actions relate to the CIPFA annual report guidance, the payment date of AVCs and AVC providers. The deadlines for these actions are set out in the minutes.

## National LGPS Frameworks update

On 30 March 2020, Lorraine Bennett forwarded the message below from the National LGPS Frameworks team:

**The team**

The Frameworks team is following Government advice and working from home. If you have a query or wish to get in touch with them, please email: nationalLGPSframeworks@norfolk.gov.uk

**National LGPS Frameworks**

For all current Frameworks' work, this is business as usual including administration to access and use the Frameworks, enquiries and management information requests. With regard to the setting up and re-letting of Frameworks, where possible, this too will be business as usual.

The new Pensions Administration Software Framework is currently on target to go live towards the end of April 2020 as planned.

Regarding the re-lets planned for this year, they are currently taking procurement and legal advice regarding these and looking at options to extend if this is more appropriate. They will update you once they have a clearer picture.

**Current contracts let through the National LGPS Frameworks**
The Cabinet Office's Procurement Policy Note - Responding to COVID-19 provides that, due to exceptional circumstances and the unpredicted situation we find ourselves in, you can extend your contracts beyond the maximum date set in the framework agreement (see pages 6 and 7). Obviously, this must be in agreement with your own procurement and legal teams.

### GAD newsletter
The Government Actuary's Department (GAD) issued the spring edition of its newsletter on 9 March 2020. This is an informal update on what is happening within the PSPS area of GAD and includes articles about current hot topics.

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## Training
Our face to face training programme has been put on hold due to the COVID-19 pandemic. The courses below have all been cancelled and re-arranged for later in the year. All delegates should have received a notification of this. If you have any queries about training you have already booked please email elaine.english@local.gov.uk.

Employer role – 17, 24, 31 March and 7 April 2020
Death and survivor benefits - 16, 21, 23, 30 April and 5 May 2020
Insight residential course (Bournemouth) – 18-21 May 2020

We are currently working on online employer training, including a COVID-19 webinar for employers. We will update you on this in due course.

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## Wider landscape

### Aligning pension schemes with TCFD recommendations consultation
On 12 March 2020, the Pensions Climate Risk Industry Group published a consultation on non-statutory guidance for occupational pension schemes on assessing, managing and reporting climate-related risks in line with the Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. The consultation closing date has been extended from 7 May 2020 to 1:45pm on 2 July 2020.

### Government withdraws increase to general levy on pensions
On 27 March 2020, the Government responded to the Occupational and Personal Pension Schemes (General Levy) review 2019 consultation. The response confirms that, given the unprecedented circumstances following the coronavirus (COVID-19) outbreak, they have laid an order to revoke these Regulations. The levy rates will, therefore, not increase on 1 April 2020.

The Government will now focus on reviewing the structure of the levy and will be engaging with industry over the course of the next few months. This levy is paid by DWP on behalf of LPGS funds.

### PASA delays deadline for DB Transfers Code consultation

PASA has announced that the closing date for responses to its DB Transfers Code of Good Practice Consultation will be delayed in light of the current situation regarding COVID-19. The original deadline for responses was the end of April but this has now been postponed until 30 September 2020, with the final Code being released by the end of the year.

### FCA delays changes to DB transfer rules

The Financial Conduct Authority (FCA) has delayed the implementation of its proposed changes to defined benefit (DB) pension transfers by up to six months.

The implementation of proposals to reform DB transfer advice, including plans to ban contingent charging and introduce abridged advice, had been expected ‘in the first quarter of 2020’ following an industry-wide consultation.

However, FCA’s website has now been updated to say ‘we will publish our finalised handbook text in a policy statement in the second quarter or third quarter of 2020’.

## Legislation

### Acts

Coronavirus Act 2020

### Statutory Instruments

The Parental Bereavement Leave and Pay (Consequential Amendments to Subordinate Legislation) Regulations 2020 [2020/354]

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 [2020/392]

The Parental Leave Regulations 2020 [2020/249]

The Statutory Parental Bereavement Pay (General) Regulations 2020 [2020/233]

The Occupational and Personal Pension Schemes (General Levy) (Revocation) Regulations 2020 [2020/355]

## Useful links

LGA Pensions page

LGPS member website (England and Wales)

LGPS member website (Scotland 2015)

LGPS Advisory Board website (England and Wales)

LGPS Advisory Board website (Scotland)

LGPS Regulations and Guidance website (England and Wales)

LGPS Regulations and Guidance website (Scotland)

Public Sector Transfer Club

Recognised Overseas Pension Schemes that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pension advisers will get back to you.

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## Further information

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## LGPC Bulletin 197 – April 2020

Local Government Pensions Committee (LGPC)
Secretary, Lorraine Bennett

## Foreword

This bulletin contains important updates for administering authorities, scheme employers and software suppliers. It also provides a general update for all LGPS stakeholders.

This bulletin contains important articles on:

- Obtaining IRMP opinions during the COVID-19 pandemic
- New procurement Framework for pensions administration software
- TPR guidance on member communications during the COVID-19 crisis
- Temporary changes to pensions tax for returning workers

which need action by certain stakeholders.

If you have any comments or articles for future bulletins, please contact query.lgps@local.gov.uk.

## Index

## Coronavirus (COVID-19)

### Dedicated COVID-19 web pages

Please check our web pages dedicated to COVID-19 regularly as we continue to update them as more information becomes available. Use the links below to read more about:

- COVID-19 news and information for LGPS administrators (England & Wales)
- COVID-19 news and information for LGPS administrators (Scotland)
- COVID-19 FAQs for LGPS administrators
- Scheme Advisory Board England & Wales (SABEW) information and updates

Questions covering ill health retirement applications, tier three reviews, life assurance payments and abatement of compensatory added years have been added to the FAQs in the past week.

### Obtaining IRMP opinions during the pandemic

We have received queries from administering authorities and employers about obtaining opinions from Independent Registered Medical Practitioners (IRMPs) during the current crisis. We queried the position with the Association of Local Authority Medical Advisers (ALAMA), who confirmed that ill health applications should continue to progress during the pandemic. The following statement has been published on the ALAMA website:

> "During the current COVID-19 crisis, it is important to continue to progress ill health retirement applications. It is also particularly important that assessments remain fair and reasonable, and that should include requesting GP and specialist reports as required. There has never been a requirement for these assessments to be face to face, therefore paperwork reviews, with telephone clarification if needed, is the most appropriate way to progress these.
>
> If it is not possible to get reports, an assessment should be based on whether reports are likely to influence your decision further, and whether you have enough objective evidence to make an opinion. Opinions should always be 'on balance of probability'. There will be times when you simply don't have sufficient objective evidence to support ill health retirement, and you have been unable to get clinical reports. You should suggest that the applicant requests copies of clinical reports direct from their GP."

Employers and administering authorities may experience delays in obtaining an IRMP's opinion in relation to an ill health retirement application or a Tier 3 ill health review. Any such delay could affect the date from which an ill health pension is payable, or the date that a Tier 3 pension is upgraded to Tier 2. To help them make their decisions, employers and administering authorities may wish to ask IRMPs to include in their report information about any delays due to COVID-19 that have affected the member's application.

**Action for administering authorities**
Please share the information in this article with your scheme employers.

## Death in service guarantees for frontline COVID-19 staff

The Department of Health and Social Care issued a press release on 27 April 2020 about a new guaranteed life assurance scheme for frontline health and care workers in England. Families of eligible workers in England who die from coronavirus will receive a £60,000 payment, funded by the Government. Full details of the scheme are not yet available. We understand that any payment would be in addition to death in service benefits payable in respect of care workers who are also LGPS members.

Funding has been made available to support similar schemes in Scotland, Wales and Northern Ireland.

The Scottish Government announced on 22 April 2020 that it is in the process of putting together its own death in service benefits for NHS staff who die after catching coronavirus. The Scottish Government published details of the new benefit for all health service staff on 29 April 2020. The scheme currently covers NHS workers only. The Scottish Government is in discussion with colleagues in the social care sector to consider what provision to make for social care staff.

## Cash flow survey

Thank you to all funds that responded so quickly to the recent cash flow survey that took place between 1 April and 14 April 2020. The survey results show that a small minority of funds anticipate issues due to loss of dividend income or delayed employer contributions. Any new issues identified in the survey responses that are not covered in existing regulations have been referred to the new SABEW practitioner advisory group and/or Government to consider. You can read a summary of the cash flow survey responses on the SABEW website.

## Job retention scheme

Employers can now claim for wages through the Coronavirus Job Retention Scheme on the Government website. On 15 April 2020, the Chancellor made a Treasury Direction under the Coronavirus Act which sets out the legal framework for the Scheme. The Schedule to the Direction confirms that HMRC is responsible for making payments and managing the amounts of payments under the Scheme.

On 17 April 2020, HMRC published guidance on working out how much to claim through the Job Retention Scheme.

On 24 April 2020, the Government announced that furloughed workers will receive full parental leave entitlement. On the same date, The Maternity Allowance, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay (Normal Weekly Earnings etc.) (Coronavirus) (Amendment) Regulations 2020 [SI2020/450] were laid. The purpose of these new Regulations is to make sure workers who take family-related leave are not worse off because they have been furloughed.

## LGPS England & Wales Scheme Advisory Board (SAB)

### Supreme Court Judgment on LGPS boycotts

On 29 April 2020, the Supreme Court handed down its judgment in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondents). The case was originally heard on 20 November 2019. The Supreme Court found in favour of the appellants and would appear to take the position that the Government has the power to direct authorities on the approach they take to investment decisions, but not on the investments they make.

A summary of the judgment (PDF 180kb) published by the practice at 11KBW is available. Please note that this summary represents the views of 11KBW and not the SAB.

### McCloud subgroup meetings

We reported in recent bulletins that the SAB has set up two working groups to work with MHCLG in developing and implementing the LGPS McCloud remedy. Due to the current restrictions, Lorraine Bennett, the chair of the implementation group, has formed three subgroups that will meet virtually. The subgroups are made up of representatives from employers, administering authorities, pension administration software suppliers, unions, actuarial firms, NILGOSC and the LGA.

**Data collection:** the data collection subgroup held their first virtual meeting on 22 April 2020. In order to implement the McCloud remedy, most administering authorities will need to gather service information from 1 April 2014 (2015 in Scotland) for members in scope of protection from employers. The group will produce a data collection template for employers and payroll providers to use to supply that information. To ensure the message to employers remains consistent, the group will draft key bullet points for administering authorities to include within their employer communications.

**Communications:** the communications subgroup met on 24 April 2020. The group will produce templates for administering authorities to use to request service data from employers. The group agreed that their priority is to produce communications for members that explain the scheme changes and make it clear that they do not need to make a legal claim, they will get the protection they are entitled to automatically.

**Software:** the software subgroup will consider what system changes are needed to implement the remedy.

## LGPS England & Wales

### Regulations on virtual council meetings

In Bulletin 196, we informed you that the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 enabled councils to hold electronic and digital meetings. These regulations apply only to meetings held in England.

The Local Government (Wales) Measure 2011 already permits virtual meetings of local authorities in Wales. You can read more about remote attendance at council meetings in Wales in the Statutory Guidance covering this issue.

### Regulations extend accounting deadlines

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 [SI2020/404] come into force on 30 April 2020. The Regulations extend the publication date for local authority audited accounts to 30 November 2020. The public inspection period will start on 1 September 2020. The Government has published an Explanatory Note to accompany the regulations.

There are no plans for an automatic extension to the publication date for LGPS fund reports and accounts. MHCLG will keep this matter under consideration. Please email query.lgps@local.gov.uk to inform us of any issues arising from these regulations.

### Pensions Made Simple – member videos

The 'Pensions Made Simple' member videos were launched in November 2019. 'Your annual allowance' and 'Your lifetime allowance' videos have been updated to reflect the new limits that apply for the 2020/21 year.

## LGPS Scotland

### Accounts deadlines

On 14 April 2020, Kimberley Linge (SPPA) forwarded an email to all Scottish administering authorities from Hazel Black (Head of Local Authority Accounting) concerning local authority accounts deadlines. The email confirms that 'The Scottish Government considers that the provisions made in The Coronavirus (Scotland) Act 2020 are sufficient to allow each local authority to determine its own timetable for Annual Accounts'. Scottish Ministers consider that 'it seems reasonable that a local authority publishes its Annual Accounts no later than 30 November 2020'.

### Draft version of transfer guidance for comment

On 15 April 2020, Kimberley Linge (SPPA) contacted all Scottish administering authorities to ask them to review draft GAD guidance on Individual Incoming and Outgoing Transfers. No new transfer factors are included, but there are significant changes in the guidance, particularly relating to GMP, late retirement increases and the survivor benefit amount used in the transfer value calculation. SPPA welcomes your comments and questions on the guidance. Your early response would be appreciated so that the finalised guidance can be published as soon as possible.

### New GAD guidance published

On 28 April 2020, Kimberley Linge (SPPA) contacted all Scottish administering authorities to let them know that new versions of GAD guidance on Trivial Commutation and Early Retirement have been published.

The early retirement factors are already in use, but the guidance has been updated. The guidance applies to all benefits, including those built up before 1 April 2015, and for members who left active service before that date. The guidance also applies to councillor members.

The trivial commutation factors are already in use, but there has been a change in methodology. The calculation should use the survivor benefit amount that would be payable to a pre-leaving female spouse, regardless of the member's relationship status or gender. The guidance takes immediate effect. Any trivial commutation quotation that has been issued should be revised based on the new guidance, if this changes the amount payable.

You can find the new and existing GAD guidance on the Actuarial Guidance page of www.scotlgpsregs.org.

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## HMT

### Consultation on Reform to Retail Prices Index Methodology

In bulletin 196 we let you know that the Government and the UK Statistics Authority had launched a consultation on the Reform to Retail Prices Index (RPI) Methodology. The consultation period has been extended by four months because of the coronavirus pandemic. The consultation will close on 21 August 2020.

### Temporary changes to pensions tax for returning workers

Members of certain public service pension schemes retain the right to retire (in normal health) before age 55. Under normal circumstances, rules covering re-employment must be followed if the pension and lump sum payments are to be considered authorised. Protected pension ages and re-employment are covered in Part 3 of Schedule 36 to the Finance Act 2004.

John Glen, the Economic Secretary to the Treasury issued a written statement on temporary changes to pensions tax on 22 April 2020. The statement confirms that the Government intends to 'temporarily suspend tax rules that would otherwise apply significant tax charges to pension income received by recently retired individuals aged between 50 and 55'. The measure will only apply to those people returning to work as a result of COVID-19. HMRC have provided more information about this change in Pension schemes newsletter 119.

Although we expect that these provisions will mainly affect employees returning to the NHS, it is possible that employees who recently retired from a 'uniformed' role who return to employment, including in a civilian role, in the fire or police service could be affected.

## HMRC

### Pension schemes administration – latest documents

HMRC has updated various web pages and forms following the end of the tax year. You can find out about the latest changes to pension scheme administration resources online.

### Pension schemes newsletter 119

On 30 April 2020, HMRC published Pension schemes newsletter 119. The newsletter sets out some temporary changes to help administrators during the coronavirus pandemic, including:

- Changes to the tax position for some individuals with a protected pension age who return to employment. See the Temporary changes to pension tax for returning workers article earlier in this bulletin for more information
- HMRC will not issue any notices to file pension schemes returns for 2019 to 2020.

The newsletter also confirms that:

- The HMRC annual allowance calculator has been updated to reflect the changes to threshold income, adjusted income and the minimum tapered annual allowance. Members can now use the calculator for the 2020 to 2021 tax year.
- The timeline for delivering features on the Managing pension schemes service has been pushed back due to the pandemic. HMRC will provide an update as soon as more information is available.
- HMRC have provided guidance on Pension schemes and unauthorised payments, which covers how to operate the mandating procedure and the information you must supply to HMRC about the member and the unauthorised payment.
- Transfers to Gibraltar are not subject to the overseas transfers charge, and there has been no change since the UK left the EU. HMRC will amend the Pensions Tax Manual as soon as the position after the transitional period becomes clear.

## TPO

### TPO COVID-19 update

We let you know in bulletin 196 that the Pensions Ombudsman (TPO) was providing a restricted service due to the pandemic. TPO have announced that from 22 April 2020 they will accept new applications by email, and that their phone lines are open from 9am to 5pm Monday to Friday. TPO will not have access to correspondence sent by post during the lockdown period. Please be aware that TPO response times may be longer than usual.

## TPR

### COVID-19: member communications and transfer warning

The Pensions Regulator (TPR) published guidance on communicating to members during COVID-19 on 29 April 2020. The guidance covers information you may wish to include on websites, emails and standard correspondence about changes to your service delivery and response times.

The guidance emphasises the importance of supporting members to make an informed decision when they are considering a pension transfer.

TPR recognises that members are at risk of making decisions that reduce the value of their pensions, or of losing them entirely to pension scams during the current crisis. On 29 April 2020, the Pensions Regulator (TPR) announced that Pension schemes are to issue a COVID-19 transfer warning to members considering transferring from a defined benefit to a defined contribution pension during the crisis.

TPR, working with the FCA and the Pensions Advisory Service, has produced a letter template (PDF, 171kb) to issue to members requesting a CETV quote. The letter as currently drafted includes references to the Pension Protection Fund (PPF) and its role in paying pensions when employers become insolvent. This does not apply to the LGPS and could confuse members. We have requested that TPR supply a version of the letter for public sector schemes that does not include any references to the PPF. We will publish this public sector version as soon as it is available. In the meantime, administering authorities may choose not to send the template letter, or to send it with an explanation that the references to the PPF do not apply.

TPR has also requested that:

> “You should actively monitor the number of requests for CETV quotes you receive and which advisers are supporting members’ requests. If you identify unusual or concerning patterns, such as spikes in CETV requests or the same adviser across a multitude of requests, please contact the FCA at DBTransferSchemeInformation@fca.org.uk.”

**Action for administering authorities**
Please review the review the template letter and your transfer process and:

- Consider any changes you wish to make to your standard correspondence
- Introduce a method of monitoring CETV quote requests so that you can identify any patterns

Appendix 1: TPR member CETV warning

### Other COVID-19 guidance

TPR has published useful guidance for pensions administrators and employers covering issues affected by COVID-19. Visit COVID-19: What you need to consider to find out more about the TPR guidance.

On 9 April 2020 TPR published the following guidance:

- Automatic enrolment and DC pension contributions. Although not aimed at defined benefit pension schemes such as the LGPS, the guidance confirms that there is no change in employers' responsibilities under automatic enrolment rules. The guidance also includes a reminder that employers must not encourage staff to opt out of the scheme or pay reduced contributions.
- An update on reporting duties and enforcement activity. The update provides more detail about the flexible approach that TPR will adopt in response to certain breaches during the COVID-19 pandemic. The easements will remain in place until 30 June 2020, but this may be extended.

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## Other news and updates

### LGA LGPS pensions team

We are very pleased to welcome a new pensions adviser to the LGPS pensions team. Steven Moseley joined the team from LPP on 27 April 2020. Steven will be the lead contact for LGPS Scotland but will also be working on LGPS England and Wales. You can find contact details for Steven and the rest of the team in the LGPS pensions section contact details section.

### MaPS provide a pensions dashboard update

On 8 April 2020, the Money and Pensions Service (MaPS) published Pensions Dashboard Programme – Progress Update Report. The MaPS intends to release a progress report every six months. The first report sets out:

- the pensions dashboards goals and some of the challenges associated with delivery
- that Primary legislation will provide certainty about the requirements placed on schemes and the timescales for compliance
- the importance of secure and accurate identity verification
- the challenge of specifying a consistent set of data standards so that information from different schemes can be displayed consistently
- the need to identify when in the staged onboarding process the dashboards should be made available to the public

- the focus of the Pensions Dashboards Programme over the coming months.

The MaPs published two further papers in April 2020. Pensions Dashboards Data Definitions – Working Paper lists the set of data items that could be included in the dashboards data standards. This covers both data items that are needed to find a member's pensions and those that would be useful for users to see on a dashboard. The list will be developed further in response to user and sector research. Options for achieving early breadth of coverage are considered in Pensions Dashboards Data Scope: Working Paper. This paper confirms that initial dashboards will only include information that is already available on annual statements. This should enable the maximum number of pension schemes to onboard at an early stage. More information is likely to be included in pensions dashboards in the future.

The MaPS will be asking for formal feedback at a later stage and welcomes informal feedback from stakeholders now.

## National knowledge assessment

In Bulletin 194 we let you know that Hymans Robertson had launched the LGPS National Knowledge Assessment (NKA). The NKA will look at the knowledge levels of Pension Committee and Pension Board members. Hymans have announced an extension to the NKA, which will now continue into May 2020. For further information, please contact marketing@hymans.co.uk.

## Parental bereavement leave and pay

In Bulletin 196, we told you about the change in the LGPS regulations (in England & Wales and Scotland) in respect of parental bereavement leave. Assumed Pensionable Pay will apply during a **paid** period of parental bereavement leave. If a period of parental bereavement leave is unpaid, the rules covering unpaid absence with permission will apply.

## New procurement framework for pensions administration software

The National LGPS Frameworks launched the Pensions Administration Software Framework on 27 April 2020. You can read more about the launch in Appendix 2: National LGPS Frameworks press release.

The following providers have been appointed to the National LGPS Framework for Pensions Administration Software:

- Aquila Heywood Ltd
- Civica UK Ltd
- Equiniti.

You can access further information about the framework on the National LGPS Frameworks website. If you need more details about the framework or would like to see copies of the supporting documentation, please contact NationalLGPSframeworks@norfolk.gov.uk.

## Updates to guides and factsheets

Bulletin 195 published in March 2020 contains the annual updates for 2020/21. We have updated the member website and calculators to reflect these changes. We are in the process of reviewing and updating our guides and factsheets to reflect these and other recent changes. You can find tracked and clean versions of all our guides on:

- the Guides and Sample documents page (Scotland) of www.scotlgpsregs.org and
- the Guides and Sample documents page (E&W) of www.lgpsregs.org.

You can find the most recently updated guides by clicking the ‘Publication date’ column header twice. The following documents have been updated:

**England and Wales**
- Annual allowance factsheet for members (v1.7)
- APC technical guide (v2.0)
- Lifetime allowance factsheet (v1.7)
- Aggregation technical guide (v2.0)
- Member’s guide to AVCs (v2.2)

**Scotland**
- Annual allowance factsheet for members (v1.7)
- Lifetime allowance factsheet for members (v1.7).

## Training

Our face to face training programme has been put on hold due to the COVID-19 pandemic. The courses below have all been cancelled and re-arranged for later in the year:

- Employer role – 17, 24, 31 March and 7 April 2020
- Death and survivor benefits - 16, 21, 23, 30 April and 5 May 2020
- Insight residential course (Bournemouth) – 18-21 May 2020

All delegates should have been notified of the new event dates. If you have any queries about training that you have already booked, please email elaine.english@local.gov.uk.

We are currently working on online training, including a COVID-19 webinar for employers.

## Wider landscape

### Unions file court proceedings over cost control mechanism 'pause'

Four unions including the FBU and the GMB have filed court proceedings against the Government. They claim that the pause in the cost control mechanism is unlawful. The 2016 valuation found that the cost of providing public service pension schemes was below target. The unions are arguing for an improvement in member benefits as a result of the valuation results.

In January 2019, the Government announced a pause in the cost control mechanism process due to the McCloud decision. The Government plans a new valuation once the remedies to remove the age discrimination have been finalised and the true cost of providing public service pension schemes can be assessed.

## Legislation

### Acts

The Coronavirus (Scotland) Act 2020

### Statutory Instruments

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 [SI2020/404]

The Maternity Allowance, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay (Normal Weekly Earnings etc.) (Coronavirus) (Amendment) Regulations 2020 [SI2020/450]

## Useful links

LGA Pensions page

LGPS member website (England and Wales)

LGPS member website (Scotland 2015)

LGPS Advisory Board website (England and Wales)

LGPS Advisory Board website (Scotland)

LGPS Regulations and Guidance website (England and Wales)

LGPS Regulations and Guidance website (Scotland)

Public Sector Transfer Club

Recognised Overseas Pension Schemes that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

## LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pension advisers will get back to you.

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## Further information

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# LGPC Bulletin 198 May 2020

Local Government Pensions Committee (LGPC)
Secretary, Lorraine Bennett

## Foreword

This bulletin contains important updates for administering authorities, scheme employers and software suppliers. It also provides a general update for all Local Government Pension Scheme (LGPS) stakeholders.

This bulletin contains important articles on:

- LGPS employer webinars
- LGPS employer FAQs
- TPR new guidance for avoiding pension scams
- Electronic communication of interfund documents

which need action by certain stakeholders.

If you have any comments or articles for future bulletins, please contact query.lgps@local.gov.uk.

## Index

# Coronavirus (COVID-19)

## COVID-19 governance survey

From 1 to 15 May 2020, the LGPS England & Wales Scheme Advisory Board (SAB) undertook a survey to understand how the governance of the LGPS has been affected by COVID-19. 83 administering authorities responded including authorities in Scotland and Northern Ireland. The SAB has published the results of the COVID-19 governance survey on the Board's website.

## LGPS employer webinars

During May 2020, we delivered eight COVID-19 employer webinars across the UK. The webinars covered pension issues that have arisen due to the coronavirus pandemic. The feedback has been positive. You can watch recordings of the webinars using the links below:

- England and Wales
- Scotland
- Northern Ireland

### Action for administering authorities

Please let employers know they can watch a recording of the dedicated COVID-19 employer webinars.

## LGPS employer FAQs

We have created a COVID-19 FAQ web page for LGPS employers. They have been created based on questions and feedback from our COVID-19 employer webinars. The FAQs are designed to help employers understand pension issues that may arise during the pandemic.

### Action for administering authorities

Please bring to the attention of your employers the dedicated COVID-19 FAQ web page.

## English life assurance scheme

The Government has introduced the NHS and Social Care Coronavirus Life Assurance Scheme (England) for eligible frontline health and social care workers during the pandemic. A payment of £60,000 will be made to the estate of eligible individuals who die from coronavirus contracted during their frontline essential work. The scheme specifies that payments are separate to, and regardless of other registered pension scheme benefits. A summary note on the scheme is available on the COVID-19 page of the SAB website. Further information is also available from the life assurance scheme page on the NHSBSA website.

### Welsh life assurance scheme

On 27 April 2020, Welsh Ministers published a written statement confirming that they will establish a similar life assurance scheme to the English NHS and Social Care Coronavirus Life Assurance Scheme. Further details are awaited.

