Warwickshire Local Pension Board

Date: Tuesday 13 April 2021
Time: 10.00 am
Venue: Microsoft Teams

Membership
Keith Bray (Chair)
Councillor Parminder Singh Birdi
Keith Francis
Alan Kidner
Sean McGovern
Councillor Dave Parsons
Mike Snow

Items on the agenda: -

1. Introductions and General Business

(1) Apologies

(2) Board Members' Disclosures of Interests
(as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Board Terms of Reference).

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Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

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• Must leave the meeting room until the matter has been dealt with
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Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting
The public reports referred to are available on the Warwickshire Web
https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1

Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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Warwickshire Local Pension Board

Forward Plan

13 April 2021

Recommendation(s)

1. That the Local Pension Board notes and comments on the forward plan in Appendix 1.

2. That the Local Pension Board identifies any areas of interest or activity to add to the forward plan.

1. Executive Summary

1.1 This report provides an updated one year rolling forward plan for the Local Pension Board looking forward one year.

1.2 This is not intended to be rigid or definitive, the intention is that it can be updated and amended on a rolling basis at each meeting and be informed by the latest developments.

1.3 The forward plan includes reference to policy reviews and a schedule of training events/topics guided by feedback from the National Knowledge Assessment.

2. Financial Implications

2.1 None.

3. Environmental Implications

3.1 None.

4. Supporting Information

4.1 None.

5. Timescales associated with the decision and next steps

5.1 Please refer to Appendix 1.

Appendices
1. Appendix 1 the Forward Plan for the Local Pension Board.

Background Papers
1. None.

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Lead Member	Portfolio Holder for Finance and Property	Peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): n/a
Other members: n/a

Forward Plan items

Appendix 1.

Q1 20th July 2021	**Q2 20th October 2021**	**Q3 2nd February 2022**	**Q4 26th April 2022**
Standing Items			
Administration Activity and Performance update	Administration Activity and Performance update	Administration Activity and Performance update	Administration Activity and Performance update
Risk monitoring	Risk monitoring	Risk monitoring	Risk Register
Business plan monitoring	Business plan monitoring	Business Plan monitoring	Business Plan
Investment update	Investment update	Investment update	Investment update
Review of the reports and minutes of the Pension Fund Investment Sub-Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub-Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub-Committee and Staff and Pensions Committee	Review of the reports and minutes of the Pension Fund Investment Sub-Committee and Staff and Pensions Committee
Forward Plan	Forward Plan	Forward Plan	Forward Plan
Bespoke Items			
	Chair's Annual Report	External Audit of Accounts	
	Draft Annual Report		
Policies			
Environmental, Social and Governance / Responsible Investment / Climate Risk Admissions and Termination policy Governance statement Administration Strategy Breaches policy	Investment Strategy Statement Discretion policy statement for the Administering Authority	Cyber Security policy	Communications policy Funding Strategy Statement Investment Strategy Statement
Training			
Appetite for Risk (April 21) **Climate change / ESG** (May 21)	**Admin best practice / governance / Section 13** (June / July 21) **Actuarial methods and liabilities** (August / September 21)	**McCloud and cost transparency** (November 21) **Property funds / Liability hedging** (December 21)	**Valuation training sessions – purpose, role, outcomes etc** (February 22)

	Procurement and relationship management (September / October 21)		

Agenda Item 3

Local Pension Board

13 April 2021

Business Plan

1 **Recommendations**

1.1 That the Local Pension Board notes and comments on the Business Plan attached at Appendix 1.

1.2 That the Local Pension Board notes the Investment Strategy Statement attached at Appendix 2.

2 **Executive Summary**

2.1 It is best practice for local authority pension funds to operate a formal and documented Business Plan for their operations. This report sets out the Business Plan for 2021/22, as approved by the Pension Fund Investment Sub-Committee in March 2021.

2.2 The business plan includes a Single Action Plan for the Fund as an appendix. This simplifies the business planning and monitoring arrangements. During 2020/21 the Fund had a number of action plans for different reasons e.g. Covid, the governance review, risk management, and these became complex to manage and co-ordinate.

2.3 The Investment Strategy Statement is also a key planning document for the Fund and has been updated at the March 2021 Investment Sub Committee. It sets out the Fund's approach to investing, including the strategic asset allocation, investment mandates, the expected returns, investment risk, and investment governance. The table below highlights the key changes.

Section	Update
2. The suitability of particular investment and types of investments	Added reference to undertaking a light review of the Investment Strategy in 2021 Added reference to ESG factors being monitored
3. Investment of money in a wide variety of asset classes	Added reference to taking incremental steps towards the long-term target asset allocation Added reference to the Fund being open to considering local impact investing if it is congruent with the overall investment objectives of the Fund

5. Managers	Updates to the table of investment managers, asset classes, and investment styles
7. Funding risks	Employer risk added to the list of funding risks Addition of a cross reference to the Funding Strategy
8. Asset risks	Expansion of the list of asset risks to include market risk, rate/duration risk, counterparty risk, real asset values, and climate risk
11. Assets to be invested in the pool	Updated for latest position with regard to investments in the pool Addition of a comment noting the option to undertake local impact investing outside of the pool
12. Structures and governance of the BCPP pool	Addition of reference to BCPP as an authorised contractual scheme manager
13. ESG Policy	Updated in respect of recent training Addition of reference to the intention to review Investment Guiding Principles and ESG Beliefs in 2021
14. The exercise of voting rights	Updated to reflect that voting is now reported quarterly
15. Stewardship	Updated to reference the 2020 UK Stewardship Code

3 Financial Implications

3.1 The Fund has an investment strategy and funding strategy designed to manage the financial position of the Fund. The business plan is designed to ensure that these two strategies are updated and implemented appropriately.

4 Environmental Implications

4.1 The Fund has a climate risk policy designed to minimise the Fund's contribution towards climate change and minimise the Fund's exposure to risk driven by climate change.

5 Supporting Information

5.1 None.

6 Timescales and Next Steps

6.1 None.

Appendices
Appendix 1 – Business Plan
Appendix 2 – Investment Strategy Statement

Background Papers
None.

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The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

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WARWICKSHIRE

pension fund

Business Plan

2021/2022

Contents

1	Introduction
2	Activity
3	Long-Term Objectives
4	Key Performance Measures
5	Key Business Plan Items
6	Actions

Appendices

A	Administration Performance Measures
B	Investment Performance Measures
C	Single Action Plan

1. Introduction

This document sets out the business plan for the Warwickshire Pension Fund for 2021/22, including objectives, strategic priorities, and an action plan to achieve them.

Warwickshire County Council (WCC) is the Administering Authority of the Warwickshire Pension Fund (‘the Fund’) administering both the Local Government and Firefighter Pension Schemes. This business plan relates to the Local Government Pension Scheme only.

The Warwickshire Pension Fund is administered by the Strategic Director for Resources on behalf of Warwickshire County Council (the scheme manager), five district councils and other scheduled and admitted public service organisations and their contractors.

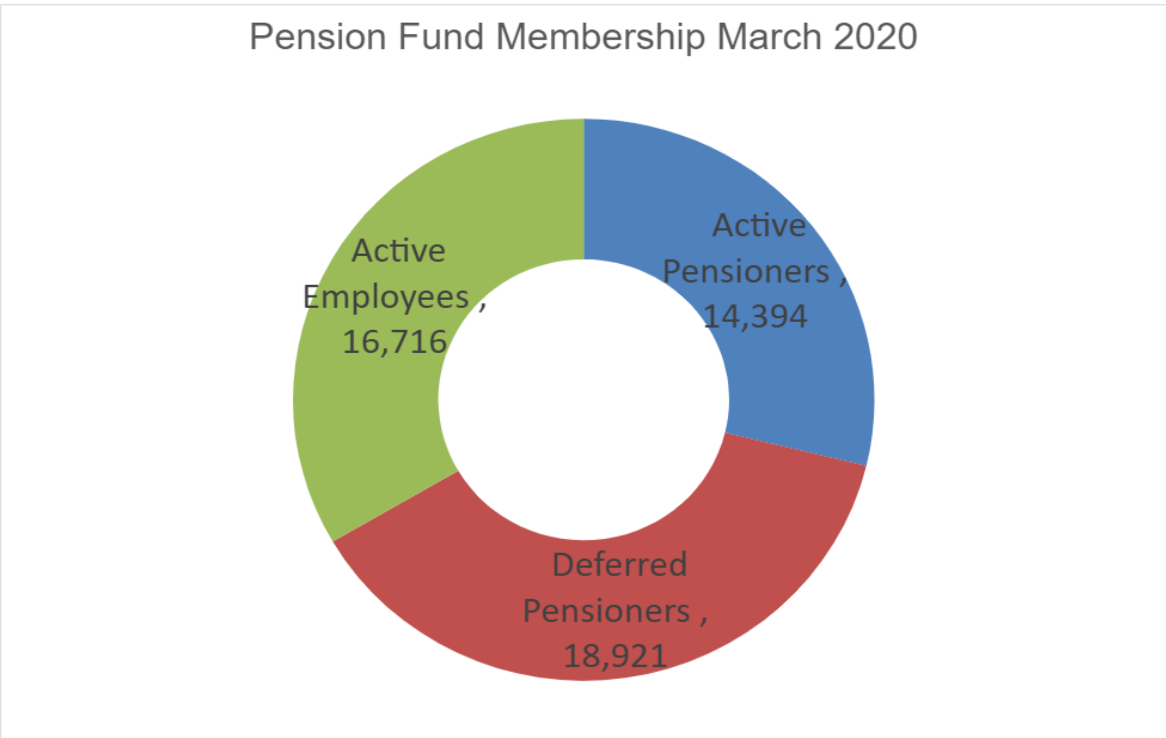
The administration of the fund is carried out through Warwickshire County Council’s Staff and Pensions Committee, the Pension Fund Investment Sub Committee, and the Local Pension Board.

The committees are comprised of elected County Council members whilst the Board is an equal mix of representatives of employers and scheme members with an independent chair.

2. Activity

2.1 Membership Activity

At March 2020, the total membership of the fund stood at 50,031 (including 1711 dependants).

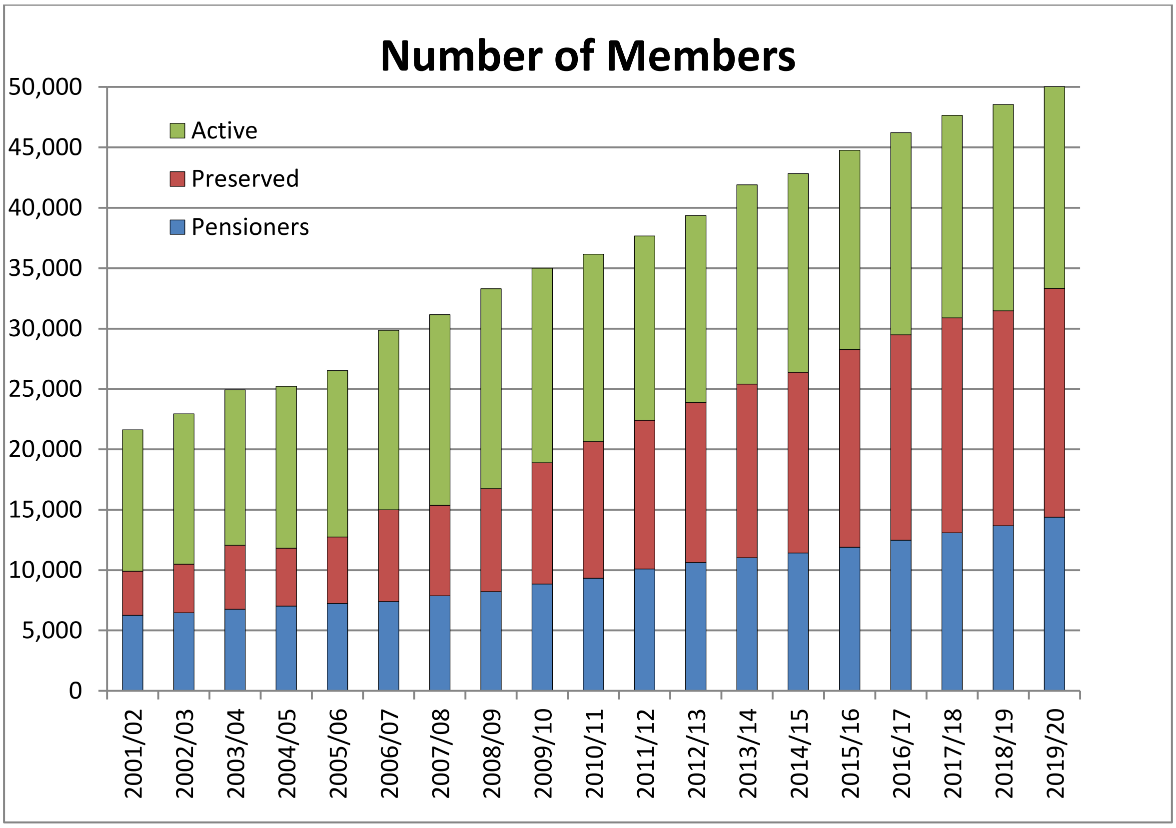


Of the total membership,16,716 are active members currently contributing to the fund, 14,394 are members with a preserved benefit and 18,921 retired or dependant members are in receipt of a pension.