### Scottish life assurance scheme

The Scottish Government has introduced a special temporary scheme called the NHS Scotland Coronavirus Life Assurance Scheme (Scotland). The Scheme may provide a lump sum and survivor benefits to families of frontline NHS staff who die as a result of COVID-19. The Scheme is designed for those who do not qualify for full death benefits under the NHS pension schemes. On 24 May 2020, it announced plans to make a one-off payment of £60,000 where a social care worker dies without death in service cover in their contracted pension scheme. The Scottish Government is working with local government, social care providers and trade unions on the details.

### Extension to furlough and next steps

The Chancellor has made a further Treasury Direction in relation to the Coronavirus Job Retention Scheme. The Direction reflects the extension to the Scheme announced by the Chancellor on 17 April and clarifies some provisions within the original Direction.

On 29 May 2020, the Government published the next steps to furlough:

- from 1 July 2020, employers can bring back employees part-time.
- the Scheme will be closed to new entrants from 30 June 2020.
- from August 2020, employers will no longer be able reclaim employer NI and pension contributions.
- from September 2020, employers must fund 10 per cent up to £312.50 (Government will fund 70 per cent up to £2,187.50).
- from October 2020, employers must fund 20 per cent up to £625 (Government will fund 60 per cent up to £1,875).
- the furlough scheme finishes at the end of October 2020.

### PLSA local authority live

From 18 to 22 May 2020, the Pensions and Lifetime Savings Association (PLSA) hosted five webinars to support their Local Authority members through the pandemic. Content included the Regulator’s response, employer health checks, administration, sustainability and launch of the Scheme Advisory Board annual report. The Local Authority Live page of the PLSA website contains recordings of each session, slides and related links.

### PMI industry guidance on COVID-19 issues

The Pensions Management Institute (PMI) has published an industry guide discussing the challenges brought about by the pandemic as well as the emerging opportunities in the pensions industry. The PMI industry guide can be downloaded from the PMI website.

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## LGPS England & Wales Scheme Advisory Board (SAB)

### Summary note of Board meeting held on 5 May 2020

SAB virtually met on 5 May 2020. Key highlights include:

- discussions with MHCLG continue on the McCloud remedy. An LGPS consultation is expected late June 2020.
- an outline of the measures that are been taken to assist the scheme during COVID-19 together with the impact on SAB projects and workloads, were noted.
- various COVID-19 life assurance schemes have been launched across the UK. Most of the schemes include local government social care staff working on the frontline. Representations have been made to MHCLG about the possibility of extending the scheme to other frontline local government staff.
- the next virtual SAB meeting will be held on 10 July 2020. Meanwhile, virtual meetings with the Chairs of both the Board and investment and cost management committees will take place to deal with any urgent business.

### Supreme Court Judgement on LGPS boycotts

In June 2017 the High Court published its judgment in a judicial review case concerning the statutory guidance issued to accompany the LGPS (Management and Investment of Funds) Regulations 2016. The case was brought by Palestine Solidarity Campaign Ltd and an LGPS member. It ruled that the section within the guidance stating that administering authorities should not pursue policies that are contrary to UK foreign policy or UK defence policy was unlawful.

The statutory guidance was reissued in 2017 with the relevant statements removed; however, MHCLG appealed the High Court decision. In June 2018, the Court of Appeal disagreed with the original ruling by the High Court. This allowed the case to move to the Supreme Court. Meanwhile, the statutory guidance remained published with the relevant statements removed.

In April 2020 the Supreme Court ruled that the legislation does not permit the Secretary of State to impose the government's view on foreign and defence policy, on LGPS administering authorities.

SAB have issued a statement on its website and will publish a summary of the full judgment in due course.

## 2019 LGPS annual scheme report

On 22 May 2020, Councilor Phillips (Chair of SAB) launched the 2019 LGPS England and Wales annual scheme report. Highlights from the report include:

- total membership increased from 5.8 million in 2018 to 5.9 million in 2019, a rise of 0.6 percent.
- total assets increased to £291 billion, a change of 5.9 percent.
- local authority returns on investment over 2018/2019 was 6.6 percent. This was reflective of the market conditions during the year and set against the UK Return of 6.4 percent.
- the Scheme maintained a positive cash-flow position overall, including investment income.
- over 1.7 million pensioners were paid over the year.

## McCloud subgroup meetings

We mentioned in bulletin 197 that, given current restrictions, the McCloud implementation group has formed three subgroups that will meet virtually.

Since last month, a further two subgroup meetings have been held. The first software subgroup and the second data collection subgroup.

**Software:** the first meeting was held on 19 May 2020. The sub-group agreed that:

- software suppliers would produce a process map for implementing the changes, including timings for each stage.
- following the publication of the draft regulations the LGA will arrange a meeting with GAD, MHCLG and the software suppliers to discuss the proposed changes.

**Data collection**: the second meeting was held on 21 May 2020. The group discussed a draft data collection template and notes. The subgroup agreed:

- that the draft data collection template and notes would be updated to reflect the comments of the group. These will be reviewed before a discussion with employers and payroll software providers starts.

- to progress the legal advice on GDPR before the next meeting.

## LGPS England & Wales

### The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020

On 20 March 2020, MHCLG opened a consultation on the proposed merger of the Northumberland and Tyne and Wear pension funds. The consultation closed on 1 May 2020. The Government published its full response on 14 May 2020 confirming that it has decided to proceed with the merger.

The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 were laid before Parliament on 14 May 2020, effective from 3 June 2020. These regulations do not amend the LGPS Regulations 2013, but set out modifications to how the regulations apply following the merger. We have added editor's notes to the Timeline regulations where the modifications apply.

### Actuarial guidance notes

Over the past six months we have reviewed revised draft actuarial guidance notes, covering a range of topics. A lot of the revisions are cosmetic though some do involve calculation changes. It was intended that the revised guidance would be implemented around April 2020. However, MHCLG have confirmed that they do not intend to publish any revised actuarial guidance notes until the autumn.

## LGPS Scotland

### 2020 triennial valuations

On 13 May 2020, the Scottish Public Pensions Agency (SPPA) wrote to Scottish administering authorities, setting out its position on two key aspects for administering authorities to consider whilst undertaking the 2020 triennial valuations. They cover age discrimination in public service pension schemes and employer cost cap considerations.

### Flexible retirement guidance

Following a factor review by GAD, on 14 May 2020 SPPA published updated flexible retirement guidance dated 23 April 2020. The calculation methodology is unchanged, though the examples are refreshed to bring them up to date. The new guidance is effective from 14 May 2020 and replaces that published on 26 February 2015.

The updated guidance can be found in the Actuarial guidance page of the website for LGPS employers and pension funds in Scotland.

## HMRC

### Employer NI on termination payments

After a delay, the rules on termination payments changed on 6 April 2020 so that employer's class 1A National Insurance Contributions (NICs) are now payable on payments of £30,000 or over. The rate of those contributions is 13.8 per cent. It remains the case that employee NICs are not payable on termination payments, and income tax remains due on payments of £30,000 and over.

### Pension schemes newsletter 120

HMRC has published Pension Schemes Newsletter 120, which includes information on temporary changes to pension processes as a result of COVID-19 and the suspension of the process for applying for a National Insurance number.

### Countdown Bulletin 53

On 28 May 2020, HMRC published countdown bulletin 53. It confirms that administrators will be issued with their final data cuts by the end of July 2020.

Upon receipt of the final data cuts HMRC advise administering authorities to check the GMP amounts provided, against their own records. Where the amounts cannot be agreed, these should be compared against the online GMP checker service. If they still do not agree the values, queries can be submitted to HMRC at a life event using the template in the Live Schemes Shared Workspace eRoom.

## TPR

### New Director of Auto Enrolment

On 4 May 2020, the Pensions Regulator (TPR) confirmed the appointment of Mel Charles as its new director of auto enrolment. Mel will be responsible for leading TPR's work to ensure the continued long-term success of automatic enrolment.

### New powers to obtain communications data

On 21 April 2020, the Government laid before Parliament the draft Investigatory Powers (Communications Data) (Relevant Public Authorities and Designated Senior Officers) Regulations 2020. These regulations potentially amend the Investigatory Powers Act 2016. The Act provides a framework to govern the use and oversight of investigatory powers by law enforcement and the security and intelligence agencies.

Schedule 4 of the Investigatory Powers Act 2016 sets out the public bodies that can obtain communications data. The regulations propose to add new public bodies to schedule 4, including the Pensions Regulator (TPR).

TPR is responsible for enforcement of employer automatic enrolment duties, which have been gradually rolled out to over one million businesses since 2012. This has dramatically increased the scale of TPR enforcement activity and highlighted the need for effective sanctions, including prosecution. In parallel with this, TPR has adapted its approach to its other areas of responsibility, putting more emphasis on prosecution as a means of securing compliance and punishing wrongdoing. Communications data powers will be highly valuable in investigations as digital footprints become increasingly significant.

### New guidance on avoiding pension scams

TPR has updated its guidance for avoiding pension scams. The guidance confirms that they cannot prevent a member pursuing their statutory right to transfer and cannot permit administering authorities to prevent a transfer to which a statutory right applies. However, where administering authorities show evidence that the transfer *doesn't meet legal requirements,* TPR will consider this when deciding whether to act due to the non-payment of a transfer. The wording reflects the legal position on statutory transfers.

TPR has also expanded its commentary on applications for an extension of time to complete a transfer, and notes that suspicion of scam activity is not necessarily enough for an extension to be granted. The request must identify one of the specific circumstances under which TPR is permitted to grant an extension. Circumstances where an extension may be granted include when the:

- member has not taken all steps they need for the transfer to take place.
- administering authority has not been provided with the information they reasonably require to carry out the member’s request.

### Action for administering authorities

Administering authorities should consider whether they need to amend their procedures.

## Other news and updates

### Electronic communication of interfund documents

TPR's COVID-19 guidance for trustees and public service pension schemes states that pension schemes 'should allow electronic signatures and documents and encourage other third-party providers to do the same'.

We understand some administering authorities are continuing to send interfund documentation by post which is increasing the need for staff to travel into the office. We recommend that all interfund documentation is sent electronically via secure email in line with the approach recommended by TPR. The Government has published information on securing government email which you may find useful.

**Action for administering authorities**
Administering authorities should consider whether they need to amend their procedures.

## Wider Landscape

### FBU considering pension compensation claims

The Fire Brigades Union (FBU) is looking at potential compensation claims for its members in public sector pension schemes who were victims of age discrimination.

In an update on its website, FBU stated that these claims would aim to "compensate members for the financial hardship and also distress, upset and anger – described by lawyers as 'injury to feelings' – that may have been caused" during this process.

More information is available on the FBU website.

## Training

Our face to face training programme has been put on hold due to the pandemic. We are currently working on an online training programme and will provide updates in future bulletins.

## Legislation

### Statutory Instruments

The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 [SI 2020/502]

### Northern Ireland Statutory Rules

[The Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2020] [NR 2020/77]

## Useful links

[LGA Pensions page]

[LGPS member website (England and Wales)]

[LGPS member website (Scotland 2015)]

[LGPS Advisory Board website (England and Wales)]

[LGPS Advisory Board website (Scotland)]

[LGPS Regulations and Guidance website (England and Wales)]

[LGPS Regulations and Guidance website (Scotland)]

[Public Sector Transfer Club]

[Recognised Overseas Pension Schemes] that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

## LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pension advisers will get back to you.

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## Further information

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# LGPC Bulletin 199 – June 2020

Local Government Pensions Committee (LGPC)
Secretary, Lorraine Bennett

## Foreword

This bulletin contains important updates for administering authorities, scheme employers and software suppliers. It also provides a general update for all LGPS stakeholders.

This bulletin contains important articles on:

- Delays to marriages/civil partnerships
- LGA guides updated
- McCloud member FAQs published
- McCloud annual benefit statement wording agreed
- TPO opinion PO-22432
- Adapted version of transfer warning letter for LGPS now available
- Clarification on whether Club arrangements apply to CARE added pension
- Incorrect links to the Government's free tracing service

which need action by certain stakeholders.

If you have any comments or articles for future bulletins, please contact query.lgps@local.gov.uk.

## Index

## LGPS England & Wales Scheme Advisory Board (SAB)

### Summary of Supreme Court Judgment on LGPS boycotts

On 29 April 2020, the Supreme Court handed down its judgment about whether the Government exceeded its powers when giving guidance directing funds not to pursue policies that are contrary to UK foreign or defence policy.

On 8 June 2020, the SAB published a summary of the case, which the Board's legal adviser assisted with drafting. The summary aims to clarify the impact of the judgment on administering authorities.

### Cost Transparency Initiative launches additional tools

A year ago, the Cost Transparency Initiative (CTI) published a framework of tools and guidance to help institutional investors better understand their investment costs. The CTI framework is a partnership initiative between the Pensions and Lifetime Savings Association, the Investment Association and the SAB. On 19 June 2020, the CTI launched additional resources and encouraged remaining schemes and asset managers to adopt the standards.

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## COVID-19

### Easement to protected pension age rules

As we reported in Bulletin 197, the Government announced that they were temporarily easing the protected pension age (PPA) rules because of the COVID-19 pandemic. On 2 June 2020, HMRC, by amending Newsletter 119 (April), announced an extension to the easement up to 1 November 2020. On 25 June 2020, the Government amended the Finance Bill 2019-21(which is currently going through Parliament) to give effect to the temporary easement. On the same day, they also published a tax information and impact note. The draft legislation suggests that the easement applies to any person with a protected pension age who returns to employment (which would otherwise have caused them to lose the protection) between 1 March 2020 and 1 November 2020 (inclusive) where the only or main reason was to help the employer respond to the COVID-19 pandemic. The information note suggests that this is most likely to apply to police officers, firefighters and other uniformed officers.

### Top tips for remote working

Due to the COVID-19 pandemic, most teams are now working from home. This brings opportunities; but it also raises challenges, particularly for managers.

Our colleagues in the Workforce and HR Support Team have recently published some tips for managers, to help them support and promote good wellbeing during these exceptional times.

### Welsh life assurance scheme

On 27 April 2020, Welsh Ministers confirmed in a written statement that they will establish a life assurance scheme in Wales which is similar to the English NHS and Social Care Coronavirus Life Assurance Scheme. On 17 June 2020, the scheme was established. It is called the NHS and Social Care Coronavirus Life Assurance Wales Scheme 2020. The rules and details on how to make a claim will be available on NHS Business Service Authority's website within the next few days.

### Employer guidance on steps to take following the death of an adult social care worker from COVID-19

On 19 June 2020, the Department of Health and Social Care published guidance for employers in England. The guidance sets out the steps that employers may need to take following the death of an adult social care worker from COVID-19.

### Delays to marriages and civil partnerships

For English or Welsh administering authorities, if you have any cases where the survivor benefits are less because a marriage/civil partnership could not take place due to the COVID-19 pandemic, please provide MHCLG (LGPensions@communities.gov.uk) with the details (with personal details removed). This would apply where:

- a marriage or civil partnership was delayed because of the COVID-19 pandemic and the member subsequently died before the event could be rearranged
- a member was terminally ill and was not able to arrange an urgent marriage or civil partnership due to the COVID-19 pandemic.

The Scottish Public Pensions Agency (SPPA) has also asked for Scottish administering authorities to provide this information to us (query.lgps@local.gov.uk), and we will collate and forward on to SPPA.

**Action for administering authorities**
Please provide details of such cases to either MHCLG or the LGA, as appropriate.

## LGPS England and Wales

### LGA guides updated

We have recently published new versions of the following guides:

- Retirement planning guide (v1.1)
- Employee brief guide (v2.1)
- Councillors' full guide (v2.0)
- Update for Councillors in England (v2.0)
- Introductory leaflet for Councillors in Wales (v1.7)
- HR guide (v4.1)

You can find all our guides on the Guides and sample documents page of www.lgpsregs.org.

The HR guide is a PDF, the rest have been published in Word so that administering authorities can add contact information and any other details specific to their fund.

We included an article in Bulletin 190 about the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018. Existing websites must comply with these regulations by 23 September 2020. This includes any electronic documents available on public sector websites. If you plan to publish PDF versions of any of our scheme guides and factsheets, you may need to take additional steps to ensure that they are compliant. You can find more information online about:

- How to Create accessible PDFs
- Creating accessible PDFs in Adobe Acrobat.

You may need to take extra steps to tag tables correctly.

**Action for administering authorities**
Please update your versions of the guides in line with the revisions made.

## Discretions guide updated

On 8 June 2020, we published version 1.11 of the discretionary policies guide and version 1.9 of the full list of discretionary policies. We have made minor tweaks to the wording of the discretions covering assumed pensionable pay and abatement of compensatory added years. You can view the clean and tracked versions at the Guides and Sample Documents page of www.lgpsregs.org.

## GAD 2020 data collection update

To carry out the 2020 scheme level valuation, the Government Actuary's Department (GAD) will request data as at 31 March 2020 from administering authorities in September this year. In preparation, GAD reviewed the 2019 valuation data and recently gave individual feedback to administering authorities. The purpose was to start a dialogue on data quality and to find ways of improving it ahead of the 2020 valuation.

To discuss data issues and issues arising from the feedback to authorities, GAD, the Scheme Advisory Board, the Ministry for Housing, Communities and Local Government (MHCLG) and fund actuaries recently held a meeting. On 10 June 2020, we emailed administering authorities letting them know the outcome from the meeting, and forwarded a valuation data update from GAD.

The letter confirms that it was not GAD's intention to question the 2019 fund valuations or the data used to complete them. GAD also set out in the letter a revised timetable for the 2020 data collection exercise and that, due to the expected tight timeframe, they do not plan to give administering authorities individual feedback on their data as at 31 March 2020. Rather, GAD will provide a central report on LGPS data quality as part of the valuation advice to MHCLG. Despite the revised timetable, GAD still plan to request the data as at 31 March 2020 in September this year.

### McCloud member FAQs published

On 9 June 2020, we published McCloud FAQs for scheme members on the national member website.

**Action for administering authorities**
Please bring the FAQs to the attention of your employers and members.

### McCloud annual benefit statement wording agreed

The LGA, in conjunction with the national Communications Working Group, has produced standard wording for administering authorities to use in this year's annual benefit statements. The wording has been agreed by MHCLG and HM Treasury. Using the standard wording will help provide a consistent message to LGPS members.

Where authorities have not sent their statements, they should include the standard wording, where possible. If authorities have already sent theirs, MHCLG has confirmed that the wording is a nice to have, rather than a must include.

> "When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the

> protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.
>
> The Government is still considering exactly what changes need to be made to remove the discrimination from the LGPS. This means it has not been possible to reflect the impact of the judgment in your annual benefit statement this year.  If you qualify for protection it will apply automatically - you do not need to make a claim. For more information, see the frequently asked questions on the national LGPS website."

**Action for administering authorities**
If you have not sent your annual benefit statements for this year, please add the standard wording, where possible.

## HMRC

### Pension schemes newsletter 121

HMRC has published pension schemes newsletter 121.

In previous newsletters, to help administrators during the COVID-19 pandemic, HMRC had announced some temporary easements. In newsletter 121, HMRC announced an extension to these. In particular:

- If a scheme failed to meet the accounting for tax (AFT) deadline for the quarter 1 January 2020 to 31 March 2020 because their resources were affected by the COVID-19 pandemic, HMRC agreed to cancel any penalties. HMRC has extended this easement to cover the quarters 1 April 2020 to 30 June 2020 and 1 July 2020 to 30 September 2020.
- In newsletter 118, HMRC announced that they would cancel any penalties for submitting form APSS262 late. Schemes use this form to tell HMRC about a transfer to a qualifying recognised overseas scheme. HMRC has extended the easement to 31 October 2020.

HMRC has also announced some delays to the Managing pension scheme service. It was previously announced in the Managing pension schemes service newsletter – April 2020 that from 1 July 2020, schemes would be able to –

- submit their AFT return for the quarter 1 April 2020 to 30 June 2020 using the Managing pension scheme service

- use the new service to start compiling their AFT return for the next quarter (1 July 2020 to 30 September 2020).

Schemes will now only be able to do so from 21 July 2020.

Lastly, newsletter 121 gives an update on HMRC's amendments to the process for reporting corrections to previous year payroll data, which is set to start from April 2021.

## TPO

### TPO opinion PO-22432

We would like to bring to your attention the outcome of an opinion by a senior adjudicator in relation to an ill-health complaint. The case will be of interest to LGPS administering authorities and employers in England and Wales. In this case, the adjudicator surprisingly ruled that the LGPS administering authority was guilty of maladministration because it did not replace the employer's ill health decision with its own at stage two of the appeal process. The adjudicator relied on regulation 77(4) of the LGPS Regulations 2013:

> "A decision under paragraph (1) takes effect as a decision of the Scheme employer or administering authority, as the case may be, except where the matter concerns the exercise of a discretion, in which case, if the adjudicator does not uphold the decision, the matter must be referred back to the body which made the decision under adjudication for reconsideration or, where that body would have been the Scheme employer but that body is no longer a Scheme employer, to the appropriate administering authority."

The case relates to an appeal by Miss E against the decision to award her tier three ill health retirement benefits. The adjudicator upheld the complaint and instructed the employer to reconsider its decision to award tier three benefits. In addition, the employer and the LGPS administering authority were instructed to jointly pay Miss E £500 for distress and inconvenience.

Importantly, the adjudicator states that at stage two of the appeal, the administering authority is under a duty to consider the tier of benefits Miss E was eligible to receive and this goes beyond just considering whether the employer has followed due process. If the administering authority had, for example, decided that Miss E was eligible for tier two rather than tier three, because this is a decision rather than a discretion, the administering authority's decision would have taken effect as a decision of the employer and replaced the original decision. Because the administering authority did not do this, the adjudicator appears to view this as maladministration and makes the administering authority jointly liable for the £500 distress and inconvenience award.

Although the adjudicator's opinion was accepted by the respondents in the case, we asked for clarification from the legal team at the Pensions Ombudsman (TPO) because of the potential implications for the Scheme as a whole.

Expecting administering authorities to decide the entitlement for each ill health appeal, rather than make a decision to remit it back to the Scheme employer where their view is that the Scheme employer did not follow the correct process, places a much higher burden on them. It also raises issues such as GDPR, access to medical records and the administering authority's ability to seek further advice and information.

In response, TPO's senior counsel stated that because the opinion has been accepted by the respondents it cannot be revisited. However, because we raised the issue in the context of future investigations, he confirmed that TPO is unlikely to expect administering authorities to substantially revise their general approach at stage two of an ill health appeal (of remitting back to employers when upholding appeals that the employer has not correctly assessed an application). He asked that if the same issue arises in the future, the respondents ask the TPO adjudicator to approach the legal team for assistance, noting that the LGA have previously raised the point in issue in PO-22432 (after closure). They will then be able to provide a full analysis on a live case and their views on how the legislation should be interpreted and followed.

Note, the opinion is not available on the TPO's website because they only publish Ombudsman's determinations. However, the relevant administering authority has given permission for us to attach TPO opinion PO-22432 to this bulletin. We would like to thank Gary Delderfield from Eversheds Sutherland for his assistance.

**Action for administering authorities (England and Wales)**
If, in a future case, the adjudicator suggests that the administering authority should have considered at stage two of appeal whether to replace the employer's decision in an ill health case, please ask the adjudicator to approach TPO's legal team.

## TPR

### TPR updates COVID-19 guides

The Pensions Regulator (TPR) has given guidance to help pension schemes and their employers cope with the impact of COVID-19. The guidance contains various easements, most of which were set to remain until 30 June 2020, such as TPR taking a more flexible approach to what they expect schemes to report. On 16 June 2020, TPR published updated versions, alongside a press release summarising the changes.

In particular, the COVID-19: an update on reporting duties and enforcement activity guidance sets out that, from 1 July 2020, the previously paused reporting requirements resume. TPR says that this will allow them to "horizon-scan effectively, identify risks and act as necessary to protect savers." TPR will continue to assess breaches on a case-by-case basis and respond pragmatically to COVID-19 related breaches.

The Scheme administration: guidance for trustees and public service is also updated to set out the need to ensure that members, particularly the most vulnerable, remain able to contact administrators. TPR acknowledges that some administrators are encouraging members to use electronic communication, such as online portals and emails. However, TPR recommends that administrators also seek to maintain services for those who are not online and potentially vulnerable through the safe and secure processing of post and providing a telephone service for critical queries.

The COVID-19 DB scheme funding and investment guidance for trustees included a reference to suspending transfer payments for up to three months where trustees feel it is in the best interests of scheme members. This guidance does not directly apply to the LGPS. Although, administering authorities may have used it when deciding whether to suspend transfer payments. The updated version has removed references to suspending transfer payments. It now simply refers schemes who need more time to pay a transfer to the normal rules on applying to TPR for an extension.

### TPR publishes Corporate Plan for 2020-21

TPR published its Corporate Plan for 2020-21 on 29 June 2020. Due to the COVID-19 pandemic, TPR had previously paused publication. The Plan sets out TPR's priorities for the year ahead and reflects the realities of how the pensions landscape has changed because of the pandemic.

### Adapted version of transfer warning letter for LGPS now available

TPR's guidance on communicating to members during the COVID-19 pandemic includes a request for pension managers to issue a transfer warning letter to members applying for a cash equivalent transfer value (CETV) quote from a defined benefits (DB) to a defined contributions (DC) scheme. The original letter, jointly prepared by TPR, the Financial Conduct Authority (FCA) and the Money and Pension Advice Service (MaPS), contains references to the Pension Protection Fund and is not suitable for use by the LGPS. TPR has now supplied a version of the transfer warning letter suitable for public sector schemes. TPR has asked that the letter is issued to all members requesting a CETV quote to a DC scheme for the foreseeable future. On 16 June 2020, we emailed all administering authorities letting them know.

We have uploaded the letter to the TPR pages on www.lgpsregs.org and www.scotlgpsregs.org. It can also be accessed via the COVID-19 news and information page on each site and the administrator FAQs.

TPR has also asked that pension managers actively monitor the number of requests for CETV quotes and which advisers are supporting the members' requests. If any unusual or concerning patterns emerge, such as spikes in CETV requests or the same adviser across a multitude of requests, LGPS administering authorities should contact the FCA at DBTransferSchemeInformation@fca.org.uk.

**Action for administering authorities**
Issue the transfer warning letter to all members requesting a CETV quote to a DC scheme for the foreseeable future.

Actively monitor the number of requests for CETV quotes and which advisers are supporting requests.

## Other news and updates

### Clarification on whether Club transfer arrangements apply to CARE added pension

The Cabinet Office (who is responsible for the Club transfer rules) has confirmed that added pension attached to CARE benefits ("CARE added pension") cannot be transferred under Club arrangements, in the same way that added pension attached to final salary benefits also cannot. CARE added pension means added pension awarded by the employer or bought by paying additional pension contributions (APCs)

The Club Memorandum sets out that added pension attached to final salary benefits should not be transferred under Club arrangements (under the "outer Club" rules). When a member with added pension takes an outer Club transfer, the transfer value must be calculated in two parts: the final salary element, calculated on outer Club terms; and the Added pension element calculated on non-Club terms. We queried with the Cabinet Office whether this also applies when a member with CARE added pension takes an inner Club transfer, as we don't believe that it is covered in the Memorandum.

After consulting with the Government Actuary's Department, the Cabinet Office has informed us that the Club arrangements should also not apply to CARE added pension. This is because "the value of accrued Added Pension is not affected by an active service link, so it has no need of the Club."

The Cabinet Office will update the Memorandum accordingly at its next review. In the meantime, they will send an update to all relevant public service pension schemes.

**Action for administering authorities**
Please review your Club transfer in/out processes to ensure that CARE added pension is calculated using the non-Club methodology and factors.

For Club transfers out, this will involve calculating the CARE added pension (and the revaluation on it) separately as a non-club CETV. You will also need to make sure that sending schemes do likewise.

## Communications Working Group (CWG)

The CWG met through MS Teams on 28 May 2020. Topics covered included:

- COVID-19 communications
- member website
- digital engagement
- McCloud remedy
- 2020/21 workplan.

You can read the minutes on the CWG page of www.lgpsregs.org and www.scotlgpsregs.org

## National LGPS technical group minutes published

Technical group meeting minutes from the meeting held on 12 June 2020 are now available. The meeting included a presentation on the pensions dashboards by the Money and Pensions Service and an update from MHCLG. The group has also agreed to help the England and Wales Scheme Advisory Board (SAB) by asking the chairs of each pension officer group to collect data on deaths in their region. This will help the SAB understand the impact of the COVID-19 pandemic on the LGPS.

## FCA sets out plans to improve pension transfer advice

Members of most defined benefit schemes (including the LGPS) must get financial advice if they wish to transfer their benefits to a defined contribution scheme where the transfer value is £30,000 or more.

The Financial Conduct Authority (FCA) has expressed concern about the high levels of unsuitable advice that advisers have given to members.

On 5 June 2020, the FCA set out a package of measures to improve the quality of pension transfer advice. This includes banning contingent charging, with limited exceptions. This type of charging is where the adviser is only paid if they recommend a transfer. The FCA believes that such arrangements create a conflict of interest. The result of this ban, though, may see members paying more for advice. The FCA will also allow advisers to provider a shorter, cheaper form of abridged advice. Abridged advice can only result in a recommendation not to transfer or a statement that it is unclear whether the consumer would benefit from a pension transfer without giving full advice. Members wishing to transfer out who are required to get financial advice will still need to get the full advice.

In addition, the FCA has also published information to help customers check the suitability of advice previously given and information to help customers who are considering transferring out.

## Corporate Insolvency and Governance Act 2020

The Corporate Insolvency and Governance Act 2020 received royal assent on 25 June 2020. The main objective of the Act is to help businesses during the COVID-19 pandemic by easing the burden on them and helping them avoid insolvency. During its passage through Parliament, the Pensions and Lifetime Savings Association expressed concerns to Government about the Act’s impact on pension schemes; in particular, that schemes may find it harder to recover cash from a company insolvency. You can read the PLSA response to the Bill on their website. To attempt to allay some of the concerns, the Government amended the Act. However, there is still a lack of clarity on the status of employer contributions during the “moratorium period”.

## Pensions Dashboards update

The Money and Pensions Service (MaPS) are leading on the initial phase of the project to implement pensions dashboards. This includes bringing together a delivery group made up of stakeholders from across the industry, consumer groups, regulators and government. The industry delivery group has now been renamed the Pensions Dashboards Programme (PDP).

In April 2020 MaPS published the following documents:

- PDP progress update report. This sets out the progress made so far and the work that needs to be undertaken before the service is launched to the public.
- Pensions dashboards data scope: working paper. The paper sets out options for achieving comprehensive coverage across all pension sectors to deliver an acceptable early breadth of coverage for individuals.
- Pensions dashboards data definitions: working paper. This lists the set of data items that could be included in the dashboards data standards.

Initially, MaPS requested informal feedback only on the data scope and data definitions working papers; however, they will be requesting formal industry-wide input throughout July and August. The call for input will start on 6 July. In conjunction with this, the PDP will convene a data working group representing all sectors of the pensions industry.

On 22 June 2020, the PDP started a six-week period of informal market engagement with potential suppliers of the digital architecture which will connect individuals with their pensions information when they request it. The market engagement exercise will enable PDP to examine the readiness, capacity and capability of commercial firms which might be interested in the work. Formal procurement will start in Autumn 2020. Potential suppliers are being invited to register their interest by 31 July 2020.

### Divorce, Dissolution and Separation Act 2020

The Divorce, Dissolution and Separation Act 2020 received royal assent on 25 June 2020 and will, in the main, come into force on a date to be appointed by Government. The Act will revise the legal process in England and Wales for married couples to obtain divorces and for civil partners to dissolve their civil partnership. It will also update terminology: terms such as “decree nisi”, “decree absolute” and “petitioner” will be replaced with “conditional order”, “final order” and “applicant”.

### Incorrect links to the Government’s free tracing service

Some news companies have found over 40 organisations who mistakenly use an incorrect link to the Government’s free online Pension Tracing Service. In some cases, the link takes people to a commercial website linked to a fee-charging adviser.

The correct link is www.gov.uk/find-pension-contact-details

**Action for administering authorities**
If you signpost members to the Government's free online Pension Tracing Service, please make sure that you are using the correct link.

## Training

We are currently delivering the employer role and survivor benefits courses virtually using Microsoft Teams. They were initially offered to attendees that had already booked on the courses earlier in the year; however, we will shortly be advertising some new dates for booking for employer role, survivor benefits and transfers.

We also hope to publish the first bite-size employer training modules on APP in the next few weeks.

Please email karl.white@local.gov.uk if you have any requests for additional courses.

## Wider landscape

### MaPS publishes Corporate Plan for 2020/21

On 16 June 2020, the Money and Pensions Service (MaPS) published its Corporate Plan for 2020/21, setting out its strategic priorities and its immediate response to the COVID-19 pandemic.

### The Pensions Regulator publishes interim guidance on superfunds

On 18 June 2020, the Pensions Regulator published interim guidance on defined benefit superfunds. A superfund is a pension scheme set up to accept bulk transfers from defined benefit schemes.

### Voluntary scheme pays deadline extended for NHS pension scheme members

Due to the COVID-19 pandemic, the NHS Business Service Authority has decided to extend the voluntary scheme pays deadline for NHS scheme members for the 2018/19 tax year from 31 July 2020 to 31 October 2020. For more information, please see the NHS guidance notes on scheme pays.

## Legislation

### Acts

Corporate Insolvency and Governance Act 2020

[Divorce, Dissolution and Separation Act 2020]

**Statutory Instruments**
[The Coronavirus Life Assurance Scheme (England and Welsh Schemes) (Excluded Benefits for Tax Purposes) Regulations 2020] [SI 2020/615]

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## Useful links

[LGA Pensions page]

[LGPS member website (England and Wales)]

[LGPS member website (Scotland 2015)]

[LGPS Advisory Board website (England and Wales)]

[LGPS Advisory Board website (Scotland)]

[LGPS Regulations and Guidance website (England and Wales)]

[LGPS Regulations and Guidance website (Scotland)]

[Public Sector Transfer Club]

[Recognised Overseas Pension Schemes] that have told HMRC that they meet the conditions to be a ROPS and have asked to be included on the list.

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## LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pension advisers will get back to you.

**Jeff Houston (Head of Pensions)**
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## Further information

### Copyright



### Disclaimer

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Whilst every attempt is made to ensure the accuracy of the bulletin, it would be helpful if readers could bring to the attention of the Secretariat any perceived errors or omissions by emailing query.lgps@local.gov.uk.

| | |
|---|---|
| Brent | **Pension Board**<br>5 August 2020 |
| | **Report from the Director of Finance** |

# Brent Risk Register

| | |
|---|---|
| **Wards Affected:** | N/A |
| **Key or Non-Key Decision:** | N/A |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | Two<br>1. Risk Register<br>2. Risk Strategy |
| **Background Papers:** | None |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance |

**1.0 Purpose of the Report**

1.1 This report presents the updated Risk Register for the Brent Pension Fund Pensions Administration Service.

**2.0 Recommendation(s)**

2.1 The board is asked to note the report.

**3.0 Background**

3.1 Effective risk management is the foundation of sound corporate governance and for the LGPS the focus should be on all aspects of the scheme's operation, not just investment matters. Having a strategy and register in place is a way for the scheme manager to identify and manage scheme risks and it is considered good practice to have a strategy and register in place alongside established reporting mechanisms.

3.2 Using guidance from The Pensions Regulator and CIPFA, together with Brent's internal risk management resources, a process was undertaken in 2018 to produce a risk management strategy that was unique to Brent's circumstances. This involved a workshop that identified all of the relevant risks, assessed those risks in terms of likelihood, understanding risk management and contingency planning, monitoring risks and documentation in a register.

3.3 It is recognised that risk management works well when the administering authority, the Pension Board and employers work together. All parties then understand each other's capacity and appetite for risk. Key elements of this strategy were discussed at a recent working party set up with the scheme manager, administrator and select employers for feedback and comment. The Risk Strategy is attached to this report in Appendix 2.

3.4 It has been agreed in previous Board meetings that the Risk Register would become a standing agenda item at these meetings, with new risks and any changes to classifications of risks being reported to the board.

3.5 Key changes to the Risk Register:

- The risk register has been updated to reflect the impact of coronavirus (COVID-19).
- Following the release of the McCloud consultation, the risk register also provides an update on the work to be conducted by officers ahead of providing a response on the consultation.

The board is asked to notify the scheme manager if it disagrees with these classifications and present any new risks that they would like to be considered.

3.6 The revised Risk Register is attached at Appendix 1 and it is proposed to present any changes or updates to this document to the Pension Board at every meeting.

**4.0 Financial Implications**

4.1 There are no specific financial implications associated with noting this report.

**5.0 Legal Implications**

5.1 None arising directly from this report

**6.0 Equality Implications**

6.1 None arising directly from this report

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable for this report.

**8.0 Human Resources/Property Implications (if appropriate)**

8.1 None arising directly from this report

***Report sign off:***

***Minesh Patel***
Director of Finance

**The London Borough of Brent Pension Fund Risk Register 2020**

| Index | A | B | C | D | E | F | G | H | I | J |
|---|---|---|---|---|---|---|---|---|---|---|
| **1** | **Risk Area Disaster Recovery** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment 1** |
| 1.1 | Operational Disaster Recovery Plans Brent | Loss of or unable to access admin systems for:<br>a) Pensions<br>b) Payroll<br>c) Pensioner payroll | 1 | 10 | 10 | Brent Council Business Continuity Procedures | Brent | Annual | 2020 | Brent Council disaster recovery plan in place |
| 1.11 | | Pension Systems I.T. | 1 | 10 | 10 | Database of all:<br>a) Advisors<br>b) Suppliers<br>c) Contracts | Brent | Annual | 2020 | Held as hard copy by Brent Council's Legal Department |
| 1.2 | Operational Disaster Recovery Plans LPP | Loss of or unable to access LPP admin systems for pensions | 1 | 6 | 6 | LPP Shared Service Agreement. | LPP | Annual | 2020 | From 1 October 2018 LPP disaster recovery plan in place as part of their Shared Service Agreement with Brent Council |
| 1.21 | | LPP Pensions Admin System (Altair) used by Brent Council Employers, Maintained Schools and Academy's | 1 | 6 | 6 | LPP Shared Service Agreement | LPP | Annual | 2020 | LPP have a recovery plan in place for their pension admin platform Altair (External provider Aquila/Haywood) |
| **2** | **Risk Area Business Continuity Planning** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 2.1 | Business Continuity | LPP Financial Standing | 1 | 10 | 10 | LPP Service Contract | Brent | Annual | 2020 | Brent Council discuss LPP budget at regular contract monitoring meetings. |
| **3** | **Risk Area Risk Planning** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 3.1 | Risk Planning And Monitoring | Not monitoring:<br>a) Risk and the risk plan<br>b) And amending it as required<br>c) Or adding new areas of risk as they appear<br><br>Will lead to the risk plan being:<br>a) Inaccurate<br>b) Known risks not being accounted for<br>c) No plans to address these risks | 1 | 10 | 10 | Risk Plan | Brent | Annual | 2020 | The Risk Register is monitoring and reviewed by the Scheme Manager and the Pensions Board.<br><br>Areas of risk are when required:<br>a) Updated<br>b) Amended<br>c) New risks added if identified |
| **4** | **Risk Area Data Security** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 4.1 | Data Security | External attack, loss of data, locked out of data, poor internal procedures can lead to an increased risk of attack from:<br>a) outside<br>b) or internal fraud | 2 | 10 | 20 | Brent Council Data Security Procedures | Brent | Annual | 2020 | Procedures on data security in place, systems kept up to date with latest security updates |
| 4.12 | | Not backing up data regular using secure backup systems | 2 | 10 | 20 | Data Back Up Procedures. | Brent | Annual | 2020 | Data is backed up on an incremental basis daily and fully backed up weekly, data kept in secure sites. |
| 4.13 | | a) Clean desk polices not being adhered to:<br>b) Cabinets left open or not locked<br>c) Documents left out overnight<br>d) Documents left on colleagues desk when they are away<br>e) Computer not locked when operator leaves their desk | 2 | 5 | 10 | Brent Council Data Security Procedures | Brent | Annual | 2020 | Possibility of:<br>a) Sensitive data being seen by unauthorised persons<br>b) Data theft<br>c) GDPR breached<br>e) Brent Councils reputation put at risk |
| 4.14 | | Taking laptops away from desk that are not password protected with encryption, using them on public transport<br><br>Not storing laptops in secure location when not in use | 1 | 5 | 5 | Brent Council Data Security Procedures | Brent | Annual | 2020 | This can lead to:<br>a) Large losses of sensitive data<br>b) Unauthorised people seeing sensitive data while on public transport<br>c) Breach of GDPR<br>d) Breach of Councils policies and dismissal from service |
| 4.2 | General Data Protection Regulations | General Data Protection Regulations (GDPR) came into effect 25 May 2018, failure to comply with GDPR will lead to:<br>a) Complaints<br>b) Data breaches<br>c) Possible fines<br>d) Loss of reputation | 1 | 10 | 10 | Brent GDPR Policies | Brent | Annual | 2020 | Brent has GDPR policies in place and publishes GDPR privacy notices:<br>a) Online<br>b) Yammer<br>c) In news letters<br>d) In communications to its members, employers, academy's, maintained schools |
| 4.21 | | Sending sensitive data by email ensuring it will be sent to the right recipient and encrypted, or using a secure transmission system | 2 | 8 | 16 | Brent GDPR Policies | Brent | Annual | 2020 | Sensitive data being sent to an unauthorised person or business leading to breach of GDPR |
| 4.3 | Cyber Security | Unlawful cyber access or attacks could be serious for a scheme and its members, and could in the end result in identity theft, loss of data or even loss of financial assets | 2 | 10 | 20 | Brent Council Data Security Procedures<br><br>LPP Cyber Security Procedures | Brent | Annual | 2020 | Both Brent and LPP have significant cyber security policies and procedures in place to prevent and deter cyberattacks.<br><br>The impact of a cyber attack could be significant, so it is important for these to be permanently up to date. |
| **5** | **Risk Area Pension Administration** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 5.1 | (Backlog)<br><br>LPP Pension Administration Post Capita Handover November 2018 | Backlog of work from Capita:<br>a) Delay in administrative processing because of incomplete scheme data<br>b) Increased administration costs<br>c) Members benefits being delayed<br>d) Increase in complaints<br>e) Places an unwarranted and costly drain on Brent resources | 5 | 10 | 50 | LPP Shared Service Agreement | Brent | Monthly | Monthly | Extra resource outside of BAU provided by the LPP, phase 1 complete.<br><br>Plan in place to treat the backlog inherited from Capita is being done as a separate project so resources not take away from BAU administration. Phase 2 under consideration. |
| 5.2 | (Scheme Data)<br><br>Scheme Data Provided to LPP by Capita for:<br>Maintained Schools<br>Academy's<br>Employers | Missing common and Scheme Specific data not provided by employers, maintained schools and academy's leads to delay in progressing administration for members | 5 | 10 | 50 | LPP Data Check November 2018 | Brent | Annual | 2020 | LPP run a test of the data sent by Capita October 2018<br>Common Data 98% improved from 2017<br>Scheme Specific data 93% same as 2017 |
| 5.3 | Record Keeping Planning | Not updating the record keeping plan to take into account changes of circumstances thorough the year could lead to a failure to take corrective action leading to a drop in the quality of scheme data or delays in processing member benefits | 5 | 10 | 50 | RKP 2019 | Brent | Monthly | Monthly | Brent record keeping plan to be created to deal with poor common data and scheme Specific data being below requirements as highlighted the LPP November 2018 data check. Phase 1 of data cleanse project is now complete. Officers are working with LPP to identify requirements of phase 2 of the project. |
| 5.4 | (Employer Data)<br><br>Maintained Schools<br>Academy's<br>Employers<br>Supplied Data to Capita | Failure by Maintained Schools, Academy's, Employers to provide data accurately and on time to the LPP results in poor scheme data held by the LPP | 5 | 10 | 50 | PAS 2018 | Brent | Annual | 2020 | Employers to export data monthly to LPP system highlighting data problems by import validation, also reporting from the admin systems of missing files leads to early indication of employers having data problems<br><br>Training to be provided to employers by the LPP on using the systems and what LPP requires from employers<br><br>Revised PAS sets out what employer need to be doing |

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| 5.5 | Loss of Key Staff Members | Specialist nature of the work means there are relatively few staff members with knowledge of the Local Authority Pensions Regulations and Pensions Administration requirements.<br>Significant knowledge gap left if specialist staff leave, likely to cause short-term disruption. | 4 | 8 | 32 | Training Plan | Brent | Annual | 2020 | Key Officers to ensure processes are documented and knowledge is being passed on to other members of the team, to ensure limited disruption in the event of an unexpected absence or leaving the position.<br><br>Training events delivered by external parties are available and staff are encouraged to attend<br><br>External Support is available to mitigate this risk, both from external advisors and LPP who manage the fund's administration |
| 5.6 | Impact of Coronavirus (COVID-19) | Increase in staff who are unwell leading to:<br>a) Delays in administrative processing and increase in backlog cases<br>b) Member benefits being delayed<br>c) Increase in complaints<br>d) Difficulties in meeting key deadlines such as year-end<br><br>Delays in implementing the agreed investment strategy due to volatile financial markets. | 10 | 7 | 70 | Brent Council Business Continuity Procedures<br><br>LPP Business Continuity Procedures<br><br>Hymans Robertson Business Continuity Plan (as Fund Actuary and Investment Advisors) | Brent | Ongoing | Ongoing | Situation is being monitored on an ongoing basis.<br><br>Staff to observe Government and NHS guidance which is being updated on a regular basis.<br><br>Increased use of flexible and remote working technologies are now in place to enable staff to operate in an efficient and effective manner. The Pensions Administration and Finance team have shifted to working from home. Priority over the last few months has been focussed on ensuring completion of year end activities and priortisation of admin related tasks such as death benefits, retirements including ill health and refunds.<br><br>The Fund will not experience any issues in payment of member benefits as a result of market movements. The Fund will continue to hold a well-diversified portfolio of investments and maintain a long-term perspective. |
| **6** | **Risk Area Plan Events** | **Risk Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 6.1 | Pension Plan Events Planning | Plan events such as:<br>a) Annual benefits statements<br>b) Year end reporting to the TPR<br>c) Accounting<br>d) Pension increases<br>e) Plan valuations<br>f) All require planning in advance to ensure completion on time | 4 | 10 | 40 | Plan Calendar | Brent | Annual | 2020 | Plan Calendar to identify events:<br>a) What work is required<br>b) What recourses will be used<br>c) Completion and sign off |
| 6.12 | | Pension projects such:<br>a) GMP reconciliation<br>b) Changes in legislation that needs to be actioned<br>c) GMP equalised for men and woman | 5 | 10 | 50 | Plan Calendar | Brent | Annual | 2020 | To allow longer term planning for items such as:<br>a) GMP reconciliation<br>b) New legislation coming in to effect<br>c) Ensure Plan events are completed on time<br>d) Prepare for GMP equalisation |
| 6.2 | Active Benefits Statements 2019/20 | Failure to have the necessary correct and accurate data will lead to:<br>a) Statements not being sent<br>b) Possible delay sending statements whilst this data is obtained and systems updated | 6 | 10 | 60 | LLP Shared Service Agreement | Brent | Annual | 2020 | Data improvement being carried out under RKP 2019 |
| 6.21 | | Annual Benefits Statement dependant on:<br>a) Common Data<br>b) Scheme Specific data<br>c) Data being improved from the RKP 2019 (RKP 2019 to be finalised December 2018) | 5 | 10 | 50 | LLP Shared Service Agreement | Brent | Annual | 2020 | Improvement to common and Scheme Specific data being carried out under RKP 2019 |
| 6.3 | Deferred Member Benefit Statements 2019/20 | Incorrect Statuses, no address, missing data to calculate leads to:<br>a) Statements not being issued<br>b) statement inaccurate<br>c) Incorrect valuation and liabilities for the Plan. | 5 | 10 | 50 | LLP Shared Service Agreement | Brent | Annual | 2020 | Member data is being dealt with under the 2019 Record keeping Plan |
| 6.4 | Year End Return | Failure to complete year end return and submit on time leads to fines | 2 | 10 | 20 | PAS 2018 & Plan Calendar | Brent | Annual | 2020 | All Plan calendar events to be recorded with plans to ensure they are carried out, better planning for EOY with pro active action to get employers to provide data on time in place. Training session provided to employers to assist completion. |
| 6.5 | Admission Agreements | Failure to process an admission agreement within the time frames set on in LGPS regulations can lead to transferring employers pension entitlements being delayed, legal issues stopping the agreement from being implemented and costs incurred that can not be recovered | 5 | 10 | 50 | Internal Controls | Brent | Annual | 2020 | Process for admission agreements to be strengthened |
| 6.52 | | Not having procedures and processes to processes and monitor agreements are on track and any reason for delayed identified and acted on could lead to delays in implementation of the agreement | 5 | 10 | 50 | Internal Controls | Brent | Annual | 2020 | Monitoring for admission agreement to be improved |
| 6.53 | | Oversight of the legal team and ensuring that they are processing the legal agreements in the time set out in the procedures and requirements of admission agreements is a major factor on processing an admission agreement on time | 5 | 10 | 50 | Internal Controls | Brent | Annual | 2020 | Overseeing of the legal team on admission agreement by the Scheme Manager to ensure no delays and prompt processing of agreement becomes a priority |
| 6.54 | | Failure to keep to rules and regulation on admission agreement will require this failure to be reported to the TPR | 5 | 10 | 50 | Internal Controls | Brent | Annual | 2020 | Breeches log to bring attention of failing and lessons learned in processing admission agreements |
| **7** | **Risk Area Auto Enrolment** | **Risk Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 7.1 | Auto Enrolment | Failure to process auto enrolment on time leads to:<br>a) Member complaints<br>b) Members unable to opt out or in<br>c) Delayed administration<br>d) Possible action by the regulator to improve or be fined | 1 | 40 | 40 | Auto Enrolment Procedures | Brent | 2020 | 2020 | Auto enrolment checked monthly for:<br>a) Enrolment<br>b) Opt outs<br>c) Opt Ins<br>d) Auto Enrol Renewal, as part of Brent procedures for pensions and payroll |
| **8** | **Risk Area Regulatory** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| 8.1 | Anti Fraud Initiatives<br>Mortality<br>Existence | Benefits paid to people not entitled to benefits from the LGPS | 2 | 5 | 10 | 2019 Anti Fraud Plan | Brent | Annual | 2020 | Administration processes check for fraud |
| 8.2 | Pension Board Training | Pension Board members not having the appropriate degree of knowledge and understanding to perform their duties.<br><br>Pension Board member not having the right knowledge to make informed decisions and challenge Officers of the Council | 1 | 5 | 5 | Pension Board Training Plan | Brent | Annual | 2020 | Regular training is provided via a training programme for Pension Board members<br>All Pensions Board members to complete and pass the TPR public pensions course online |
| 8.3 | Pension Board Conflict Of Interest | Conflicts of interest must be declared in the Register of Interests<br><br>Failure to declare an interest can lead to serious consequences and pose a risk to the Plan and possibly member | 1 | 5 | 5 | Conflict of Interest Register | Brent | Annual | 2020 | The register of interests and other relevant documents are circulated to the Pension Board for ongoing review and are published on the Brent Council's website |