All local government employees (except temporary and casual employees) are automatically entered into the scheme and must opt out if they do not wish to remain a member.

Temporary and casual employees must make an election to join the scheme. Temporary employees on a contract of less than three months duration are not eligible for membership

Pension fund membership has increased over the long-term and this increase places increasing demands upon the service. The chart below illustrates this trend.



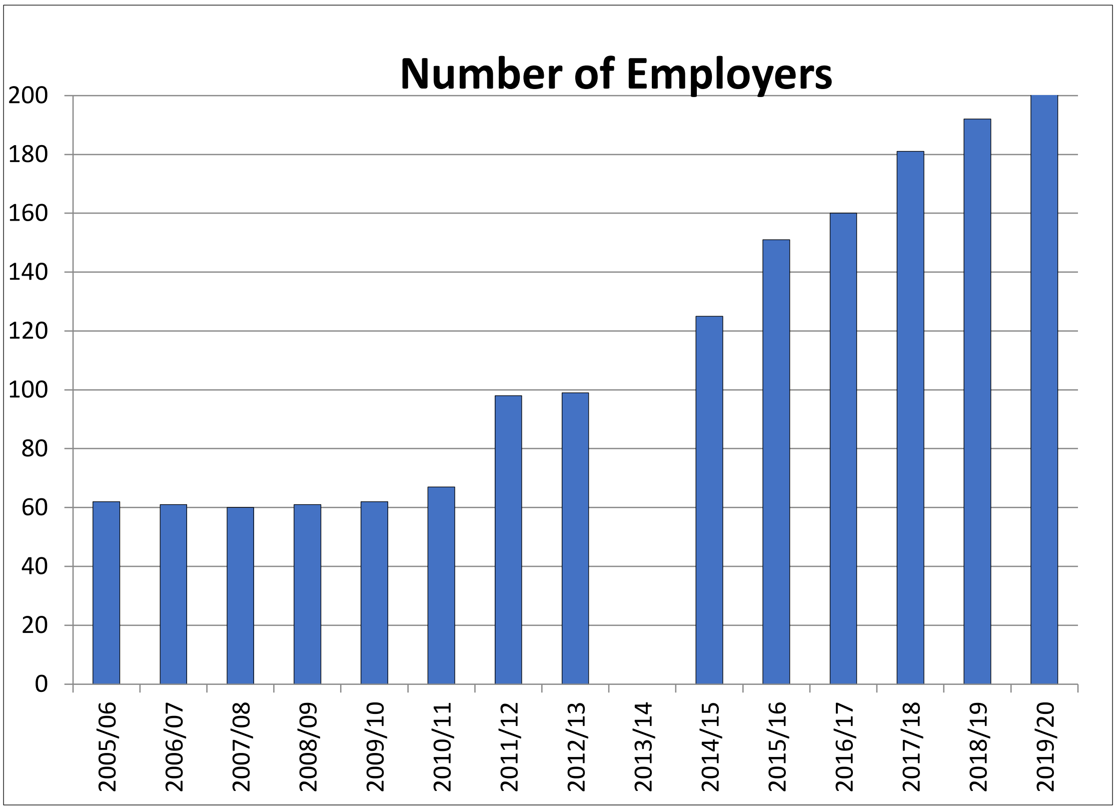
The following figures show the average annual change in activity over the last 5 years:

- Active Employees +4.7% p.a.
- Deferred Members +4.3% p.a.
- Pensioners +0.3% p.a.

This increase is expected to continue due to automatic enrolment and increased public awareness of pensions.

2.2 Employer Activity

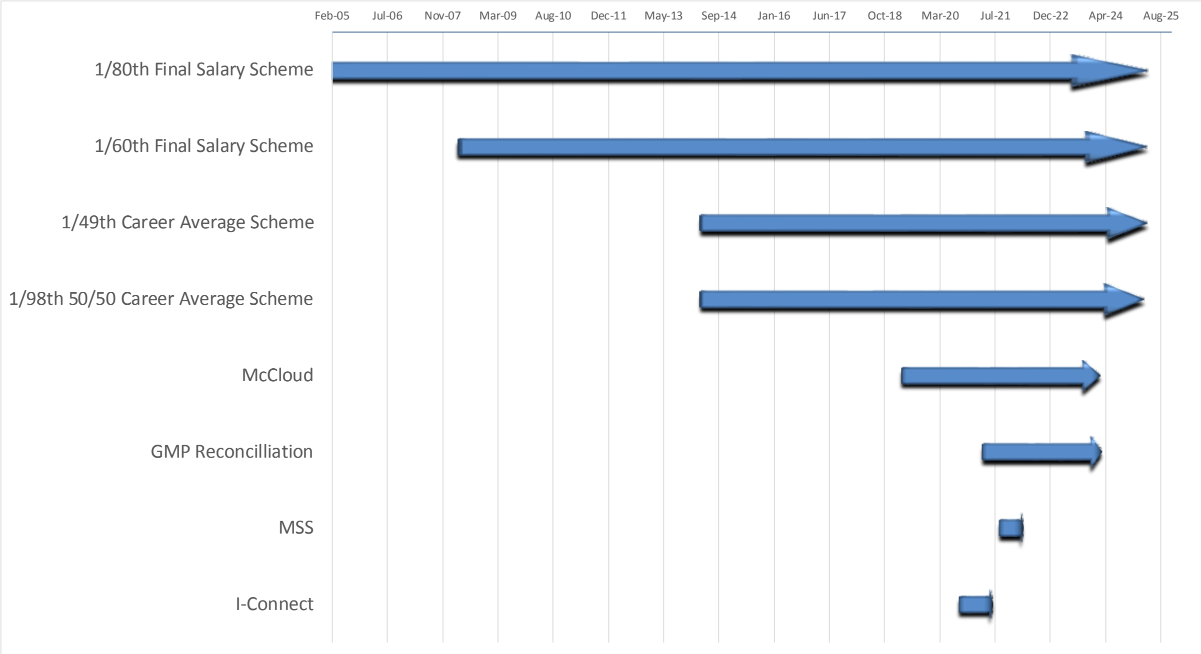
In addition to increases in membership, the number of employers is also increasing as illustrated in the chart below (driven largely by academisation of schools and the contracting out of services).



**2013/2014 data not available*

2.3 Administration Complexity

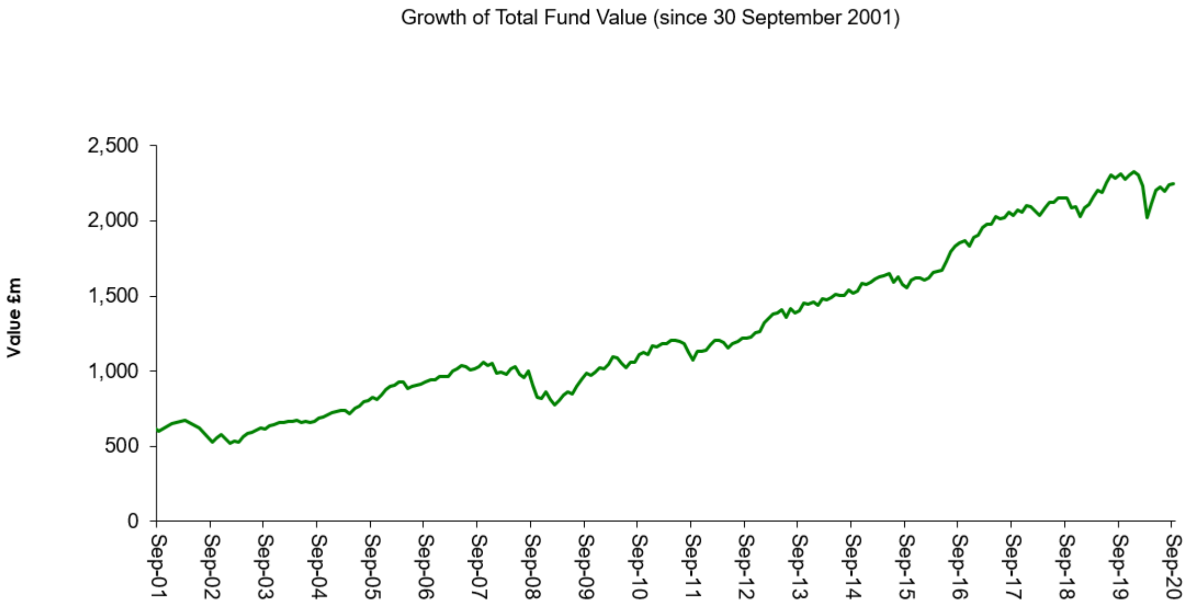
The LGPS is increasing in complexity over time as regulations evolve. The pictorial below illustrates this change over time:



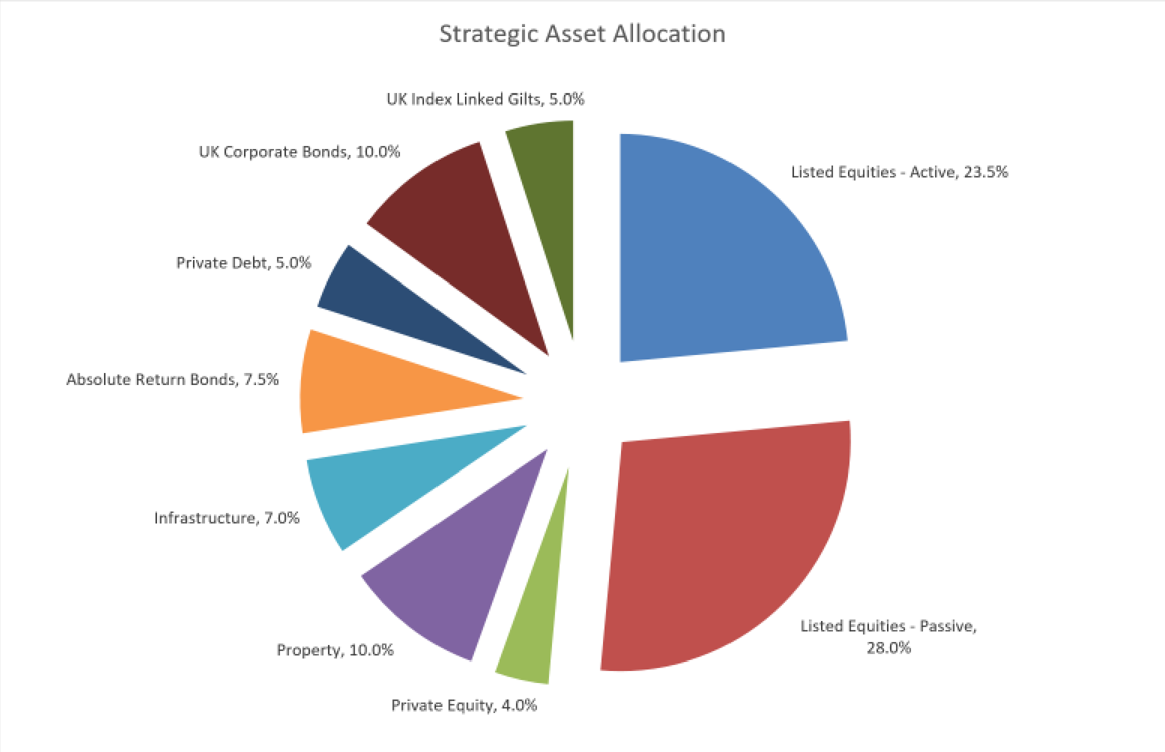
The introduction of the McCloud remedy to prepare for, and the complexity of the remedy will need to be administrated for many years into the future as affected members retire.

2.4 Investment Activity

Fund investments stand at over £2bn, with the fund value continuing to increase over the long term.