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| **8.4** | Governance | Failure to have good governance plans in place which are reviewed and monitored can lead to:<br>a) Poor administration<br>b) Increased administration costs<br>c) Poor investment outcomes<br>d) Increased levels of risk<br>e) Not understanding what the risks are and having plans to manage the risk<br>f) Statutory requirements not being met such as:<br>g) Annual benefits statements not being produce and sent out<br>h) Pension saving statements not being produce and sent out<br>i) Year end returns late | **1** | **3** | **3** | Multi areas cover governance:<br>a) Plan Rules<br>b) Business Plan<br>c) PAS 2018<br>d) Scheme Manager<br>e) Pensions Board<br>f) Pensions Sub Committee. | Brent | Annual | 2020 | Governance is monitored by:<br>a) Scheme Manager<br>b) Pensions Board<br>c) Pensions Sub Committee<br>d) Internal and External Controls |
| **8.5** | Failure to make provision for oversight of the administration of the Plan | Failure to ensure that overall oversight is in place and carried out can lead to:<br>a) Breaches of the law<br>b) Poor administration and record keeping<br>c) Unauthorised payments<br>d) Poor administration being allowed to continue<br>e) Failure to meet deadline on time<br>f) Possible fines<br>g) Fraud to occur<br>h) Loss of confidence and reputation for the Council | **1** | **2** | **2** | The Pension Board assists the Scheme Manager in the provision of oversight of how the Plan is administered | Brent | Ongoing | 2020 | The oversight of the plan is carried out by the Scheme manger with assistance from the Pension Board |
| **8.6** | Discretions | A decision to add pension or disregard a reduction on pension for early payment leads to increased costs to the employer | **1** | **5** | **5** | Chief Financial Officer | Brent | Annual | 2020 | Discretions under review on early retirement with actuarial reduction, Discretions are covered under LGPS Rule 30 (2&5)<br><br>In preparing such a statement the Council must have regard to the extent to which the discretions are exercised to avoid a loss of confidence in the service provided |
| **8.7** | Data Protection Breaches | Breaches not recorded and failure to report a breach to the regulator can lead to fines and loss of reputation | **3** | **6** | **18** | Breaches Log | Brent | Monthly | Monthly | Breaches log to monitor all breaches and report of breached to the regulator |
| **9** | **Risk Plan Funding & Accounting** | **Risk & Outline** | **Likelihood** | **Impact** | **Score** | **Control** | **Owner** | **Test** | **Next Review** | **Comment** |
| **9.1** | The Fund's Assets Insufficient To Meet Long Term Liabilities | Pension Fund Assets not sufficient to pay:<br>a) Pension benefits<br>b) Transfers<br>c) Death benefits<br>d) Could lead to raising of pensions contributions<br>e) Plan has to reduce benefits<br>f) Reassessment of the funding strategy | **2** | **10** | **20** | Public Sector Payroll Controls | Brent | 2020 | Monthly | Contributions are checked on a monthly basis<br>Overdue Contributions:<br>Employers<br>Academy's<br>Maintained Schools<br>Are actively chased |
| **9.11** | | | **1** | **10** | **10** | The Funding Strategy Statement | Brent | Tri Annual | 2022 | A report on the 2019 Triennial Review (including the Funding Strategy Statement) was presented to the Pension Board at the March 2020 meeting. |
| **9.12** | | | **1** | **10** | **10** | Fund's Funding Level Assessment | Brent | Monthly | Monthly | The Fund receives regular performance reports on its investments from the custodian. The Fund actuary, Hymans Robertson, completes a valuation of liabilities every 3 years. |
| **9.2** | Impact of McCloud judgement on Long Term Liabilities | Court of Appeal ruling that transitional protections were unlawful on the grounds of age discrimination could increase employer contributions. | **5** | **8** | **40** | Triennial valuation/ Funding Strategy Statement | Brent | Quarterly | Ongoing | Following the release of the McCloud consultation, Officers are now working together with the Fund's actuary, Hymans Robertson and the Fund's admin provider LPP to work through the detail. At this stage, it is expected to be a large piece of work for officers and relevant parties to understand, therefore it is likely that greater admin resource will be required. It is expected that there will be a cost to the Pension Scheme. Officers are to report back on its response to the consultation following discussions to be held with the Fund's actuary and admin provider. |
| **9.3** | Pension Contributions not Paid by:<br><br>Maintained Schools<br>Academy's<br>Employers<br><br>a) On time<br>b) Or not at all<br>c) Refusal to pay | Effects the Plans abilities to:<br>a) Pay out benefits<br>b) Braking the law on pension contribution collections.<br>c) Unnecessary costs for chasing for contributions.<br>d) Continuing non payment for pension contributions will lead to:<br>e) Breaches for the payment of pension contribution regulations<br>f) Being reported for breaches as required by law<br>g) Delay benefits beginning paid<br>h) Can lead to delays in accounting for pension contributions | **2** | **10** | **20** | PAS | Brent | 2020 | 2020 | Procedures in place to deal with pension contributions not being made or late |
| **9.31** | | | **2** | **10** | **20** | PAS | Brent | Annual | 2019 | Engaging with:<br>a) Employers<br>b) Academy's<br>c) Maintained Schools<br>d) With working parties and employer forums<br>e) LPP to provide more support in this area |
| **9.32** | | | **2** | **10** | **20** | PAS | Brent | 2020 | 2020 | Contributions are monitored on a monthly basis and late or non payers reported.<br>2019 Revised PAS to include fines for non compliers |
| **9.4** | Pension Plan Accounting | Failure to comply with accounting regulations will lead to serious consequences:<br>a) Possible fines<br>b) Loss of reputation | **2** | **10** | **20** | Annual audit | Brent | Annual | 2020 | Accounts for the year to 31 March 2020 are currently with auditors Grant Thornton ahead of review and sign off. |
| **9.41** | | | **1** | **10** | **10** | Triennial valuations | Brent | Tri Annual | 2022 | 2019 Triannual completed. Next triannual valuation 2022 |
| **9.42** | | | **1** | **10** | **10** | The Funding Strategy Statement | Brent | Tri Annual | 2022 | A report on the 2019 Triennial Review (including the Funding Strategy Statement) was presented to the Pension Board at the March 2020 meeting. |
| **9.44** | | | **1** | **10** | **10** | Fund's Funding Level Assessment | Brent | Monthly | Monthly | The Fund receives regular performance reports on its investments from the custodian. The Fund actuary, Hymans Robertson, completes a valuation of liabilities every 3 years. |

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# London Borough of Brent

# Risk Strategy

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## 1. Introduction

1.1 This is the Risk Strategy for the London Borough of Brent Fund ("the Fund"), which is part of the Local Government Pension Scheme ("LGPS") managed and administered by the London Borough of Brent ("the Administering Authority").

The Risk Strategy details the Fund's approach to managing risk including:

- the risk approach adopted for the management of the Fund, attitudes to risk, how risk is managed and implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund

## 2. Strategy objectives

2.1 In relation to understanding and monitoring risks, the Administering Authority aims to:

- integrate risk management into the procedures, internal controls, and the day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund including, the Pensions Board, maintained schools, academy's, employers and other partners
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice and TPR guidance of risk
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

2.2 To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication
- the Pensions Act 2004
- the Pensions Regulator code of practise 14 as related to risk
- the pensions Regulator Essential guide to the public service code as related to risk

## 3. Purpose of the strategy

3.1 The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities for improvement and a reduction in risk along with better outcomes for members
- minimise threats

3.2 The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

## 4. Effective date

4.1 This policy is to go before the Pension Board on 24 July 2018 for approval and will be in effect from that date.

## 5. Review

5.1 To be viewed quarterly by the Scheme Manager and the Pensions Board and updated as required, or if the risk management arrangements, or other matters included within it, merit reconsideration.

## 6. Scope

6.1 This Risk Strategy applies to all members of the Pension Board and the Pensions Fund SubCommittee, including scheme member and employer representatives. It also applies to officers involved in the management of the Fund including the Chief Finance Officer (Section 151 Officer), Head of Finance and the Head of Pensions.

6.2 Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee and Sub-Committee members and Board members as required in meeting the objectives of this Policy.

## 7. Risk Management Philosophy

7.1 The Administering Authority recognises that it is not possible to eliminate all risks. Accepting and actively managing risks is therefore a key part of the risk management strategy for the Fund.

7.2 In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, further joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

7.3 The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## 8. CIPFA and the Pensions Regulator's Requirements

8.1 CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

8.2 The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

***249B Requirement for internal controls: public service pension schemes***

1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed: (a) in accordance with the scheme rules, and
(b) in accordance with the requirements of the law.

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A." Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly.

The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the experience of the person(s) performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

8.3 The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Strategy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

## 9. Responsibility

9.1 The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the officers are responsible for ensuring the process outlined below is carried out, subject to the oversight of the Pension Board.

However, it is the responsibility of each individual covered by this Strategy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## 10. The London Borough of Brent Pension Fund Risk Management Process

10.1 The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.

| | |
|---|---|
| (1) | Risk Identification |
| (2) | Risk Analysis |
| (3) | Risk Control |
| (4) | Risk monitoring |

10.2 Risk identification (1)

The risk identification process is both a proactive and reactive one. Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises overseen by the Scheme Manager, Pension Board, and Pension Sub Committee
- performance measurement against agreed objectives
- monitoring against the Fund's business plan to be available Q4 2018
- findings of internal and external audit and other adviser reports
- feedback from the Pension Board, maintained schools, academy's, employers and other stakeholders
- liaison with other organisations, regional, national associations, and professional groups

Once identified, risks will be documented in the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

10.3 Risk analysis (2)

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

| Risk level Reasoning | | Likelihood | Impact | Score | Risk Types | Risk Planning | Expected Outcomes |
|---|---|---|---|---|---|---|---|
| Risk Level | % | 1 Least Likely 10 Most Likely | 1 Least Likely 10 Most Likely | Likelihood Times Impact | | | |
| **Low** | 1 to 20 | 1 | 10 | 10 | Risk known | Planned for in advance | Countered by plans and procedures in place if needed |
| Green Low | | | | | | | |
| **Low to Medium** | 20 to 50 | 2 | 10 | 20 | Risk possible concerns | Monitored | Monitored and plans in action or more actions will be put in place if required |
| Yellow Low to Medium | | | | | | | |
| Medium to High | 50 to 75 | 5 | 10 | 50 | Risk manageable | Managed | Active and pro active longer term plans in place, subject to close monitoring and rapid action if required |
| Orange Midium to High | | | | | | | |
| High | 75 to 100 | 8 | 10 | 80 | Risk having a major impact | Planned actions in place | Action plans in place, monitored weekly, longer term before risk will reduce |
| Red High | | | | | | | |

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

10.4 Risk control *(3)*

The Head of Finance (Pensions) will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur.

Before any such action can be taken, Pension Board and Pension Sub Committee approval may be required where appropriate officer delegations are not in place.

The result of any change to the internal controls could result in any of the following:

- Risk elimination, for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction, for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer, for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Administering Authority will update the Fund's business plan (Due Q4 2018) in relation to any agreed action as a result of an identified risk.

10.5 Risk monitoring (4)

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Board. In monitoring risk management activity, the Pension Board will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- are there any lessons to be learned for the future assessment and management of risks.

## 11. Reporting and monitoring

11.1 Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on a quarterly basis to the Pension Board.

The Pension Committee will be provided with updates on an ongoing basis in relation to any significant changes to risks (for example where a risk has changed by a score of 10 or more) or new major risks (for example, scored 25 or more).

As a matter of course, the Pension Fund Board will be provided with the same information as is provided to the Pension Committee (or Pension Sub-Committee as appropriate) and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Strategy on a quarterly basis taking into consideration any feedback from the Pensions Board and Pensions Sub Committee.

## 12. Key risks to the effective delivery

12.1 The key risks to the delivery of this Strategy are outlined below. The Pension Board will monitor these and other key risks and consider how to respond to them following updates and recommendations from officers:

- Risk management is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately
- Risk plan is not monitored to ensure actions to reduce risk have been taken and new risks that have been identified are not recorded, monitored and carried out, will lead to risk mot being managed in line with Risk Policy

## 13. Risk Register Appendix A

The Risk Register Appendix A :

1 Risk Area Disaster Recovery
2 Risk Area Business  Continuity Planning
3 Risk Area Risk Planning
4 Risk Area Data Security
5 Risk Area Pension Administration
6 Risk Area Plan Events
7 Risk Area ns
8 Risk Area TPA Transition
9 Risk Area Regulatory
10 Risk Plan Funding & Accounting

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| | |
|---|---|
| Brent | **Pensions Fund Sub-Committee**<br>16 July 2020 |
| | **Report from the Director of Finance** |
| **Covid-19 Update** | |

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | 1. Covid-19: market update |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst |

**1.0 Purpose of the Report**

1.1 The purpose of this report is to outline the impact of coronavirus (COVID-19) on the Brent Pension Fund.

**2.0 Recommendation(s)**

2.1 The Committee is asked to note the overall report and to comment on the proposal to pause any potential investment into the property asset class.

**3.0 Detail**

3.1 This report provides an overview of the impact of coronavirus (COVID-19) on the Brent Pension Fund. The full detailed paper is attached to this report in Appendix 1.

3.2 Since the market value of the Fund's assets was last reported to the sub-committee, the spread of coronavirus had a dramatic effect on financial markets. In February and March some assets (particularly global equity markets) recorded some of the worst returns in recent history.

3.3 In response, global governments, policy makers and central banks have announced a number of fiscal and monetary measures. In the UK, the Bank of England lowered interest rates from 0.75% to 0.1% and several targeted fiscal interventions to support households and businesses were announced by the government. There has been a significant rebound in asset values since 31 March following the introduction of support packages.

3.4 It is clear that the spread of the virus means that it is inevitable that global economic growth will be impacted in 2020. Q1 GDP fell by 2.0% in the UK, 3.6% in the Eurozone and 5.0% in the United States. As Europe, the UK and the US went into lockdown only during March, falls in second-quarter GDP are likely to be even greater. April indicators for economic activity collapsed to unprecedented levels in Western economies. Whilst they rebounded in May, they remained below their worst levels of the financial crisis.

3.5 The second quarter has seen substantial and sustained decline in the rate of new infections in Europe since their peaks at the start of the quarter. This has led to steps to ease lockdown restrictions but it has become increasingly evident that the easing is likely to be a prolonged process.

## 4.0 Impact on the Fund

4.1 The table below shows how the market value of the Fund's assets has changed since the start of the year.

| | ASSET CLASS | 31/12/2019 Value (£m) | 31/03/2020 Value (£m) | 31/05/2020 Value (£m) |
|---|---|---|---|---|
| GROWTH | **Equities** | | | |
| | Global - LGIM | 345.4 | 293.4 | 343.5 |
| | UK - LGIM | 125.6 | 94.1 | 102.1 |
| | LCIV Emerging Markets (JP Morgan) | 30.6 | 25.2 | 27.6 |
| | **Equities - Total** | **501.6** | **412.8** | **473.2** |
| | **Private Equity** | | | |
| | Capital Dynamics | 46.8 | 49.1 | 49.5 |
| | **Private Equity Total** | **46.8** | **49.1** | **49.5** |
| DIVERSIFERS | **Diversified Growth Fund** | | | |
| | LCIV Diversified Growth Fund (Baillie Gifford) | 128.9 | 110.8 | 117.2 |
| | LCIV Absolute Return Fund (Ruffer) | 51.3 | 50.1 | 53.2 |
| | **Total Diversified Growth** | **180.2** | **160.9** | **170.4** |
| | **Infrastructure** | | | |
| | Alinda | 23.0 | 24.6 | 20.3 |
| | Capital Dynamics | 10.6 | 10.1 | 10.6 |
| | LCIV Infrastructure Fund (Stepstone) | 0.0 | 0.5 | 3.4 |
| | **Infrastructure Total** | **33.6** | **35.3** | **34.3** |
| | **Property** | | | |
| | Europe - Aviva | 0.1 | 0.1 | 0.1 |

| | | | | |
|---|---|---|---|---|
| | **Property - Total** | **0.1** | **0.1** | **0.1** |
| PROTECTION | **Fixed Income** | | | |
| | UK Gilts Over 15 yrs - Blackrock | 83.2 | 92.6 | 97.4 |
| | LCIV MAC Fund (CQS) | 36.8 | 30.6 | 33.4 |
| | **Fixed Income Total** | **120.0** | **123.2** | **130.8** |
| | **Cash Deposits** | | | |
| | Cash | 52.3 | 53.9 | 58.9 |
| | **Cash Deposits Total** | **52.3** | **53.9** | **58.9** |
| | **Grand Total** | **934.8** | **835.3** | **917.1** |

**Growth**

4.2 The growth allocation forms a large part of the pension funds assets. Equity Markets fell considerably during Q1, registering 25% falls in the UK and 20% globally. They have since rebounded and the Fund has made up some of losses sustained earlier in the year.

**Diversifiers**

4.3 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1. The Baillie Gifford mandate showed poor performance due to allocations to equities, emerging market bonds and property, some of the losses have since been recovered. Ruffer fared significantly better in terms of preserving capital with it's more defensively positioned strategy.

4.4 The Fund also holds investments with Alinda (Infrastructure) and Capital Dynamics (Infrastructure and Private Equity). As these investments are not publicly listed there is a degree of estimation involved in their valuation.

4.5 Due to the uncertainties in the financial markets caused by pandemic, there is risk that the estimated valuation of these investments may be inaccurate. Information received from the Fund Managers indicates that some assets are not predicted to be impacted heavily by the pandemic. This would include companies that operate in the IT, telecoms, essential healthcare and essential services sectors. On the other hand, companies affected by government mandated shutdowns or already struggling businesses including those in the events, restaurants, air transportation and leisure sectors are at a high risk of significant write-down.

4.6 As the effects of COVID-19 only began to show through in the final two weeks of March 2020 in Europe, the Q2 2020 valuations will likely give a much clearer picture of asset values.

**Protection**

4.7 As one would expect during times of volatility, gilts have performed well. Overall gilts returned 6.3% in Q1 2020 and 1.6% in Q2 so far. The Fund's gilts holding have performed well accordingly, valued at £97.4m at the end of May compared to £83.2 at the start of the year and £77m when purchased in March 2019. The CQS mandate showed poor performance as the high yield market suffered more than the investment grade sector. The Fund's significant cash holdings also provided a buffer against the volatility seen in other financial assets and avoided need to be a forced seller during the downturn.

**Property**

4.8 The Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time. Hymans Robertson, the Fund's investment advisors, are supportive of the long term allocation but are cautious about investing in property at the present time due to the lack of transparency and transactions. It also remains to be seen how coronavirus has affected long term demand for property such as office space and retail stores. The committee is asked to comment on this proposal and pause any potential investment into this asset class until there is greater clarity in property markets.

## 5.0 Implementation of the Investment Strategy

5.1 At the previous Committee meeting on 25 February 2020, the results of the review of the Fund's investment strategy were presented. The investment strategy acknowledged that the Fund's actual investment arrangements will deviate from their target over time and therefore a degree of rebalancing should take place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

5.2 The outbreak of coronavirus has posed particular challenges to the Fund including high levels of volatility in the financial markets and changes to working arrangements. The fund has prioritised key tasks including careful management of the Fund's Cashflow, the payment of benefits to members and the production of year-end accounts.

5.3 Nevertheless, officers have kept in regular contact with the Fund's investment advisors since the last meeting to monitor the position of the Fund's assets and to discuss the implementation of the agreed investment strategy.

5.4 As markets have stabilised, the Fund has proceeded to take a cautious view in the implementation of the investment strategy. The Fund was underweight, relative to interim target, in the London CIV MAC mandate and in emerging market equities. To help move towards the interim target of 5% in each mandate, the Fund rebalanced some of its existing cash holdings into these mandates. £8m was invested in LCIV's Emerging Markets fund to move from 3% to 4% of assets; and £4m was invested in LCIV's MAC fund to move from 3.5% to 4% of assets. These transactions were completed at the end of June 2020.

5.5 As is normal with trading in and out of existing funds, transaction fees were incurred as a result of these trades. Officers worked closely with the London CIV, fund managers and Northern Trust (the Fund's global custodian) to minimise these fees as much as possible. This was relatively successful where transaction fees where managed down to £8k in respect of the Emerging Markets investment and no transaction fees were incurred in respect of the MAC investment.

5.6 It is proposed to use some of the remaining cash holding towards investment in a new low carbon equity mandate. This is included for decision on another report on this agenda.

**6.0 Financial Implications**

7.1 These are set out throughout the report.

**7.0 Legal Implications**

7.1 Not applicable.

**8.0 Equality Implications**

8.1 Not applicable.

**9.0 Consultation with Ward Members and Stakeholders**

9.1 Not applicable.

**10.0 Human Resources**

10.1 Not applicable.

***Report sign off:***

***Minesh Patel***
Director of Finance

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# Covid-19: market update

## Addressee and purpose

This paper is addressed to the Officers and Pension Fund Sub Committee (the "Committee") of the London Borough of Brent ("Brent") as administering authority to the London Borough of Brent Pension Fund (the "Fund"). This paper should be read in conjunction with our Investment strategy transition road map.

In addition to the enormous human cost, the rapid spread of the coronavirus will inevitably have a material impact on the rate of global economic growth. It is important to note that, while growth is expected to take a severe hit in the near term, global growth and corporate profits will eventually enter a recovery. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers causing permanent damage.

The purpose of this paper is to aid understanding of the current market backdrop, through discussion of plausible economic recovery scenarios and associated market impacts and help identify the key risks and opportunities facing the Fund and hence aid decision-making.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation without our prior written consent. We accept no liability where this report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

## Current market backdrop

### Market performance

The table below shows the returns on major assets classes year to date (to 19 June). The figures for Q1 (e.g. the c25% fall in the value of UK equities) illustrate the scale of the fall in asset values during February and March, with only government gilts and gold delivering a positive return. There has been a significant rebound in asset values since 31 March due mainly to the economic stimulus provided by governments in the UK, US and Europe.

| UK | Q2 20* | Q1 20 | 2020* | GLOBAL | Q2 20* | Q1 20 | 2020* |
|---|---|---|---|---|---|---|---|
| **EQUITIES** | 12.6 | -25.1 | -15.7 | **EQUITIES** | 18.8 | -20.0 | -4.9 |
| **BONDS** | | | | North America | 21.1 | -19.6 | -2.7 |
| Conventional gilts | 1.6 | 6.3 | 8.0 | Europe ex UK | 16.7 | -20.9 | -7.6 |
| Index-linked gilts | 8.8 | 1.6 | 10.6 | Japan | 13.3 | -17.2 | -6.2 |
| Credit | 6.3 | -3.4 | 2.7 | Dev. Asia ex Japan | 15.6 | -20.6 | -8.3 |
| PROPERTY* | -2.0 | -1.4 | -3.4 | Emerging Markets | 18.0 | -20.2 | -5.8 |
| **STERLING** | | | | **GOVERNMENT BONDS** | 0.7 | 3.2 | 3.9 |
| v US dollar | -0.3 | -6.4 | -6.7 | High Yield | 10.8 | -14.9 | -5.7 |
| v Euro | -2.2 | -4.2 | -6.3 | Gold | 8.0 | 6.0 | 14.5 |
| v Japanese yen | -1.2 | -7.0 | -8.1 | Oil | 87.2 | -65.9 | -36.2 |

Percentage returns in local currency ($ for Gold and Oil). *All returns to 19/06/2020, apart from property (31/05/2020).

## Impact on the Fund

The table below shows how the market value of the Fund's assets has changed since the start of the year. It highlights the significant fall during Q1 and the rebound since 31 March 2020.

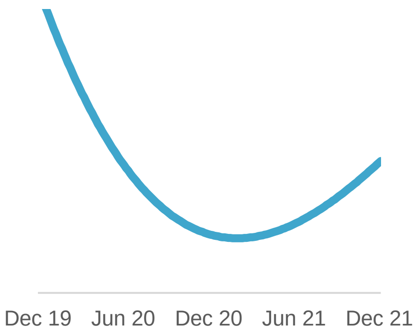
| | 31 December 2019 | 31 March 2020 | 31 May 2020 |
|---|---|---|---|
| Asset value | £934.8m | £835.3m | £917.1m |

Markets are, to an extent, looking through dismal expectations for Q2 data (GDP, corporate earnings, employment) and are now focussing on a potential economic recovery in the second half of the year. Enormous fiscal and monetary policy support has been deployed; it remains to be seen how effective this will be in supporting a strong recovery in economic activity as governments try to achieve a sustainable re-opening of their economies, and what the long-term cost of providing this support will be.

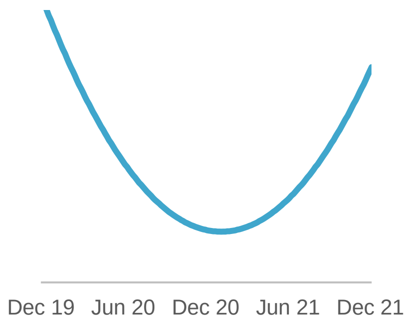
While government bond yields remain near record lows, global equity markets have rebounded strongly since their March nadir and are now touching levels seen as recently as last summer. The recent equity market rally, alongside falling earnings, has taken longer-term global equity valuation measures back towards longer-term averages. Shorter-term valuation measures, such as forward price-to-earnings ratios, are looking increasingly expensive versus history.

## Outlook for recovery

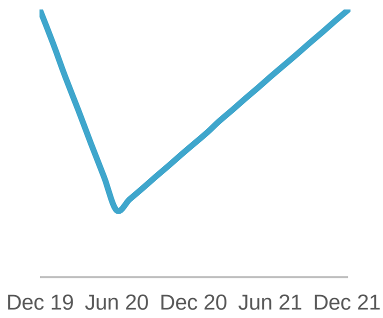
As the initial phase of lockdowns ease across the globe and the dust attempts to settle, attention now turns to the complexity associated with lifting restrictions whilst trying to minimise the threat of a second wave of infections. There are a number of plausible scenarios that a recovery could take, each having different economic and market impacts over the short, medium and long terms. As the below graphs show, these range from a period of further decline and sluggish recovery (Bear case) through to a sharp recovery supported by medical breakthroughs (Bull case). Somewhere in between lies a slow and steady recovery following an initial recession (Base case).




**Bear**




**Base**




**Bull**

Further details of these plausible scenarios and the accompanying impacts over the period to 2021 are set out in appendix 1. Please note these are not intended as forecasts but rather a plausible set of scenarios and the potential accompanying economic and market impacts.

Earlier this year an investment strategy review was undertaken with revised interim and long-term benchmarks agreed by the Committee. In these unprecedented times, it is worth reflecting on these agreed actions in light of the current market outlook.

### Our view

Against this backdrop, we remain broadly comfortable with the Fund's strategy. Although volatility is likely to continue in the short term – due to uncertainty over the pace and scale of return in economic activity – the Fund is a long-term investor and can therefore take a long-term view. This is helped by the Fund's positive cashflow position (contribution income currently exceeds benefit outgo), which means the Fund is not a forced seller of assets. The cashflow position should continue to be monitored and capture the impact of any requests from employers to defer contributions.

Furthermore, the Fund's diversified approach to investing means it is well placed to navigate through challenging market environments with each asset class having its role to play.

### Growth

The Fund's growth allocation forms around half of the strategic allocation and is the return seeking element of the portfolio.

The Fund's growth assets have pleasingly made up some of the losses incurred during Q1 supported by the rebound in equity markets. While some volatility can be expected in the short term, we remain supportive of the Fund's exposure to equities as the main source of return for the Fund over the longer term, helping to deliver on the Fund's long-term objectives - close the funding gap and keep contribution rates low. Reshaping the equity portfolio to increase exposure to low carbon and reduce the exposure to the UK over time will provide a further benefit in terms of risk diversification.

### Diversifiers

The Diversifiers allocation is, as the name would suggest, there to provide meaningful and necessary diversification to the Fund's assets. They aim to provide a degree of predictability and stability to the Fund's return and income profile over the longer-term.

The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with Ruffer faring significantly better in terms of preserving capital. We remain supportive of the Fund's having a strategic allocation to multi-asset funds because of the diversification of risks they provide – they provide some ballast to equity market volatility. However, the Committee may wish to reconsider the balance between the two managers e.g. move to equal splits between the two, acknowledging their different styles which should complement each other.

We remain cautious on the outlook of private markets (private debt, infrastructure) but do believe based on a 'selective' investment approach these asset classes may offer investment opportunities for the Fund as companies and markets react to the impact of the COVID-19 pandemic. With the LCIV in the development stage of its private debt sub-fund and the infrastructure mandate in its infancy, this presents an opportune time for all parties (the Fund, us and other London Boroughs) to work together to aid in shaping future portfolio structures. There is also the advantage that, when investing in these private markets, capital is "drawn" in stages which therefore reduces the timing risk of investing in them in the short term. We propose that we work with the Officers regarding agreeing any future commitments, as part of the Fund working towards its strategic allocations to these asset classes.

The final asset class making up the diversifier allocation is property. The Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time (this investment is legacy investment in wind up). Post Covid sell-off, some property funds can be bought at material discounts to Net Asset Value ("NAV") currently, while hindsight might show this an ideal opportunity for the Fund to increase its exposure, we are cautious about investing in property at the present time. Our view is that the Fund should wait before investing in property, until market values provide greater transparency (a lack of transactions means current pricing may be unreliable e.g. the price may suggest a discount to NAV, there is limited data to test how reliable the NAV number is) and there is greater clarity on the future prospects for property investment (e.g. office space may be less attractive now because many employees are better able to work from home).

### Protection

Through the initial market downturn, the Fund's bond holdings performed well (as we would expect) helping to somewhat mitigate the growth allocation's fall. This is what protection assets like bonds are there to do and why we continue to be comfortable with the current arrangements – the gilts offer low cost exposure to downside protection assets.

The other component of the protection allocation is the CQS multi-asset credit mandate with the London CIV. Although categorised as a 'protection' style mandate it is very much at the "punchier" end of the protection scale given its allocation to high yield debt. Nonetheless, we continue to have conviction in the role this asset class has to play within the portfolio – offering diversification and low duration exposure to credit markets.

### Conclusions

We remain broadly supportive of the Fund's current strategy. The Fund's positive cashflow position means it is not expected to be a forced seller of assets during any period of market downturn although this will need to be monitored.

In the shorter term, the Fund is exposed to the potential (downside) impact of disappointment in the scale and speed of the economic recovery. In particular, the key risks to the Fund's funding level are from its exposure to equities. While a bear scenario presents the prospect of a fall in assets in the short term (assessed to end 2021), over the longer term we would expect equity markets to recover as the pace of economic activity picks up post 2021. Furthermore, the Fund's protection assets will continue to offer good downside protection whilst the diversifiers should provide a stabilising force for both volatility and return. For these reasons we are broadly comfortable the current strategy remains appropriate to deliver on the Fund's long-term objectives.

The one area where we have most caution is property, although we support the asset class's long-term strategic benefits, we have caution on a short-term view. Given this, we recommend pausing any potential investment into this asset class. As outline in the transition road map, we propose the long-term strategic allocation of 10% into property remains, but the interim allocation is set at 0% (previously 5%), with the assets, previously earmarked for property, now split 3% equities and 2% cash. This can be revisited once there is greater clarity on the outlook for property markets.

At a structural level, there will be opportunities for the Fund, particularly within the private market space as the recovery takes shape.

Prepared by:-

William Marshall, Partner

Kenneth Taylor, Associate Investment Consultant

Kameel Kapitan, Associate Investment Consultant

For and on behalf of Hymans Robertson LLP

June 2020

# Appendix 1 – Scenarios considered

## Possible scenarios

After the initial phase of infections and full lockdown, with the associated sharp recession, attention now turns to the complexity associated with lifting restrictions whilst trying to minimise the threat of a second wave of infections. A plausible set of scenarios and the potential accompanying economic and market impacts are discussed below. These are not intended as forecasts but rather a plausible set of scenarios and the potential accompanying economic and market impacts.

### Base case

In our **Base case** the gradual lifting of lockdowns, in the absence of meaningful medical progress, means consumer spending remains subdued and there are large increases in unemployment, company failures (or simply an inability to return to the same level of capacity) and a collapse in business investment, weigh on the prospects for a rapid recovery. The subsequent recovery in output follows a **"U- shaped"** path with the severe downturn followed by a gradual recovery as restrictions are loosened. The cost of accommodative monetary policy acts as a longer-term drag to growth, either through lower central spending or higher taxes. A growth and earnings recession are priced into markets to a degree but given the strong bounce in markets since their March lows, risk assets may drift lower, or sideways for a prolonged period, in this scenario.

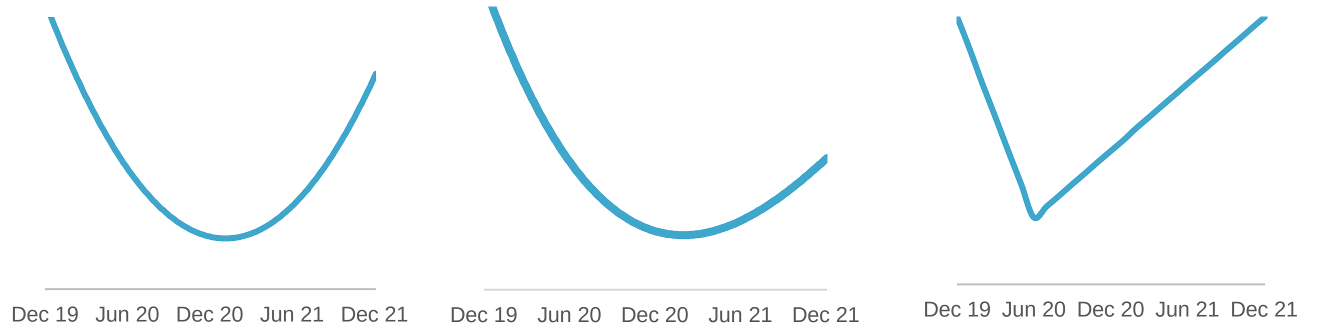
### Bear case (downside scenario)

In our **Bear case** infection rates, having initially fallen on containment measures, start to rise again, as the relaxation of containment measures leads to a second round of infections. Alternatively, the lifting of lockdown is slower than anticipated, as governments try to minimise infections at any cost. Significant and prolonged economic shutdown across major economies leads to significant structural and liquidity difficulties causing an extended recession, greater impairments and further significant falls in risk assets. The subsequent path of the recovery in output is **"a tilted L-Shaped"**. Risk assets re-test their March lows and yields and base rates test a zero-lower bound.

### Bull case (upside scenario)

In our **Bull case** – a sustainable and progressive reopening of economies potentially facilitated by the rapid emergence of a vaccine and/or significant advancement of test and trace technologies. Deferred consumption, production and business investment combine with unprecedented levels of fiscal and monetary support to ensure high levels of unemployment are temporary and bankruptcies limited, leading to a sharp recovery in activity and period of above-trend growth. The subsequent path of recovery in output is **"V-Shaped"**. Equity markets rebound to end-2019 levels and credit spreads return to long-term averages, while base rates and government bond yields rise a little, contained by necessarily accommodative monetary policy given substantial debt accumulation.

### Illustrative output level in base, bear and bull scenarios, respectively



| | May 2020 consensus | Base | Bear | Bull |
|---|---|---|---|---|
| **UK GDP 2020** | -7.9 | -7.9 | -10.0 | -6.0 |
| **UK GDP 2021** | 6.1 | 6.1 | 5.5 | 6.5 |
| **2-year change in output level** | -2.3 | -2.3 | -5.0 | 0.0 |
| **CPI Inflation 2020** | 1.0 | 1.0 | 0.5 | 1.5 |
| **CPI Inflation 2021** | 1.4 | 1.4 | 1.0 | 2.5 |
| | | **Level (change since 30 April 2020)** | | |
| **Base rates** | 0.1 | 0.1 | 0.0 (-0.1) | 0.5 (+0.4) |
| **10-year gilt yields** | 0.2 | 0.2 | 0.0 (-0.2) | 0.7 (+0.5) |
| **10-year index-linked yields** | -2.6 | -2.6 | -2.2 (+0.4) | -2.8 (-0.2) |
| **10-year implied inflation** | 2.8 | 2.8 | 2.2 (-0.6) | 3.5 (+0.7) |
| **Global equities** | | -10% | -20% | `+10% |
| **IG credit spreads** | 2.1 | 2.1 | 3.1 (+1.0) | 1.4 (-0.75) |
| **Sub-IG credit spreads** | 7.6 | 7.6 | 10.6 (+3.0) | 5.1 (-2.5) |
| **UK Commercial property** | | -10% | -25% | 0% |

| | |
|---|---|
| Brent | **Pensions Fund Sub-Committee**<br>16 July 2020 |
| | **Report from the Director of Finance** |

**Low Carbon Equity Fund Investment**

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | PART EXEMPT - as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: “Information relating to the financial or business affairs of any particular person (including the authority holding that information)" |
| **No. of Appendices:** | Two<br>1. Brent Low Carbon Equity Fund – Hymans Paper June 2020 (Exempt)<br>2. Fees Table - June 2020 (Exempt) |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst<br>Saagar Raithatha, Finance Analyst |

## 1.0 Purpose of the Report

1.1 As part of the investment strategy review carried out in Q1 2020, the Committee agreed to make an initial investment in a low-carbon equity fund, which will be funded by investing a proportion of the Fund’s excess cash holdings. This report presents analysis and results of investment options for the Committee to consider and agree which fund to invest in.

## 2.0 Recommendation(s)

2.1 The Committee to note the analysis set out in Appendix 1 undertaken by the Fund’s investment advisors, Hymans Robertson in relation to an initial investment in a low-carbon equity fund.

2.2 The Committee to approve an initial investment of c£28m in the BlackRock ACS World ESG Tracker Fund.

## 3.0 London CIV update on Responsible Investment

3.1 Responsible Investment (RI) and environmental, social and governance (ESG) considerations with regards to strategic investment decision making is at the forefront of pension fund investing at present. This has been driven by an increased focus in this area from lobby groups, regulators and from greater public scrutiny.

3.2 ESG is a term that is used to describe a set of factors within responsible investing (RI) that can be a source of financial risk within different assets. The below table shows some examples of ESG factors.

| Environmental factors | Social factors | Governance Factors |
|---|---|---|
| Climate change | Diversity | Board Structure |
| Resource Scarcity | Human rights | Executive Remuneration |
| Water Stress | Health & Safety | Transparency |
| Pollution | Data Protection | Shareholders Rights |
| Waste Management | Community Relations | Auditing and Accounts |

3.3 Existing ongoing work on ESG can be notably seen through the London CIV, where the majority of the Fund's current investments are held. An update on this was provided by LCIV in a RI and ESG Progress report taken to the LCIV Shareholder Committee meeting on 2 April 2020. It had previously been recommended that in light of the increased focus on ESG and RI, that at least two Responsible Investment positions be appointed within LCIV, starting with the Head of Responsible Investment. In addition to this, five further recommendations were approved in December 2020 as priorities to be taken forward as part of ongoing work on ESG. The below table provides a status update on these recommendations. Although progress to date is welcome, officers will continue to engage with the LCIV team and insist that the recommendations are implemented and embedded.

| Priority Areas | Description | Status |
|---|---|---|
| 1 | Specific resource focused on Responsible Investment and ESG matters | Interviews held in March. Head of RI has been appointed. |
| 2 | Product offerings | Renewable Infrastructure fund first meet held in April. Sustainable Equities exclusion fund launched on 11 March. |
| 3 | Improvements in reporting and communication | New website being mapped out in development. |
| 4 | Engagement Services | Presentation by providers received. |
| 5 | Investment foot-printing including at least carbon and fossil fuel exposure | Workshop date to be agreed. |

| | | |
|---|---|---|
| 6 | Culture, leadership and investment beliefs | Appointment of Chris Bilsland as NED Champion |

**4.0 Low Carbon equity fund**

4.1 Low-carbon equity funds offer reduced exposure to carbon-intense companies, sectors and geographical locations. Investing in such funds is one of a number of ways in implementing a more RI focussed investment strategy.

4.2 In February 2020, initial high-level discussions of low-carbon equity funds took place as part of the review of the Fund's investment strategy. As part of this exercise, it was agreed to expand the Fund's investment beliefs to have a more explicit Responsible Investment focus, including incorporating management of "climate change" risk into the strategy via an initial investment into a low-carbon equity fund. The following paragraphs, together with the details set out in Appendix 1, set out the main considerations in understanding the low-carbon options available, such that an informed investment decision can be made.

4.3 With increasing industry focus on climate risk within investments, fund options are evolving rapidly over time. Current options available to the Fund are from the existing array of managers, namely Legal and General Investment Management (LGIM) (the Fund's existing passive equity manager), BlackRock (the Fund's existing passive fixed income manager) and the London CIV (the Fund's pooling vehicle with various existing investments). It is important to note that LGIM and BlackRock are under the umbrella of the LCIV, despite not being direct LCIV funds on their platform, and meet the Government's definition of asset pooling. Being managers already appointed to the London CIV with respect to other mandates, LGIM and BlackRock both offer viable options with each fund having slightly different approaches. Investing with either of these funds would be closely aligned to the intentions of pooling given their status within the London CIV. In addition, the Fund benefits from significantly reduced fees negotiated by LCIV. The below table provides an overview of the options available for investment.

| **Fund** | **Style** | **Exclusions** | **Active Engagement** | **Scope to Divest *** |
|---|---|---|---|---|
| LGIM Future World | Passive Factor Based | Partial | Yes | Yes |
| LGIM MSCI ACWI Adaptive Capped ESG | Passive Market Cap | Partial | Yes | No |
| LGIM Future World Dev ex UK Equity | Passive Market Cap | Partial | Yes | Yes |
| LGIM Future World Global Equity | Passive Market Cap | Partial | Yes | Yes |
| LGIM MSCI World Low Carbon Target | Passive Market Cap | Partial | No | No |

| | | | | |
|---|---|---|---|---|
| BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels) | Passive Market Cap | Full | Yes | Yes |
| LCIV Sustainability Equity Exclusion Fund | Active | Full | Yes | N/A |

*Ability to divest applicable to passive non-exclusionary funds only. Active and exclusionary funds by definition avoid or divest from certain companies versus the index.

4.4 The table shows that LGIM and BlackRock both offer "passive" options, consistent with the Fund's RI beliefs. The recently launched (March 2020) LCIV Sustainable Equity Exclusion Fund is an actively managed fund. Taking the decision to invest in this fund will be a departure from existing beliefs and require a broader discussion of entering into active equity management funds. The options offered by LCIV will be brought back to the Committee at a future meeting once further details of the fund have been developed.

4.5 The Fund should note that BlackRock's Reduced Fossil Fuels Fund is an evolution of their existing offering. This transition is planned to take place in November 2020 at which point the Reduced Fossil Fuels Fund will replace the current fund.

4.6 Funds have different levels of exclusions. Some will refrain from investment from any companies within a particular sector whilst others will only seek to exclude those with the highest carbon exposure within a sector, focussing investment on companies who are performing better relative to peers. Of the options available, full exclusion can be found through BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels) and the LCIV Sustainability Equity Exclusion Fund.

4.7 All investment managers offer a minimum level of engagement with companies. However, some employ an additional layer. For instance, some LGIM funds adhere to their 'Climate Impact Pledge' which involves a targeted engagement process with companies they have identified as critical to meeting the aims of the Paris Agreement to limit climate change. Some managers may also permit divestment from companies on top of engagement. The manager may divest from companies that do not meet minimum standards after a period of engagement.

4.8 The above highlights various factors that can be taken into account when constructing a low-carbon portfolio. The level of carbon reduction within the fund will depend on the approach taken across these areas and the below table provides information on the carbon intensity of each fund.

| Fund | Carbon Intensity - Metric Tonnes CO2/$1m Sales |
|---|---|
| LGIM Future World | Index = 214<br>Fund = 185 |
| LGIM MSCI ACWI Adapative Capped ESG | Index = 209<br>Fund = 161 |
| LGIM Future World Dev ex UK Equity | Index = 188<br>Fund = 108 |
| LGIM Future World Global Equity | TBC |
| LGIM MSCI World Low Carbon Target | TBC |
| BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels) | Index = 171<br>Fund = 64 (will be 37)** |
| LCIV Sustainability Equity Exclusion Fund | Index = 168<br>Fund = 55.8 |

** Once the fund evolves into Reduced Fossil Fuels, carbon emissions intensity will drop from 64 to 37.
.

4.9 Funds that fully exclude high carbon sectors e.g. fossil fuels, have the most significant reduction in their carbon footprint. These are BlackRock's soon to be reduced fossil fuels fund and the offering from London CIV. Across the LGIM funds, the varying approaches taken, lead to a carbon footprint reduction of between 15% and 40% based on the information received to date.

4.10 In assessing the options available from a carbon footprint standpoint, the LGIM funds do not fare as well as the BlackRock fund. Through their optimisation approach to stock selection and index construction, the BlackRock ACS World ESG Equity Tracker fund, as it stands, delivers a c63% reduction in carbon emissions versus the index. Once the fund evolves to be 'exclusionary', this will fall a further 15-20% relative to the index. Being exclusionary avoids a need to be able to divest from companies such as in the LGIM fund range. There have been previous concerns raised in relation to the success rate of engaging with fossil fuel companies with a belief that divestment from such areas was preferred to avoid a stranded asset risk. The evolution of the BlackRock fund is consistent with this belief and significantly reduces the risk in regards to stranded assets.

4.11 There are various costs associated in moving towards investment in low carbon products. Appendix 2 provides details on the fee structure of each fund based on an initial investment of c£28m and a comparison of these costs against current holdings within the Fund. Passive funds in general have a lower cost compared to actively managed funds. Therefore, given the nature of the LCIV Fund being active, its associated costs are higher when compared to those passive products such as in the LGIM and BlackRock fund range.

4.12 Conclusions drawn from the exercise undertaken by the Fund's investment advisors, Hymans Robertson indicate that an investment through BlackRock's ACS World ESG Equity Tracker fund (to become Reduced Fossil Fuels) would fulfil Fund's belief and objectives. It is a passively managed equity fund, adopts an exclusionary approach to fossil fuels, delivers a significant carbon footprint reduction relative to its index and offers good value for money.

## 5.0 Financial Implications

5.1 The Fund currently has surplus cash within its allocation. This is to be used for an investment into low-carbon equity fund as approved by the Committee in February 2020. As at 10 June 2020, cash held by the Fund amounted to £58.8m. This includes c£12m set aside for ongoing rebalancing, therefore an available cash balance of c£47m exists for investment.

5.2 In determining the amount to invest, there are a number of factors to note. This includes the Fund’s liquidity requirements to meet future private market commitments, any strategic objectives and the current market environment. In addition to this, the Fund’s investment advisors have recommend holding a slightly higher cash allocation than normal due to the increased volatility within markets. It is therefore proposed that the Fund maintains an allocation of 2% over the short-medium term in cash to meet these needs with the remaining balance c£28m being used to make this initial low-carbon investment.

5.3 Restricted Appendix 2 provides details on the fee structure of the Fund’s current global equity holding and the low-carbon equity funds discussed in this report. There are costs associated with holding more ESG focussed funds because these funds have additional management expenses; the exact cost depends on the mandate entered into. Passively managed funds including those offered by LGIM and Blackrock have a lower cost compared to actively managed funds such as the LCIV Sustainability Equity Exclusion Fund.

## 6.0 Legal Implications

6.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund’s investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

6.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.

6.3 The choice of investments can be influenced by RI and ESG considerations, so long as that does not risk material financial detriment to the Fund.

## 7.0 Equality Implications

7.1 Not applicable.

**8.0 Consultation with Ward Members and Stakeholders**

8.1 Not applicable.

**9.0 Human Resources**

9.1 Not applicable.

| |
|---|
| ***<u>Report sign off:</u>***<br><br>***Minesh Patel***<br>Director of Finance<br>. |

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# London Borough of Brent Pension Fund

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Q1 2020 Investment Monitoring Report

William Marshall, Partner
Kameel Kapitan, Associate Consultant
Kenneth Taylor, Associate Consultant

Agenda Item 21



HYMANS ROBERTSON

# Dashboard

## Executive Summary

The Fund's assets underperformed against the aggregate benchmark over the first quarter of 2020. The Fund returned -10.7% over the quarter, underperforming its benchmark by 3.2%. This was partly as a result of manager underperformance and partly as a consequence of measuring against absolute return style benchmarks in volatile markets. The Fund should note that performance since quarter end has been positive.

The value of the Fund's assets fell by £99.5m over the quarter, from £934.8m to £835.3m.

The global spread of the coronavirus had a dramatic effect on financial markets. Risk assets, particularly global equities fell significantly from late February with volatility persisting through to the quarter end.

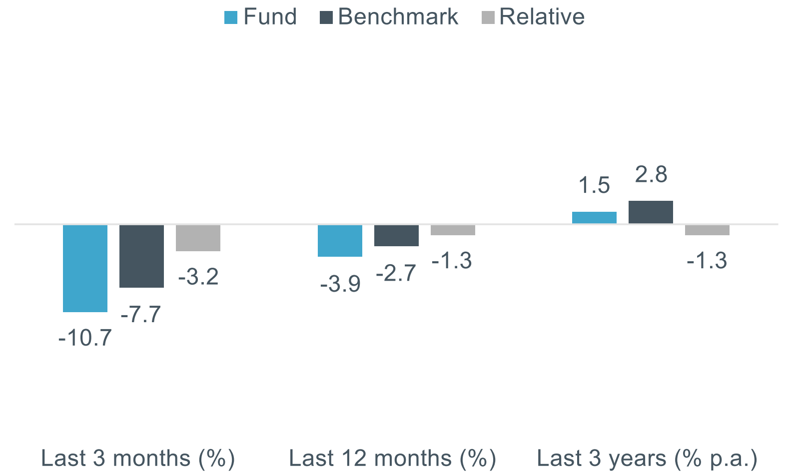
Credit markets also suffered which will have impacted the Fund's multi-asset mandates. Within credit, investment grade outperformed high-yield markets although both experienced negative quarters.

Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund.





## Fund performance vs benchmark/target




## High Level Asset Allocation

As part of the investment strategy review carried out in Q1 2020, the Fund's DGF mandates were recategorised as 'Diversifiers' and included within the 'Income' bucket.

| GrIP | Actual | Benchmark | Relative |
|---|---|---|---|
| Growth (Listed Equity, Private Equity) | 55.3% | 55.0% | 0.3% |
| Income (DGF, Property, Infrastructure) | 23.5%* | 30.0% | -6.5% |
| Protection (Bonds, Multi-asset Credit) | 21.2%** | 15.0% | 6.2% |

*Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold the excess assets within the DGF's, most notably the Baillie Gifford diversified growth allocation.
**Includes 6.5% currently held in cash.

HYMANS ROBERTSON

The value of the Fund's assets fell by £99.5m over the quarter, from £934.8m to £835.3m.

The fall in value was spread across the majority of asset classes as markets reacted to the global spread of COVID-19.

Following the results of the Q1 2020 investment strategy review, the following revised target allocations were agreed:

Interim
Growth – 55%
Income/Diversifiers – 30%
Protection – 15%

Long-term
Growth – 50%
Income/Diversifiers – 35%
Protection – 15%

The Fund's DGF mandates were also recategorised as 'Diversifiers' and included within the 'Income' bucket. As a result, the Fund is broadly in line with its target growth and protection (notwithstanding cash) allocations at a strategy level but underweight income.

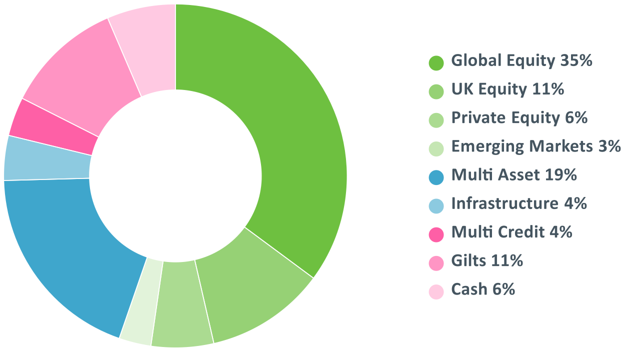
Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund. As its commitments to this mandate increase over time, its underweight allocation to income will recede.

## Asset Allocation

| Manager | Valuation (£m) | | Actual Proportion | Benchmark | Relative |
|---|---|---|---|---|---|
| | Q4 2019 | Q1 2020 | | | |
| LGIM Global Equity | 345.4 | 293.4 | 35.1% | 40.0% | -4.9% |
| LGIM UK Equity | 125.6 | 94.1 | 11.3% | 5.0% | 6.3% |
| Capital Dynamics Private Equity | 46.8 | 49.1 | 5.9% | 5.0% | 0.9% |
| JP Morgan Emerging Markets | 30.6 | 25.2 | 3.0% | 5.0% | -2.0% |
| **Total Growth** | **548.5** | **461.9** | **55.3%** | **55.0%** | **0.3%** |
| Baillie Gifford Multi Asset | 128.9 | 110.8 | 13.3% | 10.0% | 3.3% |
| Ruffer Multi Asset | 51.3 | 50.1 | 6.0% | 10.0% | -4.0% |
| Alinda Infrastructure | 23.0 | 24.6 | 2.9% | 0.0% | 2.9% |
| Capital Dynamics Infrastructure | 10.6 | 10.1 | 1.2% | 0.0% | 1.2% |
| Aviva Property | 0.1 | 0.1 | 0.0% | 0.0% | 0.0% |
| London LGPS CIV Infrastructure | 0.0 | 0.5 | 0.1% | 10.0% | -9.9% |
| **Total Income** | **213.9** | **196.3** | **23.5%** | **30.0%** | **-6.5%** |
| CQS Multi Credit | 36.8 | 30.6 | 3.7% | 5.0% | -1.3% |
| BlackRock UK Gilts Over 15 yrs | 83.2 | 92.6 | 11.1% | 10.0% | 1.1% |
| **Total Protection** | **120.1** | **123.2** | **14.7%** | **15.0%** | **-0.3%** |
| Cash | 52.3 | 53.9 | 6.5% | 0.0% | 6.5% |
| **Total Scheme** | **934.8** | **835.3** | **100.0%** | **100.0%** | |

Benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

## Asset class exposures




*Source: Investment Managers*

Total Fund return was negative during Q1 2020, on both an absolute and relative basis as a result of the impact of COVID-19 on markets. Consequently, 12-month performance has moved into negative territory as a result.