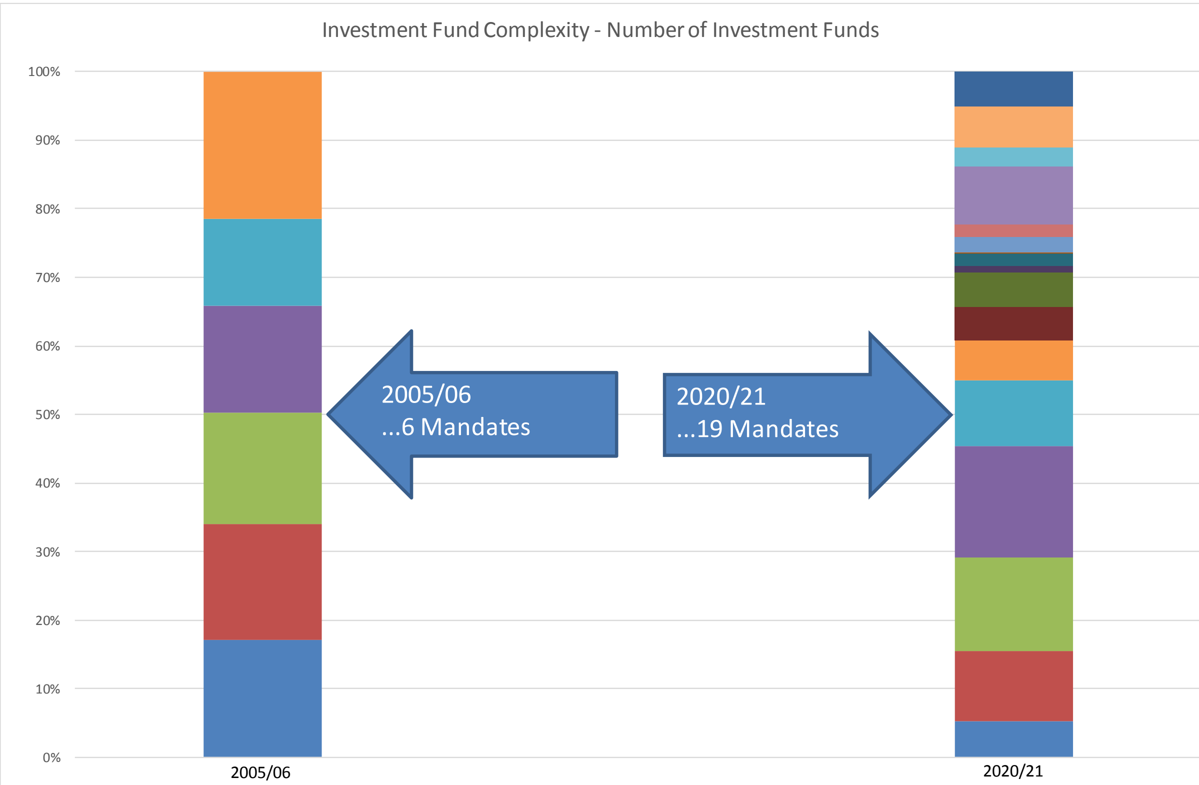


The Fund has a strategic asset allocation primarily weighted towards growth; this is in line with the revised Investment Strategy that was approved in March 2020. The shape of the strategic asset allocation has changed, and the exposure to growth assets is reducing driven by the funding level increasing.



The complexity of investment activity has steadily increased over time. The introduction of a variety of "alternatives" funds being introduced over time, and more recently the implementation of pooling means that, temporarily at least, investments have become significantly more complex.

The chart below shows how the fund's assets were allocated between 6 mandates in 2005/06, compared with 19 mandates in 2020/21.



In the longer term, pooling will reduce the amount of fund managers that the Fund commissions directly, however the increased complexity in terms of the number of different mandates invested in is likely to remain.

2.5 Governance Activity

The governance of the Fund was reviewed in 2019, in particular a review was undertaken against the Pension Regulator's Code of Practice 14. An action plan was created and has been delivered. Some of the actions arising included a higher level of activity in respect of the review and maintenance of fund policies and contracts for services provided to the Fund. This is an area of very significant increase in activity.

The Fund will also take stock of recent and emerging good governance guidance from the Scheme Advisory Board.

3. Long term objectives

The Fund's fundamental objectives are:

- That pension benefits are paid to members accurately and on time.
- That the funds are available to pay benefits when they are due.

To do this we will:

- Ensure the governance arrangements of the Pension Fund allow officers, employers, Pension Fund Committee and Pension Board members to discharge their responsibilities efficiently and effectively.
- Deliver a high-quality benefit administration service, working effectively with scheme employers and maintaining a constant focus on data quality and customer service.
- Ensure the financial sustainability of the Fund through effective forecasting of long-term liabilities, determination and collection of appropriate contributions and generation of an appropriate risk-adjusted return of the Fund's investments

4. Key Performance Measures

Key performance indicators for the Fund are organised into the categories of administration, investment, and governance.

4.1 Administration

Administration service indicators have been developed to track workflow of the administration team and monitor performance, and the indicators used are set out at

Appendix A. Monitoring against these indicators will be undertaken through the year, and reported quarterly to the Local Pension Board and Staff and Pensions Committee.

Particularly high profile measures for the next year relate to:

- Annual Benefits Statements. These enable members to effectively plan and make decisions about retirement. The statements are planned to be issued by 31 August every year (excluding members for whom a current address is not held).
- Breaches Reporting. This ensures that transparency around the performance and governance of the fund, highlighting where regulations have not been met.

4.2 Investments

The Fund needs to ultimately focus on ensuring that the rates of return required by the valuation are achieved and that enough income is generated to cover any shortfall between contributions, benefits and expenses.

To support this aim, investment targets have been set and two key aspects of this are ensuring the allocation of the right amounts to the right investments (the Strategic Asset Allocation), and that within each investment fund a target risk/return profile is delivered over the appropriate timeframe (performance is usually measured over the medium/long term).The asset allocation and investment fund performance targets are set out in Appendix B.

4.3 Governance/Management

In addition to the above, the following performance measures will be monitored:

- Cash flow is managed such that it is not necessary to sell assets inappropriately under distress.
- The pension fund accounts are prepared and published on time, without qualification by external audit.
- A plan for contract review is set and resourced for the year and implemented.
- A plan for policy reviews is set and resourced for the year and implemented.
- All planned quarterly pension committee and Local Pension Board meetings are delivered.
- Deliver a light touch self-assessment Code of Practice 14 governance review.
- Deliver a “Revaluation Preparedness” review, seeking to identify and action any issues that will assist in promoting a smooth revaluation in 2022.
- Risks will continue to be monitored quarterly but using an updated approach as set out at the March 2021 Pension Fund Investment Sub-Committee.
- Completion of the employer covenant work and review of the arrangements for the monitoring of employers

5. Key Business Plan Items

5.1 Ensuring Adequate Capacity

A continuing challenge for the Fund is to ensure that capacity is appropriate to meet demand. The Fund will ensure a focus on predicting longer term trends in demand and planning to ensure capacity is actively managed to match demand rather than reacting to it.

5.2 Ensuring Appropriate Governance

The Fund will seek to continue to proactively monitor governance to maintain the standards that have been reached. Review of activity against the Code of Practice 14, and a Revaluation Preparedness review will assist in this.

The Fund will review the outcomes of the Scheme Advisory Board Good Governance project and take steps to implement any new arrangements that are required.

The Fund will also continue its approach of proactively maintaining a register of policies and contracts, alongside a schedule for their review.

5.3 Developing Improved Systems

The implementation of new systems functionality has been an intention for some time. The implementation of i-Connect, a system to automate the transfer and integrity checking of data from employers should be completed by June 2021 and will provide a more efficient way of collecting and recording member data from fund employers.

Once the i-Connect project is completed, we will then look to start the implementation of an online portal for members, where members can access their pension information, update their personal details and run their own pension estimates. This will be known as Member Self Service (MSS). Subject to formal approval, it is hoped that this will start in September 2021.

5.4 Active Use of Management Information

The Fund will continue to make more use of management information to assist in the management of services and use predictive information and forecasting to foresee and manage potential risks and issues.

The Fund's breaches policy has been shared with employers to remind them of their responsibilities regarding the provision of data to the pensions team.

The breaches log will be regularly reviewed and there is an escalation process for raising concerns with employers. The Fund will support employers as much as possible including offering training or assistance where appropriate.

5.5 Collaboration

As one of over 80 LGPS administering authorities, there is plenty of opportunity to learn from others and share good ideas and to look at best practice elsewhere and share our best practice too.

We will do this in several ways:

- CIPFA Benchmarking
- Regional Pension Fund Managers group
- Joint communications working group
- Pooling administration management group
- Software provider user groups

5.6 Strong Investment Management

The 2019 valuation presented a significantly improved funding level, however the impact of Covid on investments, and upon the calculation of liabilities has been significant. The fund intends to review the Strategic Asset Allocation in light of this. The Fund will also consider whether to review the Funding Strategy as part of the revaluation preparedness work and if this is undertaken it can be co-ordinated with the investments review.

Significant amounts of the Fund's investments remain outside of the pool. The Fund will ensure it retains strong links with fund managers outside of the pool to exercise appropriate stewardship of all its assets.

5.7 Pooling

The Border to Coast Pension Partnership will be launching the Multi Asset Credit offering during 2021/22. The Warwickshire Pension Fund plans to join this fund and will also continue to work with Border to Coast in the development of future offerings, for example a property fund.

5.8 Investing in Employer Liaison

The Fund will continue to work closely with employers, providing information, support, signposting, and training to help employers to meet their responsibilities. Covid has increased certain employer risks, and government regulations are changing how employers and Funds interact. A covenant review will help to manage these new risks.

5.9 Review of Cashflow Requirements

Cash flow management will remain a high priority. Underlying cash flows from employer contributions and member payments remains relatively balanced (i.e., the Fund is currently broadly cashflow neutral excluding investment cashflows), however asset value volatility remains a risk and therefore cashflow management remains a high priority to ensure that there is no need to sell assets under distress. Officers will continue to monitor cash balances in order to be able to meet operating and investment cashflow requirements.

5.10 Climate Change / ESG Policy

Climate change continues to increase in seriousness, the Fund now has a Climate Risk Strategy, and will seek to update this and identify specific actions that may be pursued to express it.

The Fund is aware there are opportunities to consider social impact investing and will take steps to further understand the opportunities that could be taken forward.

The Fund will continue to develop and enhance its approach to ESG related risks and opportunities.

6. Actions

Appendix C sets out a summary of the actions planned for the coming year. Actions are grouped into the following categories:

- Ensuring a high-quality administration service
- Actuarial activities
- Maximising Investment Benefits
- Ensuring Good Governance

Appendix A – Administration Performance Measures

Key Performance Indicator	**Fund Target (95%)**
Letter detailing transfer in quote	10 days
Letter detailing transfer out quote	10 days
Process and pay a refund	10 days
Letter notifying estimate of retirement benefits (Active)	15 days
Letter notifying actual retirement benefits (Active)	15 days
Process and pay lump sum (Active)	10 days
Process and pay death grant	10 Days
Initial letter notifying death of a member	5 days
Letter notifying amount of dependents benefits	10 days
Divorce quote letter	45 days
Divorce settlement letter	15 days
Send notification of joining scheme to member	40 days
Deferred benefits into payment	15 days
Calculate and notify deferred benefits.	30 days
Average days from retirement to payment of lump sum.	Measure of member experience

Appendix B - Investment Performance Measures

B1 – Strategic Asset Allocation

Asset class	Current Target Asset Allocation (%)	Asset Allocation Range (%)	Long term Target Asset Allocation (%)
UK equities	16.0	+/-2.5	13.0
Overseas equities	25.5	+/-2.5	21.5
Fundamental global equity*	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
Total Growth	**55.5**		**48.5**
Property	10.0	n/a	12.5
Infrastructure	7.0	n/a	7.0
Private debt	5.0	n/a	7.0
Alternative credit	7.5	n/a	10.0
Total Income	**29.5**		**36.5**
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
Total Protection	**15.0**		**15.0**
Total	**100.0**		**100.0**

*Refers to passive global equities invested in line with the RAFI All World 3000 index, which weights underlying constituents by fundamental factors as opposed to traditional market capitalisation weightings.

B2 – Fund Performance Benchmarks and Targets

Fund	Mandate	Benchmark (note 1)	Target (note 2)
BCPP	UK Equity Alpha	FTSE All-Share GBP	Benchmark +2% over rolling 3 year period (net)
BCPP	Global Equity Alpha	MSCI ACWI ND	Benchmark +2% over rolling 3 year period (net)
BCPP	Investment Grade Credit	iboxx Non-Gilts All Maturities GBP	Benchmark +60bps pa rolling 5 years (net)
L&G	UK Equity	UK Equity Index	Benchmark
	Global Equity	North America Equity Index	
		Europe (ex UK) Equity Index	
		Japan Equity Index	
		Asia Pac exJap Dev Eqty Index	
		World Emerging Markets Equ Ind	
	Fundamental Global Equity	RAFI AW 3000	
L&G	Passive Corporate Bonds	Invt Grade Cp Bnd All Stks Ind	Benchmark
	Index Linked Bonds	All Stocks Index-Linked Gilts	
Threadneedle	Property	MSCI All Balanced Property Fund Index Weighted Average Month	Benchmark +1% over rolling 3 year period
Schroders	Property	AREF/MSCI UK Quarterly Property Fund Index Median	Benchmark +1% over rolling 3 year period
JP Morgan	Absolute Return Bond	ICE LIBOR GBP 1 Month	Benchmark +3% over rolling 3 year period
Partners	Infrastructure	None	Absolute return 7%
SL Capital	Infrastructure	None	Absolute return 7%
BCPP	Infrastructure	None	Absolute return 7%
Partners	Private Debt	None	Absolute return 5%
Alcentra	Private Debt	None	Absolute return 5%
Harbourvest	Private Equity	MSCI World Index	None
BCPP	Private Equity	MSCI World Index	None
Aberdeen Standard	Infrastructure	None	Absolute return 7%

Overall Anticipated Discount Rate (Investment Return)	3.70%

Note 1 - Benchmark - this describes the investment benchmark that the performance of the mandate is associated with.

Note 2 - Target - this describes the target return that the mandate is expected to make. The return could simply be to match a benchmark, or to exceed a benchmark. Absolute returns are target returns that are independent of any benchmark.