Equity markets bore the brunt of the downturn. Global equities faired better than UK due to currency movements favouring global returns and the lower weighting to oil & gas and materials companies. This can be seen in the performance of LGIM's mandates; global returned -15.1% and UK -25.1%.

The Fund's DGF mandates had contrasting fortunes over the first quarter. Whilst Baillie Gifford returned -14.0%, Ruffer better navigated the market turmoil to minimise losses, a -2.3% return.

The CQS mandate has also suffered as credit spreads widened, particularly in the high yield space.

On the flip side, gilts rallied as investors searched for shelter from the equity crosswinds. They were also supported by the decisive action taken by governments, namely the package of monetary and fiscal measures to support economies. BlackRock's mandate has delivered strong return since its inception in 2019.



# Manager performance

| | Last 3 months (%) | | | Last 12 months (%) | | | Last 3 years (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative |
| **Growth** | | | | | | | | | |
| LGIM Global Equity | -15.1 | -15.0 | **-0.0** | -4.6 | -4.6 | **-0.0** | 3.1 | 3.1 | **0.0** |
| LGIM UK Equity | -25.1 | -25.1 | **0.0** | -18.4 | -18.5 | **0.0** | -4.2 | -4.2 | **0.1** |
| Capital Dynamics Private Equity | 7.0 | -15.3 | **26.4** | 8.2 | -10.4 | **20.8** | 13.1 | 1.5 | **11.5** |
| Baillie Gifford Multi Asset | -14.0 | 0.6 | **-14.6** | -8.8 | 3.3 | **-11.8** | -1.4 | 3.8 | **-5.0** |
| Ruffer Multi Asset | -2.3 | 0.6 | **-2.9** | 3.2 | 3.3 | **-0.1** | 0.5 | 3.8 | **-3.2** |
| JP Morgan Emerging Markets | -17.5 | -18.4 | **1.0** | -16.6 | -13.5 | **-3.6** | | | |
| **Income** | | | | | | | | | |
| Alinda Infrastructure | | | | 13.0 | 4.7 | **7.8** | -4.9 | 6.9 | **-11.0** |
| Capital Dynamics Infrastructure | | | | -11.3 | 4.7 | **-15.3** | -3.3 | 6.9 | **-9.5** |
| **Protection** | | | | | | | | | |
| CQS Multi Credit | -17.0 | 0.8 | **-17.6** | -13.9 | 4.0 | **-17.2** | | | |
| BlackRock UK Gilts Over 15 yrs | 11.2 | 11.2 | **0.0** | 17.7 | 17.6 | **0.1** | | | |
| **Total** | -10.7 | -7.7 | **-3.2** | -3.9 | -2.7 | **-1.3** | 1.5 | 2.8 | **-1.3** |

Performance from Alinda and Capital Dynamics Infrastructure is based on information provided by Northern Trust. In Q4 2019 the benchmark for these funds was updated to be CPI+ 2% p.a. rather than absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended rate.

Note, for infrastructure investments, there are more appropriate measures to assess performance. Performance in respect of Alinda is skewed by the Alinda III fund which is in the relatively early stages. It is therefore difficult to judge performance from this mandate at this stage on a purely percentage basis. However, as the Fund's commitments continue to be drawn, and the size of investments increase, it will become more appropriate to consider return measures in percentage terms. More detail on relevant measures of assessment for infrastructure funds are provided in the individual manager pages. This is also the case for Private Equity as an asset class.

The table above also excludes the opening quarters performance of the Fund's investment in the London CIV's infrastructure sub-fund. Given initial draw downs only occurred during Q1 2020, it remains too early to report appropriate performance at this stage. Like the Alinda above, as the Fund's commitments continue to be drawn under this mandate, and the size of investments increase, it will become more appropriate to report and consider return measures in percentage terms. At this stage, we have also not included a separate manager page.

*Source: Fund performance provided by Investment Managers and is net/gross of fees. Benchmark performance provided by Investment Managers and DataStream*

There were no manager rating changes to existing managers over the quarter.

Baillie Gifford remains 'Preferred – On-watch' due to recent personnel changes, namely the retirement of Patrick Edwardson (Head of Multi-Asset) in April 2020. We continue to monitor Baillie Gifford as a result although at present still rate them highly as a multi-asset manager.

## Manager ratings

| Mandate | Mandate | Hymans Rating |
|---|---|---|
| LGIM | Global Equity | Preferred |
| LGIM | UK Equity | Preferred |
| Henderson | Emerging Markets (LCIV) | Suitable |
| Capital Dynamics | Private Equity | Suitable |
| Baillie Gifford | Multi Asset (LCIV) | Preferred - On-watch |
| Ruffer | Multi Asset (LCIV) | Positive |
| Alinda | Infrastructure | Not Rated |
| Capital Dynamics | Infrastructure | Not Rated |
| London LGPS CIV | Infrastructure | Not Rated |
| CQS | Multi Credit (LCIV) | Suitable |
| BlackRock | UK Gilts Over 15Yrs | Preferred |

## LGIM business update

Legal & General announced that Margaret Ammon has assumed her responsibilities as Chief Risk Officer over the quarter. She is supported by Camille Blackburn, Chief Compliance Officer who also joined the business over the quarter after the retirement of Teresa Poy. There were no other significant changes to update over the quarter.

*Source: Investment Managers*

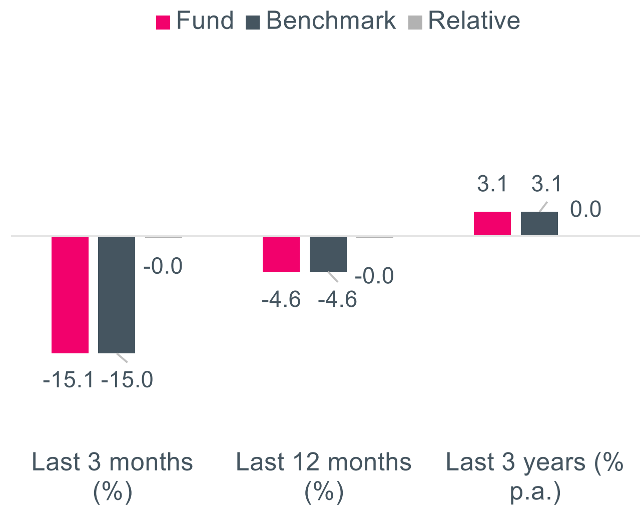
## LGIM Global Equity

The LGIM global equity mandate returned -15.1% over the quarter. As a passively managed fund, it has matched its benchmark over all periods.

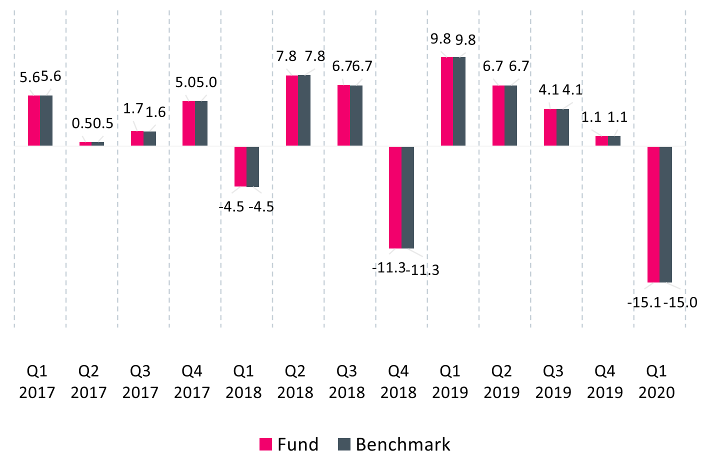
Despite global markets falling, they faired better compared to the UK due to:
- Lower weighting to oil & gas and industrials
- A weakening of the Pound, serving to soften the impact in domestic currency terms

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

## Fund Performance vs benchmark/target




## Historical Performance/Benchmark




*Source: Investment Manager*

## LGIM UK Equity

The LGIM UK equity mandate returned -25.1% in Q1 2020. This was in line with its benchmark as we would expect for a passively managed portfolio.

As a result of the scale of the downturn in UK markets in Q1, 12 month and 3 year performance have strayed into negative territory.

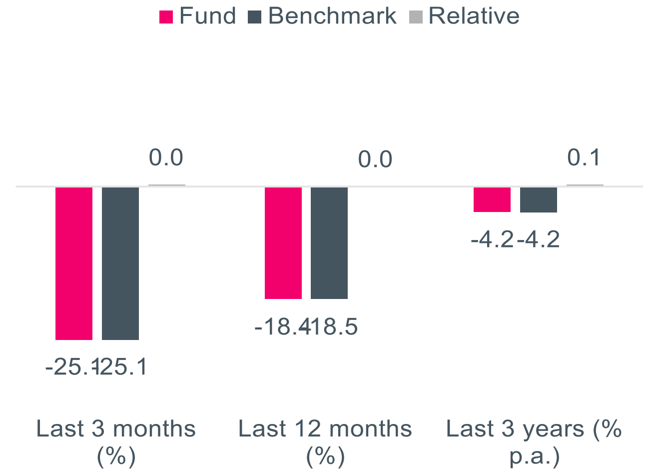
The quarter's performance came despite the UK Government unveiling an unprecedented package of monetary and fiscal measures to stabilise the economy.



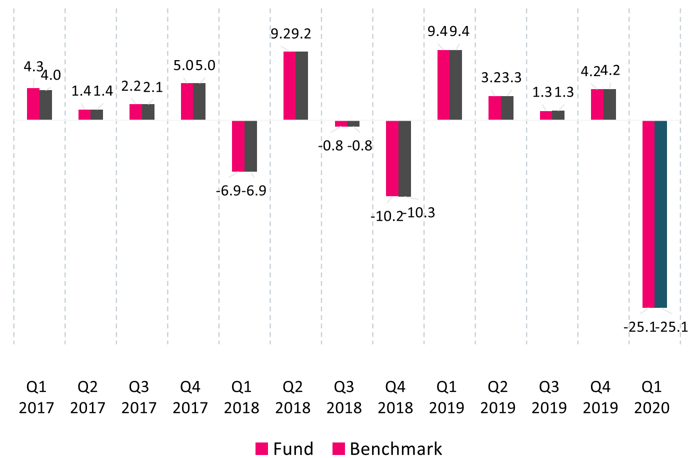
Unsurprisingly the retail and leisure sectors were hard hit with reduced demand and shop closures following the lockdown measures implemented. These sectors were key drivers of the late quarter market fall observed.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

## Fund Performance vs benchmark/target




## Historical Performance/Benchmark






Source: Investment Manager

## JP Morgan Emerging Markets

In Q4 2019 the LCIV emerging markets fund transitioned from Janus Henderson to JP Morgan.

In its first full quarter under JP Morgan, the fund retuned -17.5%. Despite this negative absolute return, JP Morgan outperformed its MSCI Emerging Market benchmark over the period.

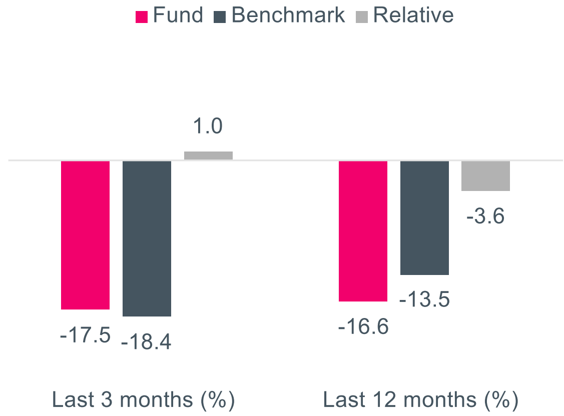
Longer term underperformance is dominated by the pervious LCIV manager for emerging markets, Janus Henderson.

One of the poorest performing sectors within the portfolio in Q1 was financials. A significant proportion of financials stocks held by the fund are in countries highly sensitive to oil prices (e.g. Brazil) and so were impacted by the oil price war between Russia and Saudi Arabia.

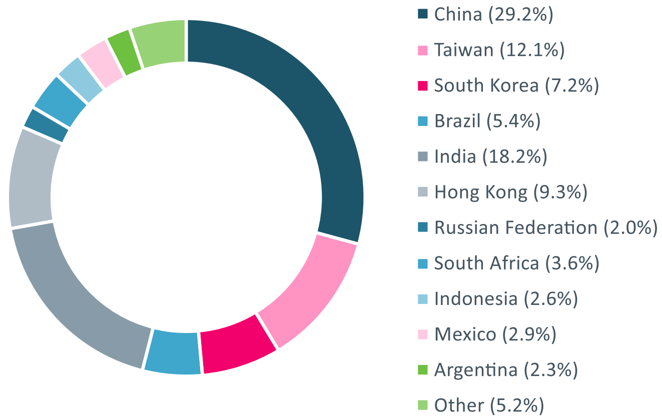
That said, outperformance against benchmark came from its underweight allocation to China, the epicentre of the COVID-19 outbreak, and the fund's stock selection with technology and quality bias.

We rate JP Morgan's Emerging Market equity fund as 'Suitable'.

## Fund performance vs benchmark/target




## Fund Asset Allocation




*Source: Investment Manager*

## Capital Dynamics Private Equity

The Capital Dynamics Private Equity fund is invested across a range of sub-funds offering good diversification.

Based on information from Northern Trust, the mandate has outperformed over all considered time periods.

However, in practice there are two key metrics to assess performance for private equity investments; Internal Rate of Return (IRR) and the Total Value to Paid-in (TVPI) ratio.

The investment with Capital Dynamics is at a mature stage meaning assessing the IRR (a percentage value) alongside the TVPI carries greater weight. As at 31 December 2019 the IRR was approximately 11.0% with a TVPI of 1.57. This represents a healthy return to date for the Fund.

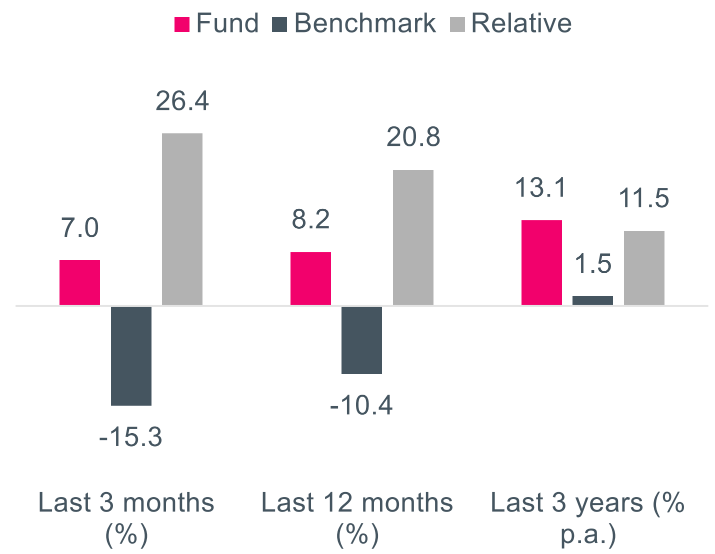
The following distributions occurred over the quarter:

23 March 2020 - $472,000
24 March 2020 - $320,000
26 March 2020 - $741,950

There was one capital call on 24 March 2020 in the amount of $280,000.



## Fund Performance




## Summary as at 31 December 2019

| | |
|---|---|
| Capital committed | £124.5m |
| Total contributed | c91.0% |
| IRR (approx.) | 11.0% |
| TVPI | 1.57x |

*Source: Investment Manager*

## Baillie Gifford Multi-asset

The Baillie Gifford multi-asset fund has a performance target of UK Base Rate + 3.5% p.a. over the longer term.

In Q1 2020 the mandate had a reversal of performance in Q1 2020 returning -14.0%.

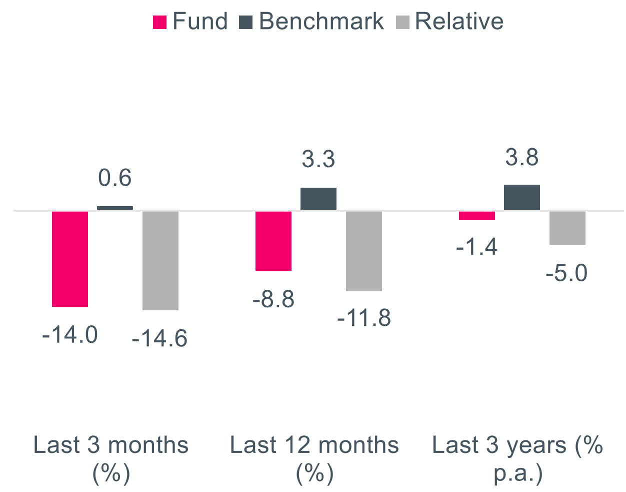
Longer-term performance is now negative on an absolute and relative basis.

The main detractors to performance over the quarter were the allocations to equities, emerging market bonds and property. These asset classes constitute almost 40% of the current asset allocation.

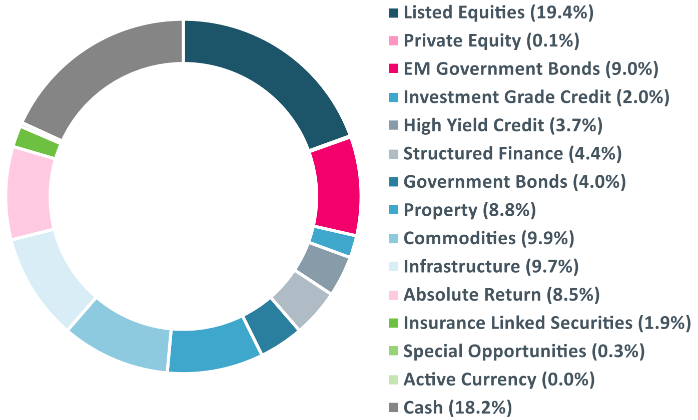
Over the quarter Baillie Gifford de-risked the portfolio in response to the uncertainty caused by the pandemic. Equities and emerging market bonds were sold in favour of holding increased levels of cash. Gold and volatility strategies were also added to as a buffer against expected volatility.

The manager believes that markets are likely to get worse before recovering hence its high allocation in cash which they believe will give them flexibility to capture opportunities are markets evolve in future.

## Fund Performance




## Fund Asset Allocation




*Source: Investment Manager*



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## Ruffer Multi-asset

The Ruffer Multi-Asset fund returned -2.3% in absolute terms over the quarter, behind its Base Rate + 3.5% p.a. benchmark.

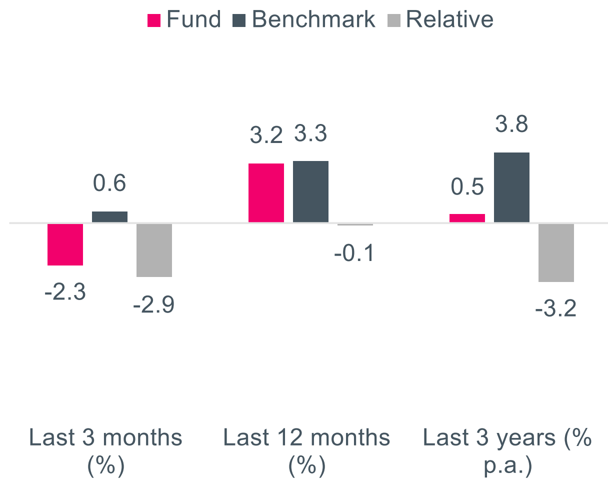
In a tumultuous quarter that negatively impacted most asset classes, Ruffer navigated the multi-asset field better than most.

It is the more defensively positioned of the two multi-asset mandates held by the Fund within the LCIV. Ruffer further increased this position over the quarter adding to government bonds and gold at the expense of equities.

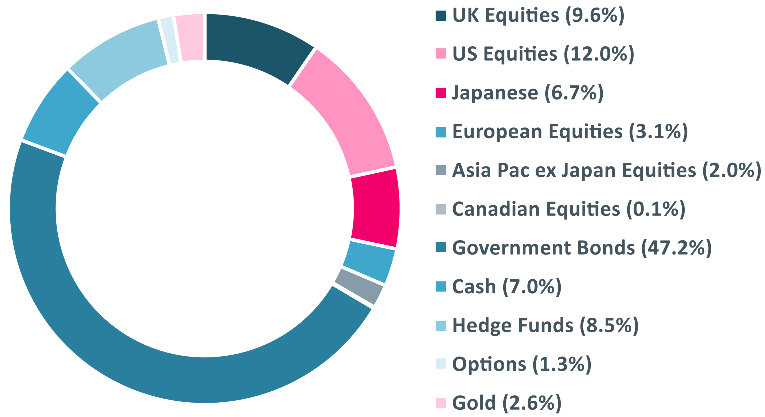
Ruffer's higher weighting to longer duration government bonds (c47%) served it well at the end of Q1, as did the volatility and derivate strategies. They helped to mitigate the negative performance of the portfolio's equities.

The manager continues to hold conviction in its more defensive strategy. Whilst it has trimmed equity protection given the level of volatility, it has maintained its credit market protection strategies to protect against further economic downside.

## Fund Performance




## Fund Asset Allocation




*Source: Investment Manager*

## Alinda Infrastructure

Target: Absolute return of 8.0% p.a.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

At the beginning it is too early to assess performance on a purely percentage basis. TVPI is more informative. This essentially seeks to outline what the Fund has achieved (its return) so far as a multiple of the deployed capital to date.

The Alinda III Infrastructure fund is in the ramp-up stage, drawing down and deploying capital which is skewing and adding volatility to the combined percentage return.

Details as at 31 March 2020

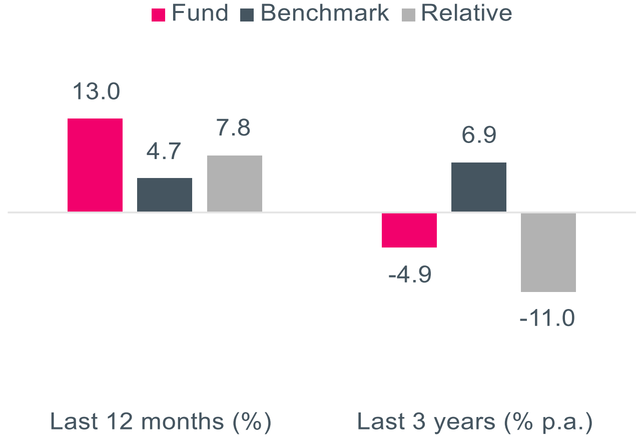
The remaining capital commitments are as follows:

Alinda II: $3,646,739
Alinda III: $12,095,151

The following net distributions were made over the quarter:

Alinda II: $185,431
Alinda III: $529,962

## Fund performance vs benchmark/target*




## Summary as at 31 March 2020

| Alinda Fund II | |
|---|---|
| IRR (Gross) | 5.9% |
| IRR (Net) | 3.2% |
| Cash yield | 7.0% |
| DPI | 1.1x |
| TVPI (Net) | 1.2x |

| Alinda Fund III | |
|---|---|
| IRR (Gross) | 19.9% |
| IRR (Net) | 11.4% |
| Cash yield | 9.2% |
| DPI | 0.3x |
| TVPI (Net) | 1.3x |

*In Q4 2019 the benchmark for this fund was updated to CPI+ 2% p.a. from absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended value.

*Source: Investment Manager*

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## Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

The Fund's holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

With the Fund having deployed most of the capital commitment it is appropriate to assess performance on both measures.

Reporting on underlying commitments is as at 31 December 2019 due to the lag in reporting from the manager, which is typical for funds of this nature.

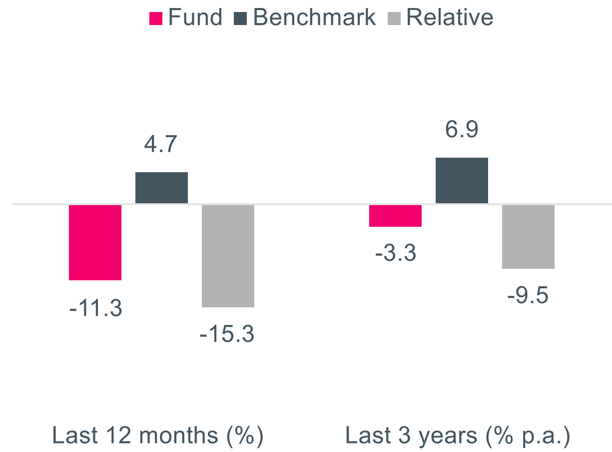
As can be seen by both the IRR and TVPI, performance has been lower than expected to date.

In terms of activity over Q1 2020:

Distributions = $0m
Capital calls = $0m



## Fund performance vs benchmark/target*




## Summary as at 31 December 2019 (figures in $m where applicable)

| | |
|---|---|
| Capital committed | $15.0 |
| Total contributed | $14.7 |
| Distributions | $0.8 |
| Value created | ($0.8) |
| Net asset value | $13.1 |

| | |
|---|---|
| Net IRR since inception | (0.9%) |
| Total value-to-paid-in-ratio (TVPI) | 0.95x |

*In Q4 2019 the benchmark for this mandate was updated to CPI+ 2% p.a. from absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended value.

*Source: Investment Manager*

## CQS Multi Credit

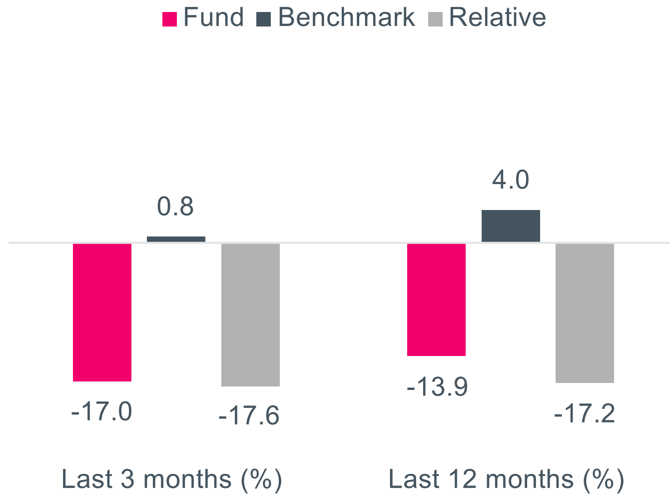
Over the first quarter of 2020 CQS's multi-asset credit strategy returned -17.0%. As a result, against its longer-term target of LIBOR + 4-5% p.a. it is now behind.

Credit markets suffered late in the quarter as uncertainty hit markets. The high-yield market faired worse than the investment grade sector as investors showed a preference for security. Credit spreads widened as concerns grew over potentially dwindling corporate profits and how companies were going to manage their balance sheets and navigate through the crisis.

Both European and US high-yield and loan indices dropped by double figure values. In fact the US loan market experienced its second worst quarter on record.

Over the period, CQS adjusted the portfolio in response to the changing landscape. Leisure and travel related exposure was sold down in favour of more defensive industries like utilities and consumer non-discretionary goods. CQS also took the opportunity to invest in higher quality companies to offer better protection should the crisis be more prolonged and hard felt.

## Fund performance vs benchmark/target




*Source: Investment Manager*

## BlackRock UK gilts

BlackRock were appointed in March 2019 to oversee the Fund's bond allocation.

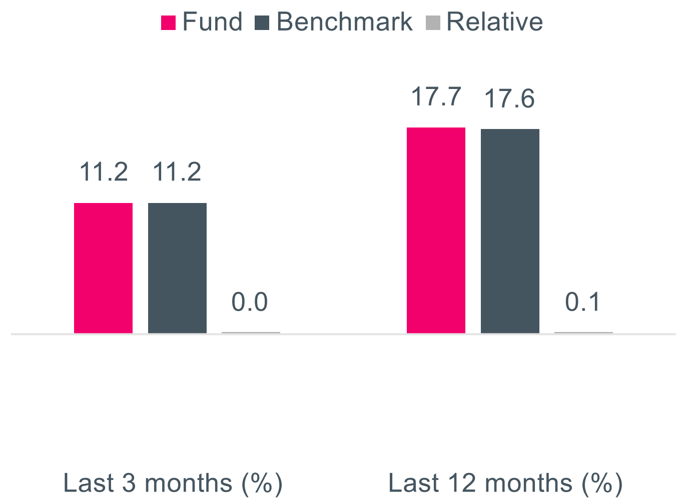
It is a passively managed mandate aimed at matching the FTSE UK Gilts Over 15 Yrs index.

Over the first quarter of 2020 the fund returned 11.2%.

In a period of volatility and uncertainty, safe haven assets rallied. Government bond yields fell to historic lows, in part buoyed by emergency government actions. This resulted in increased valuations and positive returns.



## Fund performance vs benchmark/target




Source: Investment Manager

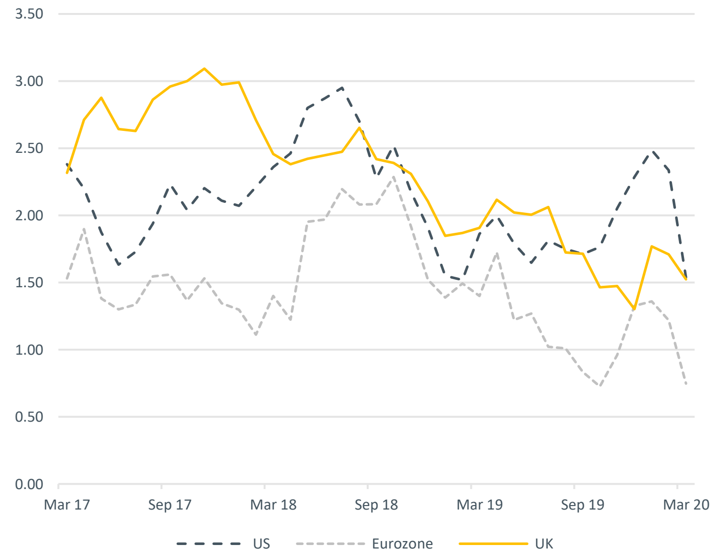
Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond.

Falling domestic demand globally and steep oil price declines are disinflationary. The slump in global demand for oil has been compounded by a price war between OPEC (led by Saudi Arabia) and Russia, Brent crude falling to its lowest level since 2002. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020, with some Eurozone countries and Japan expected to enter deflation.

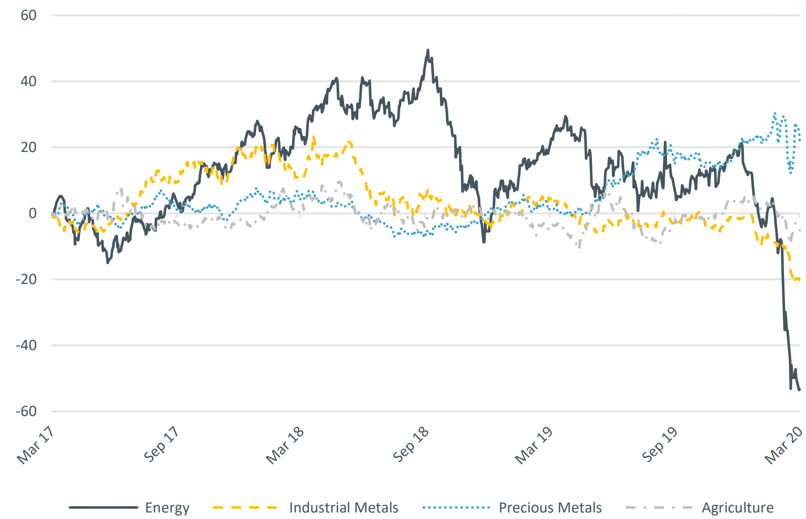
The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows and the Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.

Currency markets were typical of a period of increased risk. The haven appeal of the dollar and yen was apparent and, in line with their less defensive reputation, sterling and emerging market currencies fell.

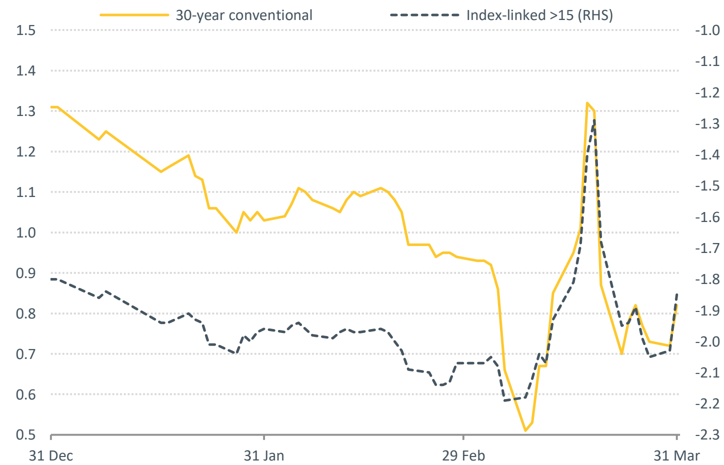
## Annual CPI Inflation (% p.a.)



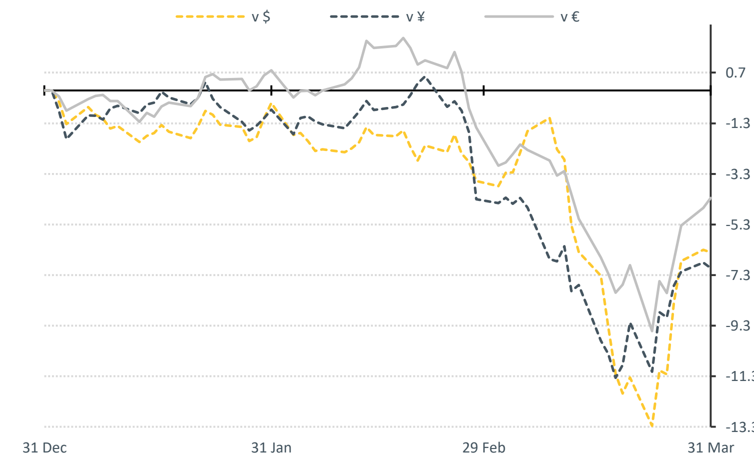

## Commodity Prices (% change)




## Gilt yields chart (% p.a.)




## Sterling trend chart (% change)




Source: Reuters



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Developed market sovereign bond yields have been pushed near record lows, though have not been immune to volatility as investors liquidated bonds in a dash for cash in March. Sterling investment grade spreads rose 1.34% p.a., more than offsetting any benefit from falling underlying government bond yields.

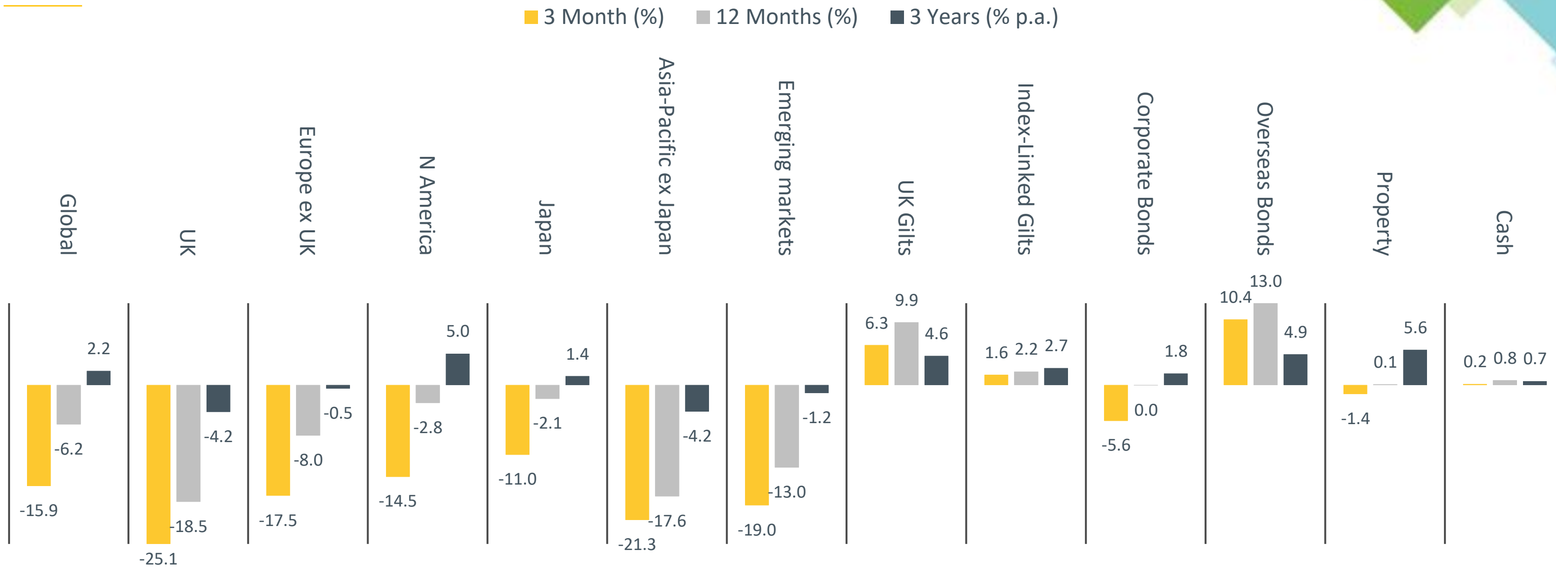
Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with high yield energy bonds particularly hard hit. Leveraged loans underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

Global equity markets fell 20% in local currency terms and 15.9% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer with the FTSE 100 posting its biggest fall since 1987 as its sectoral composition and exposure to oil & gas hurt performance. Global equities did recover some losses towards the end of the quarter, as market sentiment improved on the back of fiscal and monetary support measures. Volatility levels, as measured by the VIX Index, hit levels not seen since the global financial crisis.

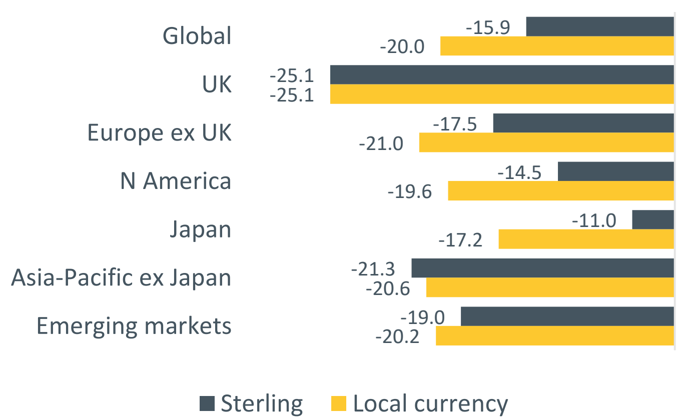
A number of UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty, inserting material uncertainty clauses into their valuations.



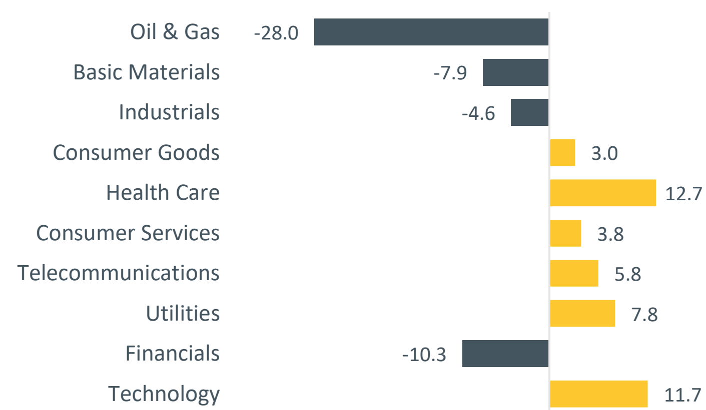
## Historic returns for world markets [1]




## Regional equity returns [2]




## Global equity sector returns (%) [3]




[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

## Hymans Rating

| | |
|---|---|
| Preferred | Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches. |
| Positive | We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating. |
| Suitable | We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone. |
| Negative | The strategy is not suitable for continued or future investment and alternatives should be explored. |
| Not Rated | Insufficient knowledge or due diligence to be able to form an opinion. |

## Responsible Investment

| | |
|---|---|
| Strong | Strong evidence of good RI practices across all criteria and practices are consistently applied. |
| Good | Reasonable evidence of good RI practices across all criteria and practices are consistently applied. |
| Adequate | Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently. |
| Weak | Little to no evidence of good RI practices. |
| Not Rated | Insufficient knowledge to be able to form an opinion on. |

## Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.



## Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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| | |
|---|---|
| Brent | **Pensions Fund Sub-Committee**<br>16 July 2020 |
| | **Report from the Director of Finance** |

**Investment strategy: transition roadmap**

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | One<br>1. Investment strategy: transition roadmap (June 2020) |
| **Background Papers:** | ▪ Review of Investment Strategy - 25 February 2020 |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance<br>Sawan Shah, Senior Finance Analyst |

## 1.0 Purpose of the Report

1.1 The purpose of this report is to detail the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson.

## 2.0 Recommendation(s)

2.1 The Committee is asked to:
- Note the overall report;
- Comment on the proposal to re-address the balance between the Diversified Growth Funds;

## 3.0 Detail

3.1 In February 2020, the Committee agreed to the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson.

3.2 In summary the investment strategy review considered:

- An expansion of the committee's Responsible Investment beliefs in light of the increased focus on, and importance of, this area;
- The current long term strategy is fit for purpose from a returns perspective as it is expected to return in excess of the required return;
- A 5% increase in the long term allocation to equities, and a 5% allocation to private debt, both funded from "diversifiers";
- To introduce a global low carbon mandate as part of the Fund's equity allocation;
- A degree of rebalancing takes place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

3.3 The following paragraphs, together with the details set out in Appendix 1, summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020.

3.4 It is acknowledged that transitioning to the targets agreed in February will be fluid in practice and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes.

3.5 Subject to approval by the Committee at this meeting, the Fund will introduce a low carbon equity mandate, investing £25m to £30m of existing cash holdings (c3% of Fund assets) in a passive low carbon equity fund.

3.6 The agreed infrastructure allocation will be built up over time. The Fund has undrawn commitments of c£50m to the London CIV infrastructure fund and c£12m to Alinda. While the Fund builds its investment in infrastructure, interim allocations to equity and cash will be increased as a proxy for future infrastructure investments. A 5% allocation to equities/cash (split 3%/2%) is expected to deliver a similar long-term risk/return profile to 5% in diversifiers.

3.7 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with the more defensively positioned Ruffer fund performing better during the initial market downturn. At 31 March 2020, the Fund held £111m with Baillie Gifford and £50m with Ruffer. The Committee is asked to consider the balance between Baillie Gifford and Ruffer, acknowledging the different investment styles.

3.8 As outlined in the Covid-19 report on this agenda, the Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time. Due to uncertainty, it is proposed to pause any potential investment into this asset class until there is greater clarity in property markets. In the longer ter options to access this market will need to be considered, both, through and outside, London CIV.

## 4.0 Financial Implications

4.1 These are no direct financial implications arising from this report. Financial implications will be considered when changes to the Fund's investments are presented to the committee for decision.

**5.0 Legal Implications**

5.1 Not applicable.

**6.0 Equality Implications**

6.1 Not applicable.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable.

**8.0 Human Resources**

8.1 Not applicable.

| |
|---|
| ***<u>Report sign off:</u>***<br><br>***Minesh Patel***<br>Director of Finance<br>. |

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# Investment strategy: transition roadmap (June 2020)

## Introduction

This paper is addressed to the Pension Fund Sub-Committee (the "Committee") of the London Borough of Brent Pension Fund (the "Fund"). Its purpose is to summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020. Transitioning to the interim and long-term targets in practice will be fluid and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes. However, as a guide, we would expect the Fund to move towards the interim target over the next 12-24 months (so by mid-2022) and towards the long-term target over the next 3-5 years (so by 2025). We understand the Fund remains in a positive cashflow position following the conclusion of the 2019 valuation and new contribution rates coming into force on 1 April 2020. The cashflow position will be monitored at regular intervals. To date we are not aware of any requests for contribution deferrals.

Key points/actions are as follows:



- **Low carbon equities:** subject to approval by the Committee, invest £25m to £30m (c3% of Fund assets) in a passive low carbon equity fund. Build further exposure to low carbon/sustainable oriented equities over time, partially using proceeds from reducing exposure to UK equities.
- **Increase interim allocations to equity and cash as a proxy for future infrastructure investments, until the agreed infrastructure allocation is built up:** investing £25m to £30m will take listed equity allocation c3% above the previously outlined interim target. We recommend this 3% overweight position is maintained alongside a 2% holding in cash while the Fund builds its investment in infrastructure. This is on the basis that a 5% allocation to equities/cash is expected to deliver a similar long-term risk/return profile to 5% in diversifiers.
- **Build infrastructure investment over time:** the Fund has undrawn commitments of c£50m to the LCIV infrastructure fund and c£12m to Alinda (total 7% of Fund assets) so exposure to infrastructure will increase naturally. Balancing this, Alinda (II), Alinda (III) and Capital Dynamics will run off over time (2, 6 and 2 years respectively). Proceeds from Alinda/Capital Dynamics and equity/cash holding can be invested in LCIV's Infrastructure Fund or other suitable alternatives e.g. LCIV's new Renewables Fund which has ESG benefits (subject to due diligence on the funds to ensure they meet the Committee's beliefs/objectives).
- **Baillie Gifford and Ruffer:** Consider appropriate balance between these managers, acknowledging different styles.
- **Cash holding:** the Fund held c£54m of cash at 31 March 2020. £12m being used to increase the Fund's emerging markets equities (£8m) and multi-asset credit (£4m) holdings plus there is a proposal to invest £25m to £30m in a passive low carbon equity fund. As explained above, we recommend a cash balance of £15m to £20m is maintained while the Fund builds its investment in infrastructure.

## Summary – current and target allocations

| Asset class | 31 March 2020 value (£m) | 31 March 2020 allocation (%) | Interim target allocation (%) | Long-term target allocation (%) | Comments |
|---|---|---|---|---|---|
| **Total growth** | 461.8 | 55.3 | 58 | 50 | Focus is to introduce low carbon equity fund, seeded by c£25-30m of cash (approx. 3% of assets). Will take allocation 3% above the previously outlined interim target. |
| **Total diversifiers** | 196.2 | 23.5 | 25 | 35 | Will take time to for initial commitment to infrastructure to be drawn. Meantime increased interim positions in equities (+3%) and cash (+2%) expected to deliver similar risk/return to 5% invested in diversifiers. Unwind equity/cash position as infrastructure investment increases. |
| **Total protection** | 123.2 | 14.8 | 15 | 15 | In line with interim target allocation. |
| **Cash** | 53.9 | 6.5 | 2 | - | £12m being used to increase emerging markets equities (£8m) and multi-asset credit (£4m) holdings<br><br>Proposal to invest c£25-30m (c3% of assets) in low carbon equity fund<br><br>Retain remainder in cash, partly as part of the infrastructure proxy and partly to reflect current market uncertainty |
| **Total** | 835.1 | 100.0 | 100 | 100 | |

## Growth assets

| Asset class | Style | Manager | 31 March 2020 value (£m) | 31 March 2020 allocation (%) | Interim target allocation (%) | Long-term target allocation (%) | Comments |
|---|---|---|---|---|---|---|---|
| Equities | Global passive | LGIM | 293.4 | 35.1 | 43 | 40 | Proposal to establish low carbon equity holding, seeded by c£25-30m of cash (c3% of assets).<br><br>Monitor and unwind interim versus long-term target as infrastructure investment increases.<br><br>Increase exposure to low carbon equities over time. Options are to build investment in BlackRock low carbon fund and/or diversify by manager/style via London CIV offerings or suitable alternative.<br><br>Prepare plan to reduce UK exposure over time. Rebalancing towards global equities could be time-based and/or based on relative market movements. |
| | Global low carbon | Discussed in a separate paper | - | - | | | |
| | UK passive | LGIM | 94.1 | 11.3 | 5 | 5 | |
| | EM active | JP Morgan (LCIV) | 25.2 | 3.0 | 5 | 5 | Investing c£8m of cash to increase allocation to c4%. |
| Private Equity | Fund of funds | Capital Dynamics | 49.1 | 5.9 | 5 | 0 | Long-term target allocation is 0%. Prepare plan to reduce exposure over the longer term and reallocate to diversifiers. |
| **Total growth** | | | **461.8** | **55.3** | **58** | **50** | |

## Diversifiers

| Asset class | Style | Manager | 31 March 2020 value (£m) | 31 March 2020 allocation (%) | Interim target allocation (%) | Long-term target allocation (%) | Comments |
|---|---|---|---|---|---|---|---|
| Div Growth | Multi-asset | Baillie Gifford (LCIV) | 110.8 | 13.3 | 20 | 5 | Consider balance between BG and Ruffer, acknowledging different styles. Longer term plan to reduce exposure to 5%. |
| Abs Return | Multi-asset | Ruffer (LCIV) | 50.1 | 6.0 | | | |
| Infrastructure | Direct | Alinda | 24.6 | 2.9 | 5 | 15 | Undrawn commitments of c£50m to the LCIV infrastructure fund, c£12m to Alinda (total 7% of assets) so exposure will increase. Balancing this, Alinda and Capital Dynamics to run off over time (6 and 2 years respectively). Proceeds could be reinvested in LCIV funds, including new renewables fund which has ESG benefits. Carry out due diligence on LCIV renewables fund to ensure meets Brent beliefs/objectives. Initially work to interim target then increase this as additional commitments are made to the asset class. |
| | Funds+ Direct | Capital Dynamics | 10.1 | 1.2 | | | |
| | | LCIV | 0.5 | 0.1 | | | |
| Property | UK and potentially some global | Aviva (current holding a Europe fund of funds) | 0.1 | - | - | 10 | Consider options to access property market, including LCIV, as part of a longer term plan. Outside of LCIV options are one or more core balanced funds and supplement this with allocations to other parts of the market such as secure income (long lease), UK residential and/or global property. Would involve reassessing current strategic 10% allocation to 'UK Core'. |
| Private debt | - | - | - | - | - | 5 | No immediate action. |
| **Total diversifiers** | | | **196.2** | **23.5** | **25** | **35** | |

## Protection assets

| Asset class | Style | Manager | 31 March 2020 value (£m) | 31 March 2020 allocation (%) | Interim target allocation (%) | Long-term target allocation (%) | Comments |
|---|---|---|---|---|---|---|---|
| Multi-asset credit | Active credit focused | CQS | 30.6 | 3.7 | 5 | 5 | Investing c£4m of cash to increase holding to c4.2% Worth noting the CQS mandate, through its credit exposure provides diversification benefits, rather than any protection of capital. |
| Gilts | Passive duration | BlackRock | 92.6 | 11.1 | 10 | 10 | Fixed interest gilts. No immediate action. |
| Cash | | Fund | 53.9 | 6.5 | 2 | 0 | As part of the infrastructure proxy. |
| **Total protection** | | | **177.1** | **21.3** | **17** | **15** | |



Prepared by:-
William Marshall, Partner
Kenneth Taylor, Associate Investment Consultant
Kameel Kapitan, Associate Investment Consultant
For and on behalf of Hymans Robertson LLP

June 2020

### General Risk Warning

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| | |
|---|---|
| Brent | **Pensions Fund Sub-Committee**<br>16 July 2020 |
| | **Report from the Director of Finance** |

**Brent Pension Fund: Draft Annual Accounts 2019/20**

| | |
|---|---|
| **Wards Affected:** | ALL |
| **Key or Non-Key Decision:** | Non-Key |
| **Open or Part/Fully Exempt:**<br>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act) | Open |
| **No. of Appendices:** | 1 – Brent Pension Fund Draft Accounts 2019/20 |
| **Background Papers:** | ▪ N/A |
| **Contact Officer(s):**<br>(Name, Title, Contact Details) | Minesh Patel, Director of Finance<br>Ravinder Jassar, Head of Finance |

**1.0 Purpose of the Report**

1.1 This report presents the draft Pension Fund Annual Accounts for the year ended 31 March 2020.

**2.0 Recommendation(s)**

2.1 The Committee is recommended to note this report.

**3.0 Detail**

3.1 Attached as appendix 1 are the draft Pension Fund Annual Accounts for the year ended 31 March 2020.

3.2 The accounts have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) governing the preparation of the 2019/20 financial statements for Local Government Pension Scheme funds. The accounts (which are unaudited) aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2020.

3.3 The main items to note are as follows:

- During 2019/20, the value of the Pension Fund's investments has decreased to £835m (2018/19 £856m). This is due to the poor performance of equity markets in the final quarter of the year related to COVID-19. At the end of December 2019, investments were valued at £935m.