Appendix C – Single Action Plan

C1. Ensuring a high quality administration service

Ref	**Action**	**Timescale**
1	Annual Pensioners Newsletter issued	April-June 2021
2	Annual benefit statements issued	By 31 August 2021
3	Completion of i-Connect implementation	June 2021
4	Begin implementation of Member Self Service	September 2021
5	Annual Allowance statements issued	By 5th October 2021
6	Employer Engagement/training event	November 2021
7	Monitoring meeting of Pensions administration activity and performance	Monthly
8	Liaison meeting with Warwickshire County Council Payroll	Monthly
9	Breaches monitoring and reporting (process to be reviewed and updated)	Monthly
10	Administration performance - KPIs reported to Local Pensions Board	Quarterly
11	Review of Pension Fund website	Quarterly
12	Review of complaints received	Quarterly
13	McCloud Project	April 2021 to April 2023
14	Data quality review	Annual

C2. Actuarial Activities

Ref	**Action**	**Timescale**
15	Monitor employer contribution performance through the year	Monthly
16	Review employer covenants and risk management for non-statutory employers and review of employer monitoring arrangements	July 2021
17	2022 Revaluation Preparedness Review (this may potentially include a funding review)	September 2021

C3. Optimising Investment Risk and Return

Ref	Action	Timescale
18	Implement transfer to the Border to Coast Multi Asset Credit fund.	July 2021
19	Support the development of new Border to Coast fund products, for example the property fund.	As funds launch
20	Ensure the fund remains MIFID2 compliant	Annual
21	Continue the growth of alternative asset classes towards their new strategic asset allocation	Annual
22	Undertake a light review of the Fund's Strategic Asset Allocation	September
23	Appropriate engagement with the governance of Border to Coast via the Joint Committee, Operational Officers Group, and Section 151 Meetings, and through the exercising of shareholder voting rights.	Annual
24	Further develop the Fund's Climate Risk Strategy and the Fund's approach to Environmental, Social and Governance factors, (ESG) including the development of goals and milestones	Annual
25	Plan cashflow strategy to avoid the need to sell assets under time pressure	Annual
26	Become a signatory to the 2020 UK Stewardship Code	September 2021
27	Review of Task force for Climate-Related Financial Disclosures (TCFD) requirements	December 2021
28	Engage with pooling partner funds and Border to Coast on climate change and Responsible Investment (RI) developments	Quarterly

C4. Ensuring Good Governance

Ref	Action	Timescale
29	Pension Fund Annual General Meeting	November
30	Production of statement of accounts	May-21
31	Publication of Annual Pension Fund Report	Nov-21
32	Ensure Fund risks are reviewed annually, and investigate formalising a risk appetite for the Fund	Annual
33	Ensure a risk register is maintained and monitored	Quarterly
34	Maintenance of a contracts register and a schedule for contract reviews	Quarterly
35	Maintenance of a Policy Register and a schedule for policy review.	Quarterly
36	Light touch internal governance review against Code of Practice 14 requirements and any new/emerging SAB Good Governance guidance	September 2021
37	First review of the operation of the cyber security policy	March 2022
38	Completion of the documentation of investment practices	March 2022
39	Review long term trends in activity and demand for pension fund services in administration, investments, and governance and ensure appropriate medium term resource planning.	September 2021
40	Review of disaster recovery planning	March 2022
41	Review electronic signatory/approval processes	December 2021
42	Implement training plan arising from the National Knowledge Assessment feedback	March 2022

Warwickshire Pension Fund

Investment Strategy Statement

March 2021

1. Introduction and background

This is the Investment Strategy Statement ("ISS") of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Investment Sub Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 8 March 2021, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS any Fund money that is not immediately required to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement, Responsible Investment and Climate Risk policies.

2. The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death for their dependants, on a defined benefits basis. The funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation ("SAA") benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The broad approach that the Fund has taken to setting an appropriate investment strategy is as follows:

- In order to generate attractive long term returns on the portfolio, a proportion of the investments will be in growth assets such as equities.
- To help diversify equity risk and assist with cash flow, a proportion of the investments will also be in income assets, such as property and infrastructure, which are structured to deliver both capital growth and a regular income stream.
- To reduce the volatility of the Fund, and to help protect its capital value, the remaining portfolio will be invested in risk diversifying assets which are lower risk and have a low correlation with other growth markets.
- The Fund will maintain a sufficient level of liquidity in the investment portfolio such that it can facilitate the normal cash flow requirements of the scheme, such as paying pensions, without becoming a forced seller of assets.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

In 2019, the Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. The Fund's liability data from the valuation was used in the modelling, and the implications of adopting a range of alternative contribution and investment strategies were assessed. The implications for the future evolution of the Fund was considered under a wide range of different scenarios.

The Committee assessed the likelihood of achieving their long term funding target – which was defined at that time as achieving a fully funded position within the next 19 years. They also considered the level of downside risk associated with different strategies by identifying the impact on funding levels of a range of adverse economic/market scenarios.

A summary of the expected returns and volatility for each asset class included in the modelling from 2019 is included in Appendix 1.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that a 'sense-check' of the current investment strategy will be carried out in 2021 to ensure that the strategy remains suitable in the current economic climate.

It is anticipated that a further detailed review of the investment strategy will be carried out during 2022/23 in conjunction with the then proximate actuarial valuation.

In addition, the Committee monitors the investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- Environmental, Social and Governance ("ESG") factors

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate inappropriately from the target allocation. The Committee has set ranges around the strategic asset allocation and will seek advice on re-balancing the portfolio if any individual asset class moves outside its agreed range.

3. Investment of money in a wide variety of asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including listed and private equities, fixed interest and index linked bonds issued by corporations and governments, loans, property, infrastructure, alternative credit and cash either directly or through pooled funds. The Fund may also make use of other derivatives either directly or in pooled funds, investing in these products for the purpose of efficient portfolio management or to hedge specific risks. Underlying investment managers may also use derivatives for other purposes such as leverage or to manage specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's current investment strategy is set out below. The table also includes the control ranges agreed for re-balancing purposes and therefore the maximum percentage of total Fund assets that it will invest in these asset classes. In addition, the Committee have agreed a new long term strategic target asset allocation, reflecting the likely 'direction of travel' between now and the next actuarial valuation, the Fund will take incremental steps in implementing this strategy as suitable investment opportunities become available.

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local

Government and Public Involvement in Health Act 2007. The Fund is open to considering local impact investing opportunities but any investments must be congruent with and support the overall investment objectives of the Fund.

Asset class	Current Target Asset Allocation (%)	Asset Allocation Range (%)	Long term Target Asset Allocation (%)
UK equities	16.0	+/-2.5	13.0
Overseas equities	25.5	+/-2.5	21.5
Fundamental global equity*	10.0	+/-2.5	10.0
Private equity	4.0	n/a	4.0
Total Growth	**55.5**		**48.5**
Property	10.0	n/a	12.5
Infrastructure	7.0	n/a	7.0
Private debt	5.0	n/a	7.0
Alternative credit	7.5	n/a	10.0
Total Income	**29.5**		**36.5**
UK corporate bonds	10.0	+/-1.5	10.0
UK index linked bonds	5.0	+/-0.5	5.0
Total Protection	**15.0**		**15.0**
Total	**100.0**		**100.0**

*Refers to passive global equities invested in line with the RAFI All World 3000 index, which weights underlying constituents by fundamental factors as opposed to traditional market capitalisation weightings.

4. Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various risks involved and a re-balancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

5. Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The individual investment manager mandates in which the Fund assets are currently invested are as follows:-

Investment Manager	Asset Class	Investment style
Legal and General	Equities / Bonds	Passive pooled
Legal and General	Fundamental Global Equity	Passive pooled
Border to Coast Pensions Partnership (BCPP)	UK Equities, Global Equities, Investment Grade Credit	Active pooled
Border to Coast Pensions Partnership (BCPP)	Private Equity, Private Debt, Infrastructure	Active Fund of Funds
Schroders	UK Property	Active Fund of Funds
Threadneedle	UK Property	Active Direct Fund
Alcentra	Private Debt	Active Direct Fund
Partners Group	Private Debt	Active Direct Fund
JP Morgan	Bonds	Active pooled
Harbourvest	Private Equity	Fund of Funds
Standard Life	Infrastructure	Active Direct fund
Partners Group	Infrastructure	Active Fund of Funds/Direct Fund

6. The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary to achieve its objectives.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

7. Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.
- Employer risk – The risk that employers cannot pay the required contributions either because employer financial viability reduces or because contribution requirements increase too quickly or too far.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

The Investment Strategy is complementary with the Fund's Funding Strategy and a managed approach to exposure to investment risk is taken in order to mitigate employer contribution volatility and to keep employer contribution levels manageable.

8. Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Market risk – the risk that the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and Alternatives, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

- Rate/duration risk – the risk that changes to rates on government bonds impact the value of the Fund's liabilities and hence the funding level.

- Counterparty risk - The possibility of default of a counterparty in meeting its obligations, e.g. a property tenant defaulting on rental payments.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Real asset values – the extent to which estimated values placed on real assets are over or under valued.

- Environmental, Social and Governance ("ESG") risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place re-balancing arrangements to ensure the Fund's actual allocation does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property and other income assets, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. BCPP use a multi-manager process for it's UK Equity, Global Equity and Corporate Bond funds.

The Committee assess the Fund's managers' performances on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

9. Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist. A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

10. The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Border to Coast Pensions Partnership (BCPP). The proposed structure and basis on which the BCPP pool will operate was set out in the July 2016 submission to Government.

11. Assets to be invested in the Pool

The Fund’s intention is to invest its assets through the BCPP pool as and when suitable investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

2 That there is financial benefit to the Fund in investing in the solution offered by the Pool.

BCPP launched their first sub-funds in 2018 and there is a timetable in place covering the proposed fund launches over the coming years. The Fund has invested assets in the UK Equity Alpha fund, the Global Equity Alpha fund, the Investment Grade Credit fund and the Alternatives sub-funds (private equity, infrastructure and private debt).

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General are currently held through life policies and these will continue to be directly held by the Fund. However, the Fund benefits from fee savings through joint fee negotiations with other partner funds within BCPP.

- The Fund has investments in a number of closed end funds as part of its private markets programme. These funds invest in underlying private equity, private debt and infrastructure investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is no liquid secondary market for these types of investment – and there is a risk that sales would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. However, new allocations to these asset classes have been and will continue to be made through BCPP.

The Fund also retains the option to undertake local impact investing either outside of the pool or inside the pool as best meets Fund objectives.

Any assets which are not invested in the BCPP pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2023.

12. Structure and governance of the BCPP Pool

The July 2016 submission to Government of the BCPP Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured. Government approved this approach on 12 December 2016.

A Financial Conduct Authority (FCA) regulated company has been established to manage the assets of BCPP Funds. The Board of Directors for the new company has been appointed and a senior management team put in place. Based on legal advice describing the options on holding shares in this company, BCPP Limited, the Fund holds all voting and non-voting shares rather than the Council. This is because the purpose of the company is to meet the needs of the BCPP Funds in complying with the regulations on pooling, rather than for a Council specific purpose.

Some sub-funds in which the Fund invests, such as Private Debt, are managed by Border to Coast Pensions Partnership Limited, which is set up as the authorised contractual scheme manager of an Authorised Contractual Scheme ("ACS"), and constituted as a Qualified Investor Scheme. These ACS structures are approved and regulated by the FCA. Oversight of the company is carried out by a Joint Governance Committee comprising representatives of each of the participating pension funds.

As the Pool develops, the Fund will include further information in future iterations of the ISS.

13. ESG Policy: How social, environmental or corporate governance ("ESG") considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors, including climate change, are financially material to the Fund's investments at all stages of the investment process as they have the potential to significantly affect long term investment performance and the ability to achieve long term sustainable returns. The Committee considers the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors into account in investment decision making.

- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters, including climate change, seriously and regularly reviews its policies in this area and its investment managers' approach to ESG.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues. The Fund will also engage collectively with partner funds through its relationship with BCPP.

The Fund has developed a separate more in-depth Responsible Investment Policy and Climate Risk Policy. These policies can both be found on the Fund's website. They outline how the Fund implements, monitors and discloses its approach to ESG related risks.

In Q1 2021, the Committee and officers undertook a dedicated training session on the risks climate change poses to the Fund. This included climate change scenario modelling which aimed to illustrate how the Fund's funding position could be impacted in the future by climate and ESG risks under a variety of scenarios. The Fund aims to take further action with regards to ESG governance and oversight, in conjunction with BCPP. Work is expected to include; ESG reporting, carbon footprinting, and setting measureable metrics and targets for driving change.

Investments made via BCPP are subject to its responsible investment policies that can be found here:

https://www.bordertocoast.org.uk/?dlm_download_category=download-responsibleinvestment-policy

The Committee maintains a set of Investment Guiding Principles and ESG beliefs which are set out in Appendix 3. It is intended that these principles and beliefs are further reviewed in 2021.

The Committee has reviewed BCPP's responsible investment policies and is satisfied they are consistent with the Fund's own policies. The Fund will regularly monitor BCPP's responsible investment policies and actively engage with the pool to facilitate change as required.

Historically the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers reported on this matter as part of the Fund's annual ESG review. The Fund does not currently hold any assets which it deems to be social investments.

14. The exercise of rights (including voting rights) attaching to investments Voting rights

The Committee have approved its own voting policy with the objective of preserving and enhancing long term shareholder value.

Historically the Fund actively voted on the Fund's segregated equity holdings through a voting platform. The Funds segregated equities have now been transitioned into BCPP equity pooled funds. As a result, BCPP vote on behalf of the Fund in line with the BCPP voting and engagement policy. The BCPP voting and engagement policy has been reviewed by the Committee.

The funds past voting record can be found here: http://www.warwickshire.gov.uk/pensionstatement

The voting record of assets invested via BCPP can be found on its website here: https://www.bordertocoast.org.uk/sustainability/

Details of the Fund's managers' voting activity is reported to Committee on a quarterly basis and both the Fund and BCPP's voting policies, are reviewed on a regular basis.

15. Stewardship

As at March 2021 the Fund is a signatory to the UK Stewardship Code 2012 as published by the Financial Reporting Council. An enhanced UK Stewardship Code 2020 took effect on 1 January 2020. The Fund intends to become a signatory to the new code, and is working with BCPP and other partner funds to prepare a submission for approval by the end of 2021.

Under the UK Stewardship Code 2012, the Fund and BCPP were rated as tier 1 signatories. A copy of the Fund's statement of compliance with the UK Stewardship Code 2012 can be found in Appendix 2. This will be updated following submission to the FRC for approval to become signatories to the new 2020 code.

15. Appendices

Appendix 1 – Expected returns

Appendix 2 – Statement of compliance with UK Stewardship Code 2012

Appendix 3 – Investment Guiding Principles

Appendix 1 Expected returns and volatilities

The table below shows the absolute expected returns (20 year geometric averages), net of fees, and the absolute volatilities (first year's standard deviations) used in the 2019 investment strategy review and asset liability modelling.

Asset Class	Expected return % p.a.	Volatility % p.a.
UK Equities	5.9	17
Overseas Equities	6.0	18
Private Equity	7.0	28
UK Property	4.5	14
Investment Grade Corporate Bonds (medium)	1.9	10
Fixed Interest Gilts (long)	1.2	10
Index Linked Gilts (long)	0.5	7

Appendix 2 Statement of compliance with UK Stewardship Code 2012

BCPP has become the manager for an increasing proportion of the Fund's investments and as a result has taken on responsibility for engagement with and monitoring of those investments and the underlying managers. All the active equity holdings of the Fund are now managed via BCPP.

BCPP have developed their own statement and appointed their own Head of Responsible Investing and Voting. BCPP's compliance statement can be found at: https://www.bordertocoast.org.uk/sustainability/

The Fund's compliance statement to the UK Stewardship Code 2012 is given below. The FRC does not require 2012 Code signatories to update their statements, 2012 Code signatories are expected to focus on meeting the 2020 Code principles.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities	The Fund has a long-standing commitment to responsible share ownership. The Fund views effective stewardship as an integral part of share ownership and therefore of the investment code, and requires the same commitment from its fund managers and the Border to Coast Pensions Partnership ("BCPP"). The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to: dialogue and liaison with fund managers and BCPP on key issues and through membership of the Local Authority Pension Fund Forum (LAPFF). In addition to this Stewardship Code Statement, the Fund maintains an Investment Strategy Statement (ISS) and separate Responsible Investment and Climate Risk policies which explains the Committee's investment beliefs in more detail. These are made available on a public facing website. The Fund has a responsibility to its membership to regularly engage with fund managers including the BCPP on their stewardship and it forms part of their presentation(s) to the Fund subcommittee. Warwickshire Pension Fund believe that well managed companies provide long term value creation to the Fund and that the Fund's stakeholders will be beneficiaries, as strong investment returns improve the Fund's overall funding level which acts favourably in terms of employer contribution rates.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed	The Fund encourages fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Investment Sub-Committee members are required to make declarations of interest prior to each quarterly meeting. External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. BCPP will be responsible for monitoring and appointing investment managers in the future and the Committee will periodically review BCPP's selection process and conflict management policies. Subsequent monitoring is undertaken by the Fund's investment consultant, independent advisor and BCPP where appropriate to protect the Fund's interests.

Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing the Fund's equity holdings is delegated to Legal and General and BCPP. The Committee consider its investment managers to be best placed to engage with investee company management. This is due to the Fund being constrained in what decisions are available to them within pooled funds, as well as the resources and existing relationships with investee companies that are available to the Fund's investment managers. The Fund expects Legal and General and BCPP to incorporate responsible investment and stewardship issues into their regular reporting. This will include information on voting and engagement, as well as any actions they are taking in assessing and managing Environmental Social and Governance-related ("ESG") risks in relation to their mandates. The Fund is actively engaging with its managers to improve stewardship reporting. The Fund expects its managers to intervene where necessary, and report back regularly on activity undertaken. The Fund has regular meetings with its managers and BCPP and will assess their effectiveness in their monitoring in investee companies as part of formal portfolio reviews either amongst Fund officers or the investment sub-committee.

Principle 4 - Institutional investors should establish clear guidelines on where and how they will escalate their stewardship activities	Responsibility for day-to-day interaction with companies is delegated to the Fund's fund managers and BCPP, including the escalation of engagement when necessary. The Fund expects managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. However, the Fund could escalate through LAPFF by supporting a shareholder resolution. The Fund's investment managers can escalate through engagement with the company management team, collaboration with other institutional shareholders, filing shareholder resolutions or ultimately selling the holding of company shares. Ultimately the fund manager will seek to add value to their clients through improved company share performance following such escalation.
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate	The Fund seeks to work collaboratively with like-minded institutional shareholders in order to maximise the influence that it can have on individual companies and would engage if it was felt that the Fund and the wider Local Government Pension Scheme would benefit. This is achieved in a variety of ways including through our membership of the LAPFF and ad-hoc initiatives proposed by our fund managers or other advisors. The Fund's contact for any such issues is: Pensions and Investment Manager Finance Service Resources Directorate Tel: 01926 412227 Email: wpfinvestments@warwickshire.gov.uk
Principle 6 - Institutional investors should have a clear policy on voting and	The Fund's Investment managers will be expected to act as responsible and active owners through considered voting of shares,

disclosure of voting activity	and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged. The Fund no longer directly holds any equity assets. Since transitioning its segregated equity portfolios into BCPP the Fund's equity assets are entirely held within pooled funds. All voting activity is therefore delegated to its managers and BCPP. However, the fund has reviewed its managers voting policies and is satisfied they are consistent with the Fund's own views. The Fund will regularly monitor its managers voting polices and actively engage with them and BCPP to facilitate change as required. Historic Fund voting records can be found at: http://www.warwickshire.gov.uk/pensionstatement The BCPP voting records can be found at: https://www.bordertocoast.org.uk/sustainability/ The Fund does take part in stock lending through its global custodian (Bank of New York Mellon). Stock is not routinely recalled in the event of a company meeting. BCPP permits stock lending in their active mandates. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders in the Fund. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.	The Fund reports annually on stewardship activity undertaken during the year in the report and accounts and a presentation is given to members who have the opportunity to ask questions about the Fund's stewardship activities. Details of voting activity is also included in the Fund's quarterly investment report produced by the Officers. In the event of significant engagements through any given year the voting activity of the Fund's managers will be made available with voting records published on the Fund's website for the benefit of the Fund's membership.

Appendix 3 – Investment Guiding Principles

The Fund adopts the following principles when considering investments and investment strategy.

1. The Pension Fund is a long term vehicle which must be sustainable in generating investment returns to pay pensions for scheme members.

2. It is appropriate to take a long term view when setting the investment strategy though the impact of short term volatility is also considered.

3. Strategic asset allocation is the most important component of decision making as it is here that the optimum risk and return profile is designed and monitored.

4. The Fund's high level investment strategy and asset allocation should be set by using asset liability modelling in conjunction with each actuarial valuation.

5. Appropriate diversification reduces the overall level of dependence on any particular market or asset class and helps manage volatility, particularly in respect of equity markets.

6. Effective governance not only ensures appropriate levels of control over the fund but can add value through correct resourcing and improved decision making.

7. Responsible ownership of companies benefits long term asset owners.

8. A balance of passive and active equity investment will, over the course of a market cycle provide the best mix of performance, diversification and cost.

9. Foreign currency exposure is part of managing a global portfolio of investments. There is no strategic hedging of currency exposure from volatile asset classes such as equities as the fund believes this to be of limited benefit to long term investment returns.

10. Investors are rewarded for illiquidity in private markets. Future liquidity needs must be assessed at each review of asset allocation combined with cash flow projections from the fund actuary.

11. There is a long term risk premium to be earned for investing in equities, credit and property relative to gilts.

12. Fees and costs incurred within investment manager mandates are important though the focus is on achieving the best returns net of fees.

13. The performance of any active managers should be assessed over suitably long periods.

14. Staff and members of the Pension Fund Investment Sub-Committee must have the correct level of skills and investment knowledge to understand the level of risk in the investment portfolio.

15. External advice from independent advisors and an investment consultant helps planning, risk management and decision making.

16. Pooling presents an opportunity to access best in class investments at a lower cost. Such opportunities should always be assessed alongside the strategic asset allocation of the fund for suitability.

17. The fund will work closely with BCPP who will be engaging with companies on the Fund's behalf on ESG issues and exercise its voting rights at company meetings.

ESG Investment Beliefs

18. As the Fund invests for the long-term, environmental, social and governance ("ESG") factors are expected to have a bearing on the Fund's expected levels of risk and return. The Fund's investment managers are therefore expected to embed ESG factors into their investment process and decision making.

19. The Committee should focus on meeting its financial obligations to pay benefits to members.

20. Long-term sustainable investment returns are an important consideration, even to the extent that the sustainability of returns extends beyond the expected investment horizon of the Committee.

21. The Committee believes there will be opportunities for investments which support and benefit from the transition to a low carbon economy, and will seek out these opportunities for the Fund.

22. Climate change and the expected transition to a low carbon economy is a long term financial risk to Fund outcomes and is considered to be part of our fiduciary duty.

23. The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies is preferable to divestment. This engagement will be carried out by our managers or alongside other investors (e.g. LAPFF).

24. Where, over a considered period, however, there is no evidence of a company making visible progress towards carbon reduction, we believe that divestment should be actively considered.

25. The Fund's Investment managers' approach to Responsible Investment, including the integration of ESG into investment decision making and the use of engagement, must be assessed and monitored. This includes ongoing monitoring of the BCPP.

26. Responsible ownership of companies benefits long term asset owners. Asset owners, fund managers, and companies with a clear responsible investment policy are expected to outperform companies without a responsible investment policy, over the longer term.

27. The Fund's Investment managers should act as responsible and active owners through considered voting of shares, and engagement with company management when required. Engagement by its investment managers with investee companies on ESG issues to positively influence company behaviour and enhance shareholder value is strongly encouraged.

28. Passive and active managers should actively engage with companies and comply with the Financial Reporting Council's Stewardship Code.

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Agenda Item 4

Local Pension Board

13 April 2021

Risk Management 2012/22

Recommendations

1. That the Local Pension Board notes and comments on the attached risk register.

2. That the Local Pension Board comments on the development of a formal Risk Appetite for the Fund.

1 Executive Summary

1.1 The Pension Fund maintains a risk register to manage the risks facing the Fund.

1.2 For the first time, during 2020/21, risk monitoring was reported quarterly to the Pension Fund Investment Subcommittee and the LGPS Local Pension Board as part of a wider set of actions to improve governance of the Fund.

1.3 The risk register for 2020/21 was set in February 2020, prior to the seriousness of Covid becoming apparent within the UK. A separate and specialist risk register was created in March, designed to focus on Covid related risks and actions.

1.4 A number of risks transpired during 2020/21, including the impact of Covid presenting challenges to business operations and business continuity, significant volatility in financial markets, and challenging governmental developments for example in respect of the McCloud remedy and the £95k cap on public sector exit payments.

1.5 For the coming year, the following changes and updates are proposed to the risk register:

- **Consolidate to a single risk register** covering all risks, including Covid. This should provide the Fund with clarity around strategic risks allowing us to remain aware of and proactive about Covid issues, but at the same time be prepared for the broad spectrum of risk events. Covid appears as a distinct risk/line and appears as a driver/cause of other risks.
- The set of strategic risks has been **reviewed fundamentally** rather than rolled on incrementally, to avoid risk management becoming habitual.

- The Fund is setting a **single action plan** for 2021/22, with all strategic actions located in one place. The single action plan is appended to the business plan (reported elsewhere on the agenda). Therefore, in the risk register, although further actions are bulleted, all actions have been housed either within the Single Action Plan, or within business-as-usual activity.
- The document is **designed to assess strategic risks**, and to ensure that appropriate high-level actions are in place to mitigate them. The risk register is not intended to be a detailed document to avoid it missing the big picture.
- The assessment of risk uses **a new model that includes five categories of likelihood and five categories of impact**. This will provide slightly more granularity and will be helpful when considering how residual risks change during the year.
- Likelihood and impact **scores are backed by definitions and examples**.
- A **draft assessment of a Risk Appetite** is set out for the Fund.

1.6 When monitoring risk, the fund will continue to look out for emerging and changing risks.

1.7 This risk register was reported to the Pension Fund Investment Subcommittee in March 2021. The sub-committee have agreed to the idea of developing a formal risk appetite for the Fund during 2021/22 and requested that the Covid risk line be split into two lines – one for investment and one for other Covid impacts, including impact on people. This change will be made before reporting risk monitoring in June.

2. Risk Appetite

2.1 At present, the fund maintains a risk register which sets out the risks that the fund is exposed to before and after mitigating actions. A risk appetite assists an entity in managing risk by articulating the levels of risk within which an entity aims to operate. This can be used to help to manage risk by focusing an entity on ensuring it avoids risks it does not have the appetite for, and while it does take risks that it does have the appetite for (to access the opportunities associated with taking those risks). This is summarised below:

Description	**Purpose**
Risk Appetite	The level of risk within which an entity *aims* to operate.
Risk Tolerance	The level of risk within which an entity is *willing* to operate if necessary.
Inherent Risk Score	Empirical estimate of the risks facing an entity, before having regard to any actions that the entity might take to mitigate them (also called “gross” risk).
Residual Risk Score	Empirical estimate of the risks facing an entity after having regard to any actions the entity has taken to mitigate them (also called “net” risk).

The table below sets out a widely used draft risk appetite classification (similar examples are set out in the Treasury Orange Book guidance on risk management):

Risk Appetite	Risk Appetite Description
Averse	Avoidance of risk and uncertainty is a key organisational objective
Minimalist	Uncertainty is to be avoided unless essential; only prepared to accept the possibility of very limited financial loss
Cautious	Tolerance for risk taking is limited to events where there is little chance of significant downside impact
Open	Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise exposure
Hungry	Eager to pursue options offering potentially higher rewards despite greater inherent risk

2.2 The table below sets out a draft risk appetite at a high level. This is intended to illustrate risk appetite and promote discussion: it is not a definitive or an approved statement of risk appetite for the Fund.

Risk Category	Description	Risk Appetite
Administration - Member Services	Risk of failure to pay benefits or failure to maintain complete and correct data	Averse
Administration - Employer Services	Risk of failure to collect appropriate data or contributions from employers, or failure to have appropriate governance in place, for example having admission agreements in place and appropriate contribution rates calculated	Averse
Cashflow	Risk of inability to pay benefits due to members and other amounts due to third parties (e.g. capital calls)	Minimalist
Investment - Income and Protection Assets	Risk of failure to manage operating cashflows and failure to ensure assets match liabilities	Cautious
Investment - Growth Assets	Risk of failure to generate enough returns to meet future liabilities whilst minimising employer contributions	Open
Long term funding assumptions	Risk of failure to correctly estimate and therfore provide for future liabilities	Cautious
Governance	Risk of governance failure	Averse
Climate Change	The risk of causing an adverse effect on the environment	Cautious

2.3 The Fund will only choose to take risks that are expected to be appropriately rewarded, and to mitigate or avoid risks where this is not the case.

2.4 This draft sets out certain categories within which to consider risk appetite (risk appetite should be categorised in relation to appetite for risk, not in relation to risk experience), therefore the headings would not necessarily align with the risk register.

2.5 If a Fund risk appetite is developed and approved, it could then be used to assess more formally whether the assessed residual risk levels are acceptable.

2.6 With respect to investment management and funding strategy, the Fund does remark on attitude to risk, and this informs Fund activity including actuarial assumptions and investment risk. However, the Fund does not currently consider risk appetite as such and does not consider risk appetite across all its activities including administration.

2.7 The Fund's Investment Strategy Statement was updated in March 2021 including significant updates in respect of the detailing of investment risks.

2.8 The Pension Fund Investment Sub-Committee have agreed to explore risk appetite further and develop a formal risk appetite statement for approval.

3 Risk Register

3.1 Risks are now assessed on a five-point scale across likelihood and impact, with impact weighted more than it was previously, as follows:

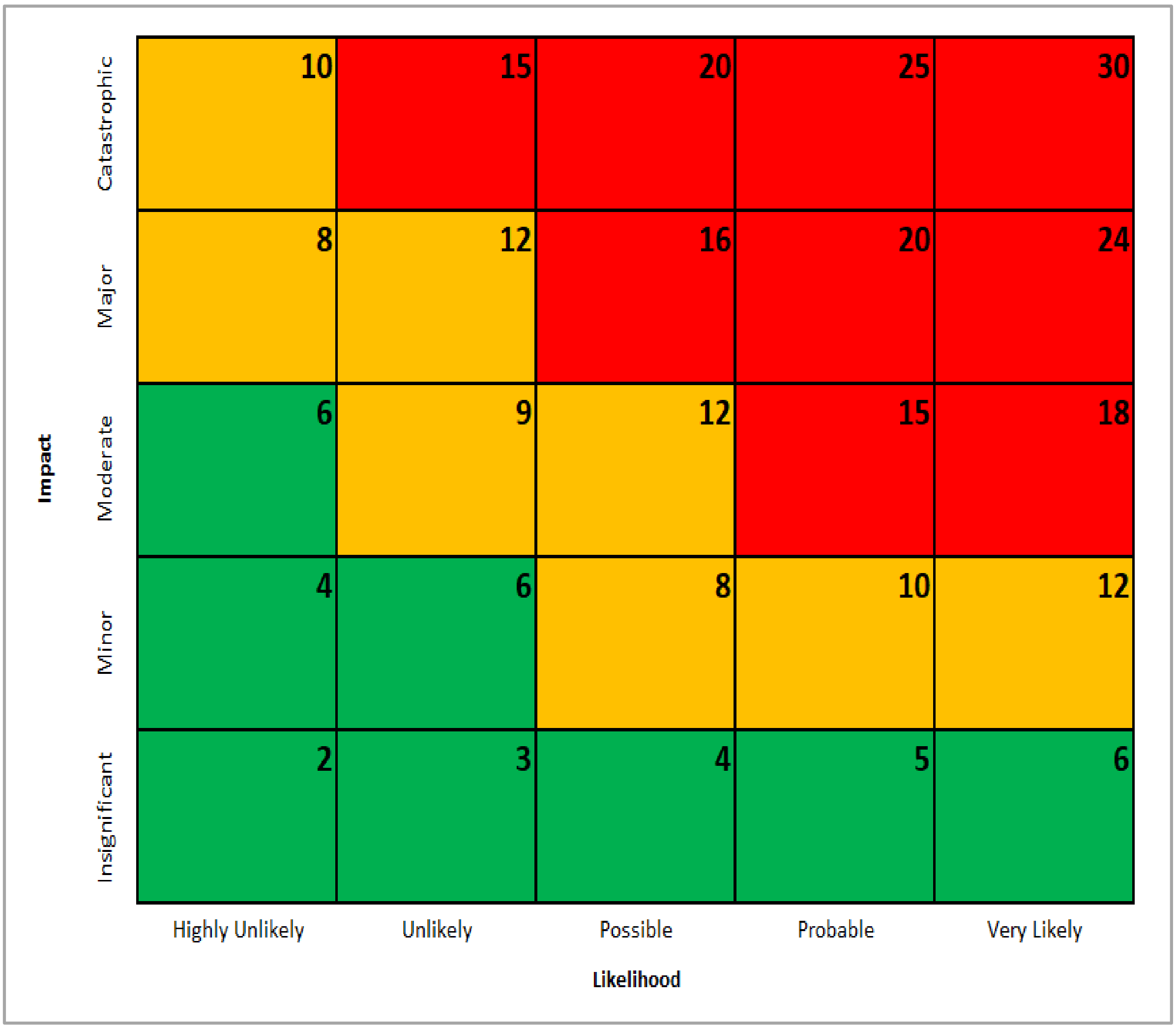
Total Risk = (Likelihood x Impact) + Impact

3.2 Risks with a high impact / low probability should be prioritised because over a long time span low probability events are more likely to occur eventually.

3.3 The most important issue is that the risk register broadly captures the most significant strategic risks, it is less important that each score is completely accurate. There is an element of subjectivity to scoring because risk is, by its nature, to do with uncertainty. Likelihood definitions are set out below.

Score	Description		Likelihood of Occurrence
1	Highly Unlikely	The event may occur in only rare circumstances (remote chance)	1 in 8 + years
2	Unlikely	The event may occur in certain circumstances (unlikely chance)	1 in 4-7 years
3	Possible	The event may occur (realistic chance)	1 in 2-3 years
4	Probable	The event will probably occur (significant chance)	1 in 1-2 years
5	Very Likely	The event is expected to occur or occurs regularly	Up to 1 in every year

3.4 Appendix A sets out definitions for impact scores, including examples. These result in a scoring matrix as follows, which illustrates the increased emphasis on impact compared to likelihood:



3.5 Appendix B sets out the new risk register (if printed on paper, this is designed to be printed on A3 paper). The headline risks and scores are summarised below:

Risk Identification		Inherent Risk Scoring			Residual Risk Scoring		
Risk No.	Risk Description	Likelihood	Impact	Risk Score	Likelihood	Impact	Risk Score
1	Long term asset values do not meet expectations	3.00	5.00	20.00	2.00	4.00	12.00
2	Short term asset values do not meet expectations	5.00	4.00	24.00	3.00	3.00	12.00
3	Liabilities cannot be met	2.00	4.00	12.00	1.00	4.00	8.00
4	Employer contributions not paid	4.00	3.00	15.00	3.00	3.00	12.00
5	Pooling objectives not met	3.00	3.00	12.00	2.00	3.00	9.00
6	Covid-19	5.00	5.00	30.00	3.00	4.00	16.00
7	Inability to meet demand for activity	5.00	3.00	18.00	4.00	3.00	15.00
8	Business interruption	4.00	4.00	20.00	3.00	3.00	12.00
9	Cyber Security	3.00	4.00	16.00	3.00	3.00	12.00
10	Climate Change	4.00	5.00	25.00	3.00	3.00	12.00
11	Customer satisfaction	3.00	3.00	12.00	3.00	2.00	8.00
12	Fraud	3.00	3.00	12.00	2.00	3.00	9.00
13	Governance Failure	3.00	4.00	16.00	2.00	4.00	12.00

4 Financial Implications

4.1 Several risks include financial risks and implications, where this is the case, these are addressed and reported on in specific reports as appropriate.

5 Environmental Implications

5.1 Climate risk is a key issue facing the fund in the longer term, and this is featured within the risk register.

6 Supporting Information

6.1 None.

7 Timescales Associated with Next Steps

7.1 Risk monitoring will be reported quarterly to both the Pension Fund Investment Sub-committee, and the Local Pension Board.

7.2 The Fund will do further work on developing a formal Risk Appetite for approval.

Appendices

Appendix A - Definitions for Impact Scores
Appendix B - Risk Register

Background Papers

None

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The report was circulated to the following members prior to publication:
Local Member(s): None
Other members: N/a

Definitions for Impact Scores

Appendix A

Score	Description	Members and Employers	Investments and Funding	Administration
1	Insignificant	Negligible impact - not noticeable by members or employers, no complaints or issues likely to be raised by members or employers. Example - Member or employer communication newsletter issued a few days later than planned.	Negligible impact - of a level that would not register for investment action. Example - Normal volatility levels being experienced in the investment portfolio.	Negligible impact - low level administrative usues resolved internally with no impact on key performance indicators Example - A manageable backlog of data to be uploaded to the administration system that has no impact on actual member payments.
2	Minor	Minor impact on members and/or employers which may cause correspondence about issues that can be resolved at source. Example - A member not being given the correct information first time when corresponding with the Fund and this having to be corrected, but having no impact on benefits paid	Minor impact on investment operations requiring monitoring and attention but not requiring anything other than business as usual actions. Example - minor adverse fund investment event, such as a credit default within a private credit portfolio which is of a business as usual nature.	Minor impact on administration performance requiring action within business as usual parameters. Example - an employer experiencing persist difficulty in providing correct data resulting in the need for extra training/support/correspondence to resolve
3	Moderate	Material adverse impact on members or employers that is of cause for concern to them and the Fund and requires escalation for non-business as usual resolutions More likely to be isolated issues but could have some scale. Example - Inability to finalise and sign off an admission agreement with a new employer resulting in escalation.	Material impact requiring bespoke corrective action, but manageable within the existing Investmetn Strategy Examples - Significant drift or step change in actual in asset allocation taking the Fund risk profile out of tolerances, or significant slippage in the implementation of a significant Fund transfer	Material impact on administration performance, but manageable within approved policies and procedures. Examples - Inability to agree a transfer of membership and liabilities from another fund, requiring arbitration by a third party, or disappointing data quality scores resulting in a need for an improvement plan.
4	Major	Significant adverse impact on members or employers that result in a direct impact on benefits paid or contributions due or member or emnployer satisfaction with Fund performance. Likely to result in complaints. More likely to be systemic issues. Examples - A significant delay in the issue of member annual benefit statements, or persistently charging an employer an incorrect contribution rate.	Major impact requiring significant corrective action and a change in Investmet Strategy or Funding Strategy, or the significant sale of assets under distress. May result in noticeable changes to employer contributions. Examples - Major change in the world economic outlook, or in the present value of future liabilities requiring a change in strategy, or inability to implement a significant Fund lauch.	Major failure of administration function, likely to be systematic in nature, of a high profile nature to members and employers. Example - Widespread and persistent failure to meet key performance indicators such as dealing with certain types of administration query or action within deadlines, and reciept of significant numbers of complaints from members.
5	Catastrophic	Serious and systematic errors in benefits payments or administration KPIs, or significant volatility or increase in employer contributions. Significant breaches of the law Serious complaints and reputational harm caused Example - Systematic failure to monitor employer contributions resulting in subsequent identification of a large number of contribution deficits that employers cannot then catch up with.	Resulting in significant volatility or increase in employer contributions, inabilty to pay member benefits, or a need to significantly increase investment risk exposure. Significant failure to meet legal or regulatory requirements. Serious reputaitonal harm caused Example - Catastrophic deterioration in the ability or employers to pay contributions resulting in a need for emergency investment and cashflow measures in order to keep paying benefits.	Catastrophic failure of administration function leading to inability to pay benefits accurately or at all on a large scale. Significant breaches of the law Serious complaints and reputational harm caused Example - Wholesale failure of the pension payroll funciton resulting in no member payments being made.

WPF Risk Register

Appendix 2

Risk Identification				Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
Risk No.	**Risk Description**	**Risk Causes**	**Risk Consequences (Effect)**	**Likelihood**	**Impact**	**Risk Score**		**Likelihood**	**Impact**	**Risk Score**	
1	Long term asset values do not meet expectations	• Inappropriate strategic asset allocation • Inability to impliment strategic asset allocation • Poor fund manager performance • Fundamental long term events e.g. climate change, sytemic risk • Covid-19 • Inappropriate products developed by the Border to Coast Pension Partnership • Inappropriate (too high) expectations	• Employer contributions forced to increase above expectations or by a large amount at short notice • Investment risk is forced to increase • Future benefits cannot be paid by the Fund out of existing assets	3.00	5.00	20.00	• BAU policy and governance arrangements including the setting of an appropriate investment strategy and funding strategy, the use of professional staff, consultants, and advisers, quarterly reporting to committee, appropriate asset allocation. • Engagement with Border to Coast - developing funds and monitoring fund performance. • Appropriate monitoring of investment behaviour and performance. • Introduction of a climate risk policy in 2020/21.	2.00	4.00	12.00	• Review climate risk and responsible investment policy and evaluate exposure to climate risk and other Environmental, Social and Governance factors. • Regular review of Strategic Asset Allocation.
2	Short term asset values do not meet expectations	• Significant reductions in asset values • Rapid changes in the economic environment • Inappropriate asset allocation • Poor fund manager performance • Covid-19 • Global political and trade tensions • Brexit • Asset bubbles • Poor fund development and procurement • Natural fund and market volatility	• Cashflow requirements cannot be bet efficiently or effectively • Being unable to meet payment deadlines • Being forced to sell assets under distress • Being unable to pay benefits to members due to liquidity constraints • Introducing volatility to employer contributions or those employers close to exit	5.00	4.00	24.00	• Diversification of assets • Regular committee and officer monitoring of investment asset allocations and fund manager performance. • Cashflow planning to avoid selling assets under distress • Maintain sufficient allocation to liquid assets. • Long term approach to employer contributions, promoting their stability • Rota of fund manager presentations to the investment subcommittee.	3.00	3.00	12.00	• Regular review of Strategic Asset Allocation.
3	Liabilities cannot be met	• Inadequate contributions asked of employers • Employers do not pay contributions required • Investment returns lower than expected • Inflation risk • Inappropriate funding assumptions used • Actual membership experience materially different from expectations • Incorrect membership or cashflow data used to determine funding strategy	• Funding level deteriorates • Higher investment risks being taken • Employer contributions increasing • Being unable to pay benefits to members out of fund assets	2.00	4.00	12.00	• Fund valuation process driving an updated Investment Strategy and Funding Strategy on a periodic basis. • 6-monthly reporting on funding evolution to committee. • Annual monitoring of longevity risk via Club Vita participation. • Use of professional advisors to support setting of appropriate funding assumptions.	1.00	4.00	8.00	• 2022 revaluation preparedness review during 2021/22 • Annual data quality review
4	Employer contributions not paid	• Covid-19 • General economic / financial pressure on employers • Deterioration in employer financial positions • Deterioration in quality of employer administration function • Inadequate support from the Fund to employers • Inadequate monitoring of employers by the Fund • Admissions agreements inadequate or not agreed	• Increased administration costs • Reputational damage to the Fund and to employers • Paying employers having to pick up costs of non paying employers • Liabilities falling back to underwriting employers	4.00	3.00	15.00	• Employer covenant review • Breaches monitoring • Employer training day • Fund AGM • Admissions and Terminations Policy • Cashflow planning to provide cashflow resilience if contributions reduce	3.00	3.00	12.00	• Review and enhance breaches monitoring
5	Pooling objectives not met	• Failure to monitor the delivery of pooling benefits. • Failure to assess benefits when making pooling decisions. • Not getting involed in and influencing fund design discussions • Partner funds not collectively holding the pool to account • Pool fails to deliver on objectives	• Lack of appropriate products for the Fund to invest in • Investmetn in priocducts that do not meet the objectives of the Fund • Persistent and unaddressed fund performance issues	3.00	3.00	12.00	• Engagement at Joint Committee, Section 151 meetings, and operational officer groups • Exercising shareholder rights and responsiiblities • Engaging with other partner funds in the pool • Pooling decisions made by Investmetn Sub Committee • Border to Coast attendance at and performance reporting to investment sub committee meetings • Independent due diligence of funds offered, and ongoing monitoring of the Pool	2.00	3.00	9.00	• Input into the development of new products - in particular property and products having regard to RI and climate change
6	Covid-19	• Covid-19 pandemic (financial pressure on individuals and institutions, and more transactions being made online) • Further restrictive lockdowns • Staffing capacity impacted by both short and long term health implications of infection	• Members do not receive a high quality service • Business interruption • High costs in order to maintain service resilience • Impact on asset values and investment risks • Staff health, wellbeing and productivity • Impairment of the financial situation of employers • Inability to make quick decisions in an emergency	5.00	5.00	30.00	• Office presence for processes that require it (e.g. physical post) • IT systems supporting reomote and flexible working • Flexible working policies for staff • Health and safety protocols for staff • Fund policies that account for the scenario experienced • Higher profile for cashflow management, and retain cash buffer to mitigate liquidity risk • Maintain diversified portfolio of assets, and regularly monitor performance of assets and wider market	3.00	4.00	16.00	• Use of extraordinary committee or board meetings where necessary • Continue to develop flexible and remote working practices • Review electronic signatory processes
7	Inability to meet demand for activity	• Growth in membership numbers • Growth in employer numbers • Growth in complexity and difficulty of employer issues • New and complex LGPS regulations (e.g. McCloud, £95k exit cap) • Increasing value of fund investments • Increasing complexity of fund investments • Erosion of staff capacity/resilience due to long term remote working • Inability to recruit / retain appropriately skilled staff • Inability of the Fund officers to keep up with demand (capacity or skills)	• Quality of services reduces • Governance failures • Key administration performance measures not met • Sub optimal investment decisions made	5.00	3.00	18.00	• Medium term forecasting of demand and planning for the capacity and resources required • Investing in quality and productivity of staff through training and development • Investing in systems development • Use of management information to monitor and manage performance • Succession planning • Procuring appropriate services through contracts	4.00	3.00	15.00	• McCloud project (already commenced) 2022 Revaluation preparedness review during 2021/22 • Introduction of medium term resource planning
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Risk Identification				Inherent Risk Scoring			Existing Risk Controls	Residual Risk Scoring			Further Risk Controls
Risk No.	Risk Description	Risk Causes	Risk Consequences (Effect)	Likelihood	Impact	Risk Score		Likelihood	Impact	Risk Score	
8	Business interruption	•Covid-19 '•Small specialist teams with single person risks • Significant changes in adviser and consultant personnel • Further high impact Covid events (e.g. infection waves, lockdowns) • Systems failure • Covid impact on Fund staff • Disaster event - fire, flood, etc • Lack of remote working facilities	• Delays in decisions or their implementation • Failure to meet performance targets • Reputational damage • Data quality deterioration • Workload backlogs • Significant restoration costs • Asset allocation drifts off target • Fund investment risks and performance cannot be monitored	4.00	4.00	20.00	• Building resilience requirements into service contracts • Digital record keeping • Storing data back ups off site • Custodian holding investment data • Maintaining close links with advisers, consultants, and external organisations. • Use of IT systems to work remotely	3.00	3.00	12.00	• Implementation of Cyber Security policy • Review and update disaster recovery plan • Completion of documentation of investment practices
9	Cyber Security	• Systemic cybersecurity events (e.g. taking down financial trading institutions globally) • Local cyber security events (e.g. targeting the Council) • Personal cyber security events (e.g. phishing emails targeting staff) • Inadequate system security • Inadequate staff training and staff vigilence	• Loss of data and/or data disruption • Reputational damage • Breaches of the law • Fines • Costs of fixing issues • Business interruption	3.00	4.00	16.00	• Use of scheme adminstrator systems and system security • Staff training • Bespoke Fund cyber security policy	3.00	3.00	12.00	• Implementation of Cyber security policy
10	Climate Change	• Net global carbon production in excess of Paris Agreement 2 degree target •Lack of action globally and nationally to combat climate change or to build resilience to it • Fund actions or inactions exacerbating climate change and its impact	• Impact on the value of assets held, for example stranded/obselete assets, or impact on the productivity and profitability of certain sectors, companies, etc • Impact on future quality of life and life experience (e.g. longevity) of members • Impact on future inflation and value of benefits paid to members	4.00	5.00	25.00	• Climate Risk Strategy • ESG Policy • Regular training on Climate Risk and mitigation actions	3.00	3.00	12.00	• Review and update climate risk policy • Review 2020 US Stewardship Code requirements and take steps to become a signatory • Develop Fund actions and response to Task Force on Climate Related Financial Disclosures (TCFD) requirements • Develop robust reporting metrics and set targets for driving change.
11	Customer satisfaction	• £95k exit cap impact • McCloud impact • Persistently increasing customer service expectations • Covid impact on member health and wellbeing - increasing the adverse impact of any problems with pensions • Member benefits paid incorrectly • Employer contributions higher than deemed affordable or thought necessary	• Inadequate data quality • Inadequate administration systems and processes • Poor data provided by employers • Unpopular government decisions impacting on LGPS • Inadequate payroll services • Overly cautious investment strategy requiring higher employer contributions	3.00	3.00	12.00	• Administration governance review actions and maintenance of those standards •Responding to government consultations • SLA with Council payroll service • Maintenance of Fund website • Funding Strategy having appropriate regard to risk and the meeting of Fund objectives • Data quality scores and reviews • Staff training • Performance monitoring of employer data quality • Performance monitoring of administration team KPIs	3.00	2.00	8.00	• UK Stewardship Code 2020 • iConnect project (already under way) • Member Self Service project • Light review of compliance with Code of Practice 14
12	Fraud	• Covid-19 imact on the application of controls in the Fund or with employers • Increased financial pressure on individuals due to Covid-19 and its impact on the economy and jobs • The passing of time since any previous targeted review of Fraud risk • Fraud instigated by any Fund stakeholders, e.g. members, private financial advisers (scams), officers, fund managers, custodian, and employers.	• Members lose benefits to fraudsters • Fradulent members gain benefits they are not entitled to • Fund incurs costs to recover losses • Investment assets lost to fraud or irregularity • Investment losses not reported if covered up	3.00	3.00	12.00	• Application of Administering Authority code of conduct to fund officers, fraud strategy, and whistleblowing policy • Application of division of duties and signatory processes for financial transactions •Periodic iindependent internal audit reviews of administration and investmet activity and controls •Annual external audit reviews •Financial industry regulatory regimes governing fund manager conduct and processes	2.00	3.00	9.00	• Fraud risk review in 2021/22
13	Governance Failure	• Lack of capacity to service governance requirements • Lack of training • Lack of continuity in staffing, advisers, or committee / board members • Inadequate checking/review of standards compared to requirements and best practice • Complacency in light of recent governance improvements • Out of date policies and contracts • Local government elections impact on committee continuity •Covid-19 - impact on officer, adviser, and committee/board personnel health and availability •Uncertainty around overall governance structure and responsbility for decision making and actions	• Adverse impact on Fund reputation • Exposure to unplanned risks or poor administration and investment performance • Breaches of the law • Poor decisions • Decisions that are not appropriately authorised	3.00	4.00	16.00	• Training plans for committees, Board, and staff • Quarterly committee and Board meeting cycles • Training needs analysis • All training provision to be made available to all committee and Board members • Managemetn of a Contracts register • Management of a Fund policy schedule • Quarterly risk monitoring at committee and board • Quarterly monitoring of Business Plan delivery at board •Use of digital technology - remote working and remote meetings	2.00	4.00	12.00	• Signing up to UK Stewardship Code 2020 • Light review of compliance with Code of Practice 14 • Use of National Knowledge Assessment to inform training plan • Simplification of governance to a single action plan and single risk register • Review of committee arrangements and Terms of Reference • Review capacity to support Fund Governance requirements

Agenda Item 5

Warwickshire Local Pension Board

Pensions Administration Activity and Performance update

13 April 2021

Recommendation(s)

1. The Board notes and comments on this report.

1. Executive Summary

1.1 This report updates the Local Pension Board on the key developments affecting pensions administration and the performance of the Pensions Administration Service (PAS).

2. Financial Implications

2.1 All financial implications are dealt with in the body of this report.

3. Environmental Implications

3.1 None

4. Governance Action Plan

4.1 The Governance action plan has been completed, except for the implementation of i-Connect. This project is scheduled to run until June 2021 and is on track.

4.2 Going forward items listed on the plan will become part of business as usual for the PAS and investment teams and have been included in the business plan for 2021-22.

5. i-Connect

5.1 The first and second phases have now been completed and 66 of our 195 employers have submitted data using the i-Connect system by 31st January 2021. WCC is the payroll provider for 29 different payrolls, all of which went live by 31 January 2021. This means that 11,539 out of 15,072 (77%) of member records are now being updated by i-Connect following phase 2 of the implementation.

5.2 The majority of Town and Parish Councils have also moved across to submitting their data via I-connect.

5.3 Three employers expressed a wish to change the date they will start to use i-connect. We have agreed that all 3 can move from Phase 3 to Phase 4.

5.4 Two employers who were scheduled to be part of Phase 4 have now asked to become part of phase 3, so Midland Academy Trust and Community Academy Trust will go live in April.

Phase	**Testing phase commences**	**Live Date Deadline**
Phase 1 (Multiple payroll providers already using i-Connect data portal)	9 October 2020	1 December 2020
Phase 2 (Warwickshire County Council employers) Town and Parish Councils	12 October 2020	31 January 2021
Phase 3 (Colleges, Town and Parish Councils, CAT and MAT)	1 March 2021	30 April 2021
Phase 4 (remaining employers - Police and Crime Commissioner support staff, North Warks BC, Warwick DC, Warwick Independent Schools) Nuneaton & Bedworth BC	23 April 2021	18 June 2021

6. Guaranteed Minimum Pension (GMP) reconciliation

6.1 GMP reconciliation is the process used to ensure that the Local Government Pension Scheme (LGPS) records agree with those of the National Insurance Contribution Office (National Insurance Contributions Office part of HMRC). This enables a scheme to consider its data as clean and reliable.

6.2 Data comparison work has been undertaken and work continues to update records where this does not match with HMRC data. Most records have been updated; however, the project has taken longer than expected due to having to check the information held on both the pensions administration system and the payroll system for pensioner members.

7. Pensions Increase

7.1 Each year pensions in payment are uprated by Pensions Increase, in line with the increase in the Consumer Prices Index in the 12 months to September 2020. This year the increase is 0.5%.

7.2 Work by both the payroll and pension teams has been completed to apply this increase from 12th April 2021.

8. Key Performance indicators (KPIs)

8.1 Appendix 1 shows the KPIs for the period 1st May 2020 to 28th February 2021. It should be noted that from January 2021 until 8th March, we have been in a 3rd national lockdown. The PAS has several staff having to cope with working from home whilst looking after children. Our message to the team has been to do what they are able to do, and on a weekly basis we have been checking in with the team to look at priorities and move around resources where it has been needed.

8.2 KPIs where a payment is to be made are treated as highest priority.

8.3 From the chart in appendix 1 it shows there are 9 out of 14 targets being consistently achieved. This is an improvement from the last meeting, where only 5 of out 14 were being achieving. Of the remaining indicators where performance is below target the following explanations and actions are highlighted:

- The Membership team that deal with transfers (1), refunds (3) and deferred benefits (14) have had a significant increase in work due to the first i-Connect submissions being received from WCC payrolls. This has meant that updates to records for the period April 2020 to January 2021 have been processed and all new entrants to the scheme and all those that have exited for this period have been recorded. This will now continue monthly and reduce the volume of work we would expect to see when working through year end queries. In June last year we saw a similar increase in work. To help the membership get through this, team members who have capacity are helping.

- We have slightly improved the percentage for information being sent out to dependants (9). However, we have reviewed the procedure and found that the workflow system is counting days where we are unable to proceed, as we do not have all the necessary information. The team members who handle these cases have met with their team leader and discussed the process so that the time spent on these is more accurately recorded.

9. Workloads

9.1 The PAS has been monitoring the tasks outstanding and completed by the service since the 1 March 2020. The chart at appendix 2 shows the volume of outstanding work across the service and indicates that the service had 3,889 tasks as at the 28th February 2021. Since March, 50,748 tasks have been completed.

9.2 Since the introduction of i-Connect we have seen an increase in the average created and completed tasks. On the 30th January 2021 we were averaging 918 created tasks a week with 940 completed tasks. This has now increased to 977 created tasks and 976 completed tasks.

9.3 As mentioned in point 8.4, the increase in tasks being created is down to the first live submission on i-Connect for WCC payrolls. We do not expect to see this volume of work being created each month, once all employers are submitting data via i-Connect.

10. McCloud project

10.1 The McCloud project has now begun and meetings with Aon, who we have appointed as Project Manager, have commenced.

10.2 The project charter has been created and identifies the success criteria and risks involved in delivering the project for both the Local Government Pension Scheme and the Firefighter Pension Schemes. The PAS are now planning resources and workstreams, starting with data collection from April.

10.3 The response from the Government, for the Local Government Pension Scheme is expected imminently and this will help to determine the timescales involved for the implementation of changes to the regulations.

11. Exit Payment update

11.1 The Restriction of Public Sector Exit Payments Regulations 2020 (“the 2020 regulations”) imposed a cap of £95,000 on the payments of specified public sector exits.

11.2 Following challenges from LLG (Lawyers in Local Government) and ALACE (the Association of Local Authority Chief Executives and Senior Managers) and other public sector unions via judicial review the government issued the Exit Cap Directions 2021 on 12th February 2021. These disapply parts of the Restriction of Public Sector Exit Payments Regulations 2020 with immediate effect.

- “*HM Treasury will bring forward proposals at pace to tackle unjustified exit payments.”*
- *“If you have been directly affected by the cap whilst it was in force, you should request from your former employer the amount you would have received had the cap not been in place by contacting your employer directly.”*
- *“In light of the withdrawal of the Regulations, employers are encouraged to pay to any former employees who had an exit date between 4th November*

2020 and 12th February 2021 and to whom the cap was applied, the additional sums that would have paid but for the cap.

- *Given that the cap has now been disapplied, it is open to employers to do so and HM Treasury's expectation is that they will do so*."

11.3 The Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 will formally withdraw the 2020 Regulations on 19th March 2021. The Revocation Regulations also contain a legal obligation for employers to make payments to employees (or to other persons including public sector pension schemes in relation to those employees) who left during the period between the original regulations coming into force (4 November 2020) and the date of the Revocation Regulations coming into force. Those payments are the difference between what was paid and the exit payments that the employee would have been entitled to had regulation the 2020 Regulations (i.e. the cap) not been in force.

11.4 However, public sector employers planning workforce reform will need to be aware that an exit cap may be in force later in 2021 and that MHCLG may introduce further reforms to exit pay when the exit cap is reintroduced. Unfortunately, we do not know when these changes are likely to take effect.

11.5 After a discussion with the Fund's Actuary, it has been agreed that we will revert back to using the Fund's strain cost factors to calculate the cost to employer's for the early release of benefits, suspending the use of the draft government actuaries department (GAD) factors, which had been specifically drafted for exits that would be subject to the exit payment regulations.

11.6 Where strain costs have been supplied to an employer based on the GAD factors and this is cheaper than the fund's factors, we will honour the quote. Ultimately, any difference in the cost will be picked up by the employer when the employer contribution rate is re-assessed in the next valuation.

12. Annual Benefit Statements

12.1 The Annual Benefit Statements project has commenced, the team are planning the timescales and resources for the different elements of work that must be completed and holding regular project meetings.

12.2 With most of our employers submitting data via I-connect for 2021 year-end, we should see fewer queries for the team to work through in the period April through to June. This should mean less impact on our BAU work, as less resources should be required to deal with the year-end work. Last year we saw a big influx of work generated by year-end queries, 1095 queries dealt with, which was on top of BAU.

13. Pension Schemes Bill/ Pension Schemes Act 2021

13.1 On 11 February the UK Pensions Scheme Act received Royal Assent. The Act sets out changes not all of which will be relevant to the LGPS; the following sections are expected to be relevant to the LGPS (either directly or indirectly).

13.2 Pensions dashboards: The Money and Pensions Service (MaPS) is to deliver a non-commercial dashboard. The Act provides a framework to support pensions dashboards, including new powers to compel schemes to provide information. We will be required to feed in information and regulations will specify the detail of what, when and how information must be provided.

13.3 Limiting transfer rights: The Act will allow funds to restrict transfer requests where conditions, including in relation to the member's new employment or to where they live, are not met. This is intended to help prevent pensions scams. Exercising due diligence when a transfer request is received can be difficult, with funds currently having little power to refuse a transfer.

13.4 In our last report to the board, we reported the increase in requests the PAS have been receiving from claim management companies, for members who decided to transfer benefits out of the fund. The LGA technical group are gathering information from funds, regarding how funds are dealing these cases so that a similar approach can be agreed.

13.5 It has also been suggested that a framework (or panel) of IFA's should be provided by Funds, that members could be referred to for pension transfer advice.

14. Employers joining and leaving the Fund

14.1 That the Pensions Board note the applications from the listed employers which have been approved by Staff and Pensions Committee:

. New Academies:

- Kingsway Primary (Part of Community Acadamy Trust) 1/1/2021
- Lillington School (Finham Park Multi Academy Trust) starts1/1/2021
- Trinity School (part of Our Lady of Lourdes MAT starts) 1/1/2021
- All Saints Bedworth school (part of Coventry Diocese MAT) start date 1/2/2021

New Employers:

- Sure Maintenance 21/12/2020
- Caterlink start 1/1/2021
- Baileys Catering (Shottery) 1/1/2021

15. Timescales associated with the decision and next steps

None

Appendices - None

Background Papers
https://www.gov.uk/government/publications/guidance-on-public-sector-exit-payments/mandatory-hm-treasury-directions

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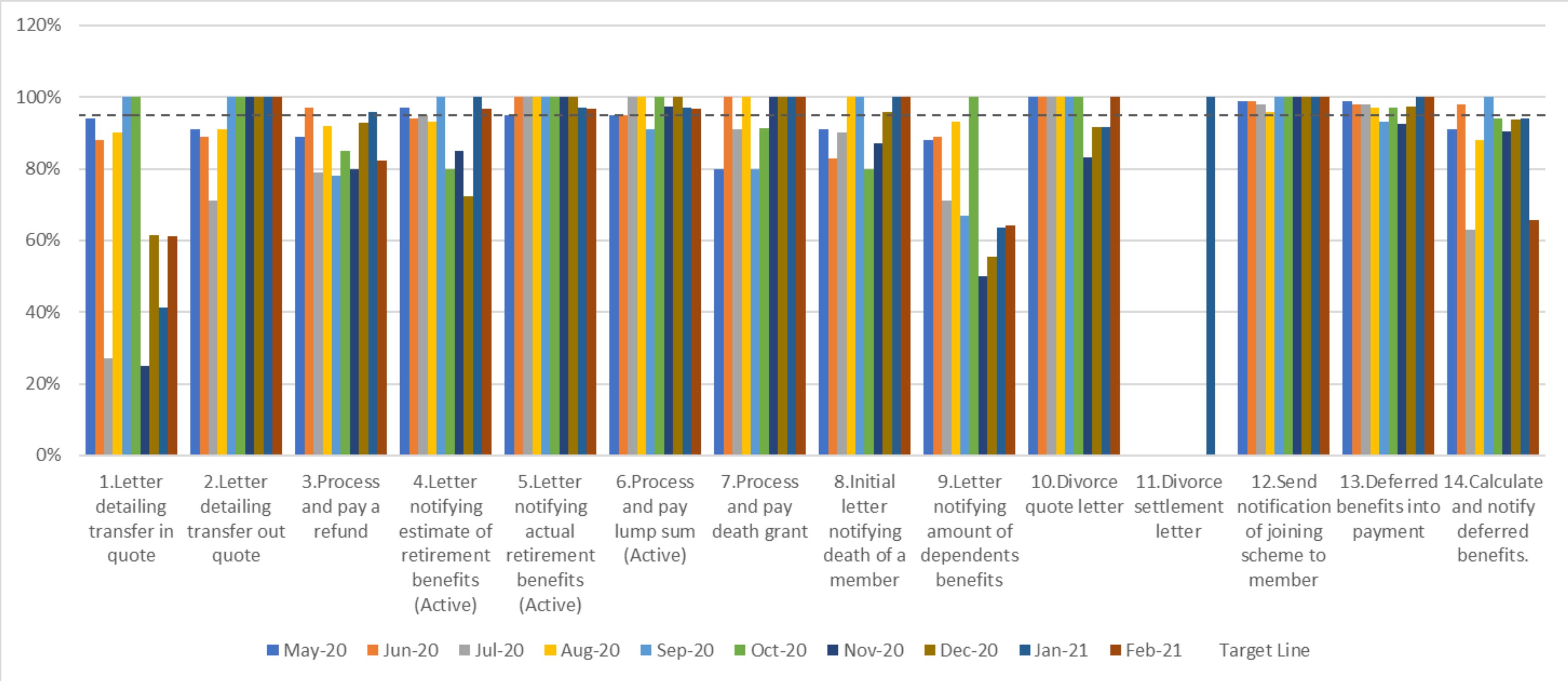