- Total contributions received from employers and employees were £60m for the year, an increase on the previous year's £52.1m.

- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £48m, an increase on the previous year's £46m.

- As in 2018/19, the Council is in a positive cash-flow position because its contributions exceed its outgoings to members.

- The Fund completed its 2019 valuation in the 2019/20 financial year. It was agreed in the valuation that the employer contribution rate would remain stable at 35% for the next 3 years. This is consistent with the Fund's deficit recovery plan to clear its deficit within 19 years of the balance sheet date.

- This Triennial Valuation revealed that the Fund's assets, at 31 March 2019, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. This is a significant increase on the 55% funding level as at the March 2016 valuation.

**4.0 Financial Implications**

4.1 Not applicable.

**5.0 Legal Implications**

5.1 Not applicable.

**6.0 Equality Implications**

6.1 Not applicable.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable.

**8.0 Human Resources**

8.1 Not applicable.

***<u>Report sign off:</u>***

***Minesh Patel***
Director of Finance

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# Brent Pension Fund Accounts

## Pension Fund Accounts as at 31 March 2020

| 2018/19 £m | | Notes | 2019/20 £m |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund** | | |
| (52.1) | Contributions | 7 | (60.0) |
| (2.8) | Transfers in from other pension funds | 8 | (5.2) |
| **(54.9)** | | | **(65.2)** |
| 45.9 | Benefits | 9 | 47.9 |
| 1.8 | Payments to and on account of leavers | 10 | 6.2 |
| **47.7** | | | **54.2** |
| **(7.2)** | **Net (additions)/withdrawals from dealings with members** | | **(11.1)** |
| 6.8 | Management expenses | 11 | 3.8 |
| **(0.4)** | **Net (additions)/withdrawals including management expenses** | | **(7.3)** |
| | **Returns on investments** | | |
| (1.4) | Investment income | 12 | (1.2) |
| 0.0 | Taxes on income | 13 | 0.0 |
| (61.7) | (Profits) and losses on disposal of investments and changes in the market value of investments | 14 | 34.1 |
| **(63.1)** | **Net return on investments** | | **32.9** |
| (63.5) | **Net (increase)/decrease in the net assets available for benefits during the year** | | 25.6 |
| **(801.1)** | **Opening net assets of the scheme** | | **(864.6)** |
| **(864.6)** | **Closing net assets of the scheme** | | **(839.0)** |

## Net Assets Statement

| 31 March 2019 £m | | Notes | 31 March 2020 £m |
|---|---|---|---|
| 856.4 | Investment assets | **14** | 835.3 |
| **856.4** | | | **835.3** |
| 9.1 | Current assets | **20** | 4.0 |
| 0.0 | Non-current assets | | 0.0 |
| (0.9) | Current liabilities | **21** | (0.4) |
| **864.6** | **Net assets of the fund available to fund benefits at the period end** | | **839.0** |

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2020 but excludes long-term liabilities to pay pensions and benefits in future years. The actuarial present value of promised retirement benefits is disclosed in Note 19.

## Notes to the Brent Pension Fund accounts

## 1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme, and is administered by Brent Council.
The following description of the Fund is a summary only.

### a) General

The Fund is a contributory defined benefit pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies.

### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
Organisations participating in the Brent Pension Fund include:
Scheduled bodies whose staff are automatically entitled to be members of the Fund. Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There were 40 employer organisations with active members within the Brent Pension Fund at 31 March 2020, listed below:

Scheduled bodies
London Borough of Brent
Alperton Community School
ARK Academy
ARK Elvin Academy
ARK Franklin Academy
Braintcroft Primary School
Capital City Academy
Claremont High School Academy
Compass Learning Partnership
Convent of Jesus & Mary Language College
Crest Academy
Furness Primary School
Gladstone Park Primary School
Kingsbury High School
Manor School
Michaela Community School
North West London Jewish Day School

Oakington Manor Primary School
Our Lady of Grace RC Infants School
Our Lady of Grace RC Juniors School
Preston Manor High School
Queens Park Community School
St Andrews and St Francis School
St Gregory's RC High School
St Margaret Clitherow
Sudbury Primary School
The Village School
Wembley High Technology College
Woodfield School Academy

Admitted bodies
Apleona HSG Ltd (previously Bilfinger originally Europa Facility (Services Limited)
Barnardos
Caterlink
Conway Aecom
Local Employment Access Project (LEAP)
National Autistic Society (NAS)
Ricoh UK
Sudbury Neighbourhood Centre
Taylor Shaw
Veolia
Veolia (Ground Maintenance)

| 31 March 2019 | Brent Pension Fund | 31 March 2020 |
|---|---|---|
| 36 | Number of employers with active members | 40 |
| | Number of employees in scheme | |
| 5,209 | Brent Council | 5,239 |
| 1,547 | Other employers | 1,834 |
| 6,756 | Total | 7,073 |
| | Number of pensioners | |
| 6,193 | Brent Council | 6,320 |
| 537 | Other employers | 666 |
| 6,730 | Total | 6,986 |
| | Deferred pensioners | |
| 7,053 | Brent Council | 7,928 |
| 815 | Other employers | 1,151 |
| 7,868 | Total | 9,079 |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. During 2019/20, the most commonly applied employer contribution rate within the Brent Pension Fund was 35.0% of pensionable pay.

### d) Benefits

Since April 2014, the scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate 1/49th. Accrued pension is updated annually in line with the Consumer Price index.
For a summary of the scheme before April 2014 and details of a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits, please refer to the LGPS website: www.lgpsmember.org

## *2. Basis of preparation*

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

## *3. Summary of significant accounting policies*

### Fund Account – revenue recognition

### a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

## b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## c) Investment income

i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
iv) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

## Fund Account – expense items

## d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

## e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

### g) Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

## Net Assets Statement

### h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or

responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

## i) Contingent Assets

Admitted body employers in the Brent Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. Contingent Assets are disclosed in Note 25.

## j) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

## k) Derivatives

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

## l) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### m) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

### o) Additional voluntary contributions

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed as a note only (Note 22).

## *4. Critical judgements in applying accounting policies*

### Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2020 was £84m (£95m at 31 March 2019).

### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

## 5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Actuarial present value of promised retirement benefits (Note 19) | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £136m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £8m, and a one-year increase in assumed life expectancy would increase the liability by approximately 3 to 5%. . |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Private equity/infrastructure | Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation. | The total private equity/infrastructure investments in the financial statements are £84m. There is a risk that this investment may be under- or overstated in the accounts. |

## 6. Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7. Contributions receivable

**By category**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Employees' contributions | 9.2 | 8.5 |
| Employers' contributions: | | |
| Normal contributions | 39.7 | 45.6 |
| Deficit recovery contributions | 1.7 | 1.7 |
| Augmentation contributions | 1.5 | 4.3 |
| Total employers' contributions | 42.9 | 51.5 |
| **Total** | **52.1** | **60.0** |

**By authority**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Administering Authority | 42.0 | 47.8 |
| Scheduled bodies | 8.5 | 10.3 |
| Admitted bodies | 1.6 | 1.8 |
| **Total** | **52.1** | **60.0** |

## 8. Transfers in from other pension funds

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Individual transfers | 2.8 | 5.2 |
| **Total** | **2.8** | **5.2** |

## 9. Benefits payable

**By category**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Pensions | 37.7 | 38.6 |
| Commutation and lump sum retirement benefits | 7.1 | 8.5 |
| Lump sum death benefits | 1.1 | 0.8 |
| **Total** | **45.9** | **47.9** |

**By authority**

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Administering Authority and Scheduled bodies | 44.1 | 47.4 |
| Admitted bodies | 1.8 | 0.5 |
| **Total** | **45.9** | **47.9** |

## *10. Payments to and on account of leavers*

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Individual transfers | 1.8 | 0.3 |
| Refunds to members leaving service | 0.1 | 0.0 |
| Group transfers | (0.1) | 5.9 |
| **Total** | **1.8** | **6.2** |

## *11. Management Expenses*

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Administration costs | 1.2 | 1.1 |
| Investment management expenses | 3.2 | 2.4 |
| Oversight and Governance costs | 0.2 | 0.3 |
| Other expenses | 2.2 | 0.0 |
| **Total** | **6.8** | **3.8** |

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments. Audit fees were £16.1k (21k 2018/19).

### a) Investment management expenses

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Management fees | 2.7 | 2.3 |
| Custody fees | 0.1 | 0.0 |
| One-off transaction costs | 0.4 | 0.0 |
| **Total** | **3.2** | **2.3** |

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial liability {see Appendix A, paragraph AG13 of IAS 39}. An incremental cost is one that would not have been incurred if the authority had not acquired, issued or disposed of the financial instrument.

## *12. Investment income*

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Dividend income private equities/infrastructure | 0.2 | 0.5 |
| Income from Pooled property investments | 0.5 | 0.1 |
| Income from private equities/infrastructure | 0.2 | 0.3 |
| Interest on cash deposits | 0.5 | 0.3 |
| **Total** | **1.4** | **1.2** |

## 13. Taxes on income

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Withholding tax | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** |

## 14. Investments

| | Market value 31 March 2019 | Market value 31 March 2020 |
|---|---|---|
| | £m | £m |
| **Investment assets** | | |
| Pooled investments | 737.7 | 697.0 |
| Pooled property investments | 0.2 | 0.1 |
| Private equity/infrastructure | 95.0 | 84.3 |
| **Total investments** | **832.9** | **781.4** |

### *14a) Investments 19/20*

| | Market value 1 April 2019 | Purchases during the year | Sales during the year | Change in market value during the year | Market value 31 March 2020 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Pooled investments** | 737.7 | 0.0 | (1.2) | (39.5) | 697.0 |
| **Pooled property investments** | 0.2 | 0.0 | (3.3) | 3.2 | 0.1 |
| **Private equity/infrastructure** | 95.0 | 3.2 | (16.1) | 2.2 | 84.3 |
| | **832.9** | **3.2** | **(20.6)** | **(34.1)** | **781.4** |
| **Other investment balances:** | | | | | |
| **Cash Deposit** | 23.5 | | | | 53.9 |
| **Investment income due** | 0.0 | | | | 0.0 |
| **Net investment assets** | **856.4** | | | | **835.3** |

**Investments 18/19**

| | Market value 1 April 2018 | Purchases during the year | Sales during the year | Change in market value during the year | Market value 31 March 2019 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Pooled investments** | 636.9 | 181.9 | (122.0) | 40.9 | 737.7 |
| **Pooled property investments** | 2.1 | 0.0 | (1.4) | (0.5) | 0.2 |
| **Private equity/infrastructure** | 98.3 | 6.2 | (30.8) | 21.3 | 95.0 |
| | **737.3** | **188.1** | **(154.2)** | **61.7** | **832.9** |
| **Other investment balances:** | | | | | |
| **Cash Deposit** | 94.0 | | | | 23.5 |
| **Investment income due** | 0.0 | | | | 0.0 |
| **Net investment assets** | **831.3** | | | | **856.4** |

***14b) Analysis of investments by category***

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| | £m | £m |
| **Pooled funds - additional analysis** | | |
| **UK** | | |
| Fixed income unit trust | 35.5 | 30.6 |
| Unit trusts | 224.6 | 212.1 |
| Diversified growth funds | 170.1 | 160.9 |
| **Overseas** | | |
| Unit trusts | 307.5 | 293.4 |
| **Total Pooled funds** | **737.7** | **697.0** |
| | | |
| **Pooled property investments** | 0.2 | 0.1 |
| **Private equity/infrastructure** | 95.0 | 84.3 |
| **Total investments** | **832.9** | **781.4** |

*14c) Investments analysed by fund manager*

**Market value**

| 31 March 2019 £m | % | | 31 March 2020 £m | % |
|---|---|---|---|---|
| 422.9 | 50.8% | Legal & General | 387.5 | 49.6% |
| 0.2 | 0.0% | London CIV | 0.2 | 0.0% |
| 30.3 | 3.6% | Janus Henderson | 0.0 | 0.0% |
| 0.0 | 0.0% | JP Morgan | 25.2 | 3.2% |
| 69.4 | 8.3% | Capital Dynamics | 59.2 | 7.6% |
| 0.0 | 0.0% | Yorkshire Fund Managers | 0.0 | 0.0% |
| 121.5 | 14.6% | LCIV - Baillie Gifford | 110.8 | 14.2% |
| 48.6 | 5.8% | LCIV - Ruffer | 50.1 | 6.4% |
| 35.5 | 4.3% | LCIV- MAC (CQS) | 30.6 | 3.9% |
| 0.0 | 0.0% | LCIV - Infrastructure | 0.5 | 0.1% |
| 0.2 | 0.0% | Aviva | 0.1 | 0.0% |
| 25.6 | 3.1% | Alinda | 24.6 | 3.1% |
| 78.7 | 9.4% | Blackrock | 92.6 | 11.9% |
| **832.9** | **100.0** | | **781.4** | **100.0** |

All of the above companies are registered in the United Kingdom.

## d) Stock lending

The London Borough of Brent Pension Fund does not operate a Stock Lending programme.

## *15a. Valuation of financial instruments carried at fair value*

The basis of the valuation of each asset class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |

| | | | | |
|---|---|---|---|---|
| Pooled investments – overseas unit trusts and property funds | Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward pricing basis | Not required |
| Unquoted equity | Level 3 | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012) | EBITDA multiple<br><br>Revenue multiple<br><br>Discount for lack of marketability Control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts |

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with our independent investment advisor, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

| | Assessed valuation range (+/-) | Value at 31 March 2020 | Value on increase | Value of decrease |
|---|---|---|---|---|
| | | £m | £m | £m |
| Private equity/ Infrastructure | 24.3% | 84.3 | 104.7 | 63.9 |

### *15b. Fair value hierarchy*

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values.  Transfers between levels are recognised in the year in which they occur.

## Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

## Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

## Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and fund of hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Transfers between levels will be recognised when there has been a change to observable mark data (improvement or reduction) or other change in valuation technique.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| Values at 31 March 2020 | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 0.0 | 697.1 | 84.3 | 781.4 |
| Loans and receivables | 53.9 | 0.0 | 0.0 | 53.9 |
| **Total Financial assets** | **53.9** | **697.1** | **84.3** | **835.3** |
| **Financial liabilities** | | | | |
| Financial liabilities at amortised cost | (0.4) | 0.0 | 0.0 | (0.4) |
| **Total Financial liabilities** | **(0.4)** | **0.0** | **0.0** | **(0.4)** |
| **Net Financial assets** | **53.5** | **697.1** | **84.3** | **834.9** |

| Values at 31 March 2019 | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 0.0 | 737.9 | 95.0 | 832.9 |
| Loans and receivables | 23.5 | 0.0 | 0.0 | 23.5 |
| **Total Financial assets** | **23.5** | **737.9** | **95.0** | **856.4** |
| **Financial liabilities** | | | | |
| Financial liabilities at amortised cost | (0.9) | 0.0 | 0.0 | (0.9) |
| **Total Financial liabilities** | **(0.9)** | **0.0** | **0.0** | **(0.9)** |
| **Net Financial assets** | **22.6** | **737.9** | **95.0** | **855.5** |

## *15c. Transfers between Levels 1 and 2*

There were no transfers between levels 1 and 2 during the year

## *15d. Reconciliation of Fair Value Measurements within Level 3*

| | £m |
|---|---|
| Value at 31 March 2019 | 95.0 |
| Transfers into Level 3 | 0 |
| Transfers out of Level 3 | 0 |
| Purchases | 3.2 |
| Sales | (16.1) |
| Issues | 0 |
| Settlements | 0 |
| Unrealised gains/losses | 0 |
| Realised gains/losses | 2.2 |
| Value at 31 March 2020 | 84.3 |

## 16. *Classification of financial instruments*

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| | 31 March 2019 | | | | 31 March 2020 | |
|---|---|---|---|---|---|---|
| **Fair value through profit and loss** | **Loans and receivables** | **Financial liabilities at amortised cost** | | **Fair value through profit and loss** | **Loans and receivables** | **Financial liabilities at amortised cost** |
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** |
| | | | **Financial assets** | | | |
| 737.7 | | | Pooled investments | 697.0 | | |
| 0.2 | | | Pooled property investments | 0.1 | | |
| 95.0 | | | Private equity/infrastructure | 84.3 | | |
| | 23.5 | | Cash | | 53.9 | |
| | 9.1 | | Debtors | | 4.0 | |
| **832.9** | **32.6** | **0.0** | **Total Financial assets** | **781.4** | **57.9** | **0.0** |
| | | | **Financial liabilities** | | | |
| | | (0.9) | Creditors | | | (0.4) |
| **0** | **0** | **(0.9)** | **Total Financial liabilities** | **0** | **0** | **(0.4)** |
| **832.9** | **32.6** | **(0.9)** | **Net Financial assets** | **781.4** | **57.9** | **(0.4)** |

a) Net gains and losses on financial instruments

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| **£m** | | **£m** |
| | **Financial assets** | |
| 61.7 | Fair value through profit and loss | (34.1) |
| **61.7** | **Total** | **(34.1)** |

## b) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

| 31 March 2019 Carrying Value | Fair Value | | 31 March 2020 Carrying Value | Fair Value |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| | | **Financial assets** | | |
| 832.9 | 832.9 | Fair value through profit and loss | 781.4 | 781.4 |
| 32.6 | 32.6 | Loans and receivables | 57.9 | 57.9 |
| **865.5** | **865.5** | **Total financial assets** | **839.3** | **839.3** |
| | | **Financial liabilities** | | |
| (0.9) | (0.9) | Financial liabilities at amortised cost | (0.4) | (0.4) |
| **(0.9)** | **(0.9)** | **Total financial liabilities** | **(0.4)** | **(0.4)** |

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## *17. Nature and extent of risks arising from financial instruments*

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

## Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

**Other price risk – sensitivity analysis**

| Asset Type | 31/03/2020 Value (£m) | Potential market movements (+/-) |
|---|---|---|
| Bonds | 123.2 | 7.6% |
| Equities | 412.9 | 26.3% |
| Other Pooled investments | 160.9 | 13.0% |
| Pooled Property investments | 0.1 | 14.2% |
| Private Equity/Infrastructure | 84.3 | 24.3% |

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows:

| Asset Type | 31/03/2020 Value | Potential value on increase | Potential value on decrease |
|---|---|---|---|
| Bonds | 123.2 | 132.6 | 113.8 |
| Equities | 412.9 | 521.5 | 304.3 |
| Other Pooled investments | 160.9 | 181.8 | 140.0 |
| Pooled Property investments | 0.1 | 0.1 | 0.1 |
| Private Equity/Infrastructure | 84.3 | 104.7 | 63.9 |
| **Total** | **781.4** | **940.7** | **622.1** |

## Interest rate risk exposure asset type

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| | £m | £m |
| Cash balances | 23.5 | 53.9 |
| UK Fixed income unit trust | 35.5 | 30.6 |
| **Total** | **59.0** | **84.5** |

| Asset type | Carrying amount as at 31 March 2020 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £m | £m | £m |
| Cash balances | 53.9 | 0.5 | (0.5) |
| UK Fixed income unit trust | 30.6 | 0.3 | (0.3) |
| **Total change in assets available** | **84.5** | **0.8** | **(0.8)** |

| Asset type | Carrying amount as at 31 March 2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 BPS | -100 BPS |
| | £m | £m | £m |
| Cash balances | 23.5 | 0.2 | (0.2) |
| UK Fixed income unit trust | 35.5 | 0.4 | (0.4) |
| **Total change in assets available** | **59.0** | **0.6** | **(0.6)** |

## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2020 and as at the previous period end:

| Currency risk exposure – asset type | Asset value at 31 March 2019 | Asset value at 31 March 2020 |
|---|---|---|
| | £m | £m |
| Overseas unit trusts | 307.5 | 293.4 |
| Overseas pooled property investments | 0.2 | 0.1 |
| Overseas private equity/infrastructure | 95.0 | 84.3 |
| **Total overseas assets** | **402.7** | **377.8** |

A 1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| | Asset value as at 31 March 2020 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| | £m | £m | £m |
| Overseas unit trusts | 293.4 | 2.9 | (2.9) |
| Overseas pooled property investments | 0.1 | 0.0 | (0.0) |
| Overseas private equity/infrastructure | 84.3 | 0.8 | (0.8) |
| **Total change in assets available** | **377.8** | **3.8** | **(3.8)** |

| | Asset value as at 31 March 2019 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| | £m | £m | £m |
| Overseas unit trusts | 307.5 | 3.1 | (3.1) |
| Overseas pooled property investments | 0.2 | 0.0 | (0.0) |
| Overseas private equity/infrastructure | 95.0 | 1.0 | (1.0) |
| **Total change in assets available** | **402.7** | **4.0** | **(4.0)** |

## b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £54.0m (31 March 2019: £23.5m). This was held with the following institutions:

| | Rating | Balances as at 31 March 2019 | Balances as at 31 March 2020 |
|---|---|---|---|
| | | £m | £m |
| **Bank deposit accounts** | | | |
| NatWest | BBB+ | 1.1 | 0.8 |
| Northern Trust | | 3.3 | 0.1 |
| Money Market deposits | A+ | 19.1 | 53.1 |
| **Other short-term lending** | | | |
| Local authorities | | 0.0 | 0.0 |
| **Total** | | **23.5** | **54.0** |

## c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2020 the value of illiquid assets was £84.4m, which represented 10% (31 March 2019: £95.2m, which represented 11%) of the total fund assets.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.
All financial liabilities at 31 March 2020 are due within one year.

### d) Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## *18. Funding arrangements*

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at March 2022.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2019 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the Fund was assessed as 78% funded, which is a significant improvement to the 55% valuation at the 2016 valuation. This corresponded to a deficit of £248m

(2016 valuation: £562m) at that time. As a result, a deficit recovery plan is in place which aims to achieve 100% funding over a period of 19 years from April 2019.

Contribution increases or decreases may be phased in over the three-year period beginning 31 March 2020 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

| Year | Employers' contribution rate |
|---|---|
| 2018/19 | 33.8% |
| 2019/20 | 35.0% |
| 2020/21 | 35.0% |

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

The main actuarial assumptions used for the March 2019 actuarial valuation were as follows:

| | |
|---|---|
| Discount rate | 4.4% p.a. |
| Pay increases | 2.6% p.a. |
| Pension increases | 2.3% p.a. |

### Mortality assumptions

Future life expectancy based on the Actuary's fund-specific mortality review was:

| Mortality assumption at age 65 | Male | Female |
|---|---|---|
| Current pensioners | 22.1 years | 24.3 years |

### Commutation assumption

It is assumed that 50% of future retirements will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

## *19. Actuarial present value of promised retirement benefits*

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2020 was £1,489m (31 March 2019: £1,826m). This figure includes both vested and non-vested benefits, although the latter is assumed to have a negligible value. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

### Financial assumptions

| | |
|---|---|
| Inflation/pensions increase rate | 1.9% |
| Salary increase rate | 2.2% |
| Discount rate | 2.3% |

### Longevity assumption

The average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current pensioners | 22.1 years | 24.3 years |
| Future pensioners* | 23.0 years | 25.5 years |

* Future pensioners are assumed to be currently aged 45

### Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity Analysis

| **Sensitivity to the assumptions for the year ended 31 March 2019** | **Approximate % increase to liabilities** | **Approximate monetary amount (£m)** |
|---|---|---|
| 0.5% p.a. increase in the Pension Increase Rate (CPI) | 9% | 127 |
| 0.5% p.a. increase in the Salary Increase Rate | 1% | 8 |
| 0.5% p.a. decrease in the discount rate | 9% | 136 |

## 20. Assets

### a) Current assets

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| Debtors: | | |
| - Contributions due – employees | 1.3 | 0.7 |
| - Contributions due – employers | 7.0 | 2.9 |
| - Sundry debtors | 0.8 | 0.5 |
| **Total** | **9.1** | **4.0** |

### Analysis of debtors

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| Central government bodies | 0.1 | 0.4 |
| Other local authorities | 6.8 | 3.5 |
| Other entities and individuals | 2.2 | 0.1 |
| **Total** | **9.1** | **4.0** |

Non- current assets comprises of contributions due from employers, repayable later than a year from the Balance Sheet date.

## 21. Current liabilities

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| Group transfers | (0.1) | 0.0 |
| Sundry creditors | 1.0 | 0.4 |
| | **0.9** | **0.4** |

### Analysis of creditors

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| College of North West London | (0.1) | 0.0 |
| Other entities and individuals | 1.0 | 0.4 |
| **Total** | **0.9** | **0.4** |

## 22. Additional voluntary contributions

| | Market value 31 March 2019 £m | Market value 31 March 2020 £m |
|---|---|---|
| Clerical Medical | 1.3 | 1.3 |
| Equitable Life | 0.2 | 0.2 |
| Prudential | 0.1 | 0.3 |
| **Total** | **1.5** | **1.8** |

The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

## 23. *Related party transactions*

### Brent Council

The Brent Pension Fund is administered by Brent Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.997m (2018/19: £0.796m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £33.7m to the Fund in 2019/20 (2018/19: £32.5m).

### Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund. Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

### Key management personnel

The key management personnel of the fund are the Chief Executive, the Assistant Chief Executive the Director of Legal & HR, the Chief Finance Officer (s.151 officer) and the Head of Finance (Pensions). The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below:

| | **31st March 2019** | **31st March 2020** |
|---|---|---|
| | **£m** | **£m** |
| Short Term Benefits | 0.036 | 0.039 |
| Post Employment Benefits | 0.008 | 0.011 |
| Termination Benefits | 0.000 | 0.000 |
| **Total Remunerations** | **0.044** | **0.050** |

## 24. *Contingent liabilities*

Outstanding capital commitments (investments) at 31 March 2020 totalled £76m (31 March 2019: £26.9m).

| | 31st March 2019 | 31st March 2020 |
|---|---|---|
| | £m | £m |
| Capital Dynamics | 14.1 | 13.9 |
| Alinda Fund II | 2.9 | 3.1 |
| Alinda Fund III | 9.9 | 9.5 |
| London CIV Infrastructure Fund | n/a | 49.5 |
| **Total** | **26.9** | **75.9** |

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

## 25. Contingent Assets

### Other Contingent assets

Two non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

| | 31st March 2019 | 31st March 2020 |
|---|---|---|
| | £m | £m |
| Apleona HSG Limited (previously Bilfinger) | 0.1 | 0.1 |
| Conway Aecom | 0.1 | 0.1 |
| **Total** | **0.2** | **0.2** |

## 26. Impairment Losses

The Fund had no contingent liabilities at 31 March 2020.

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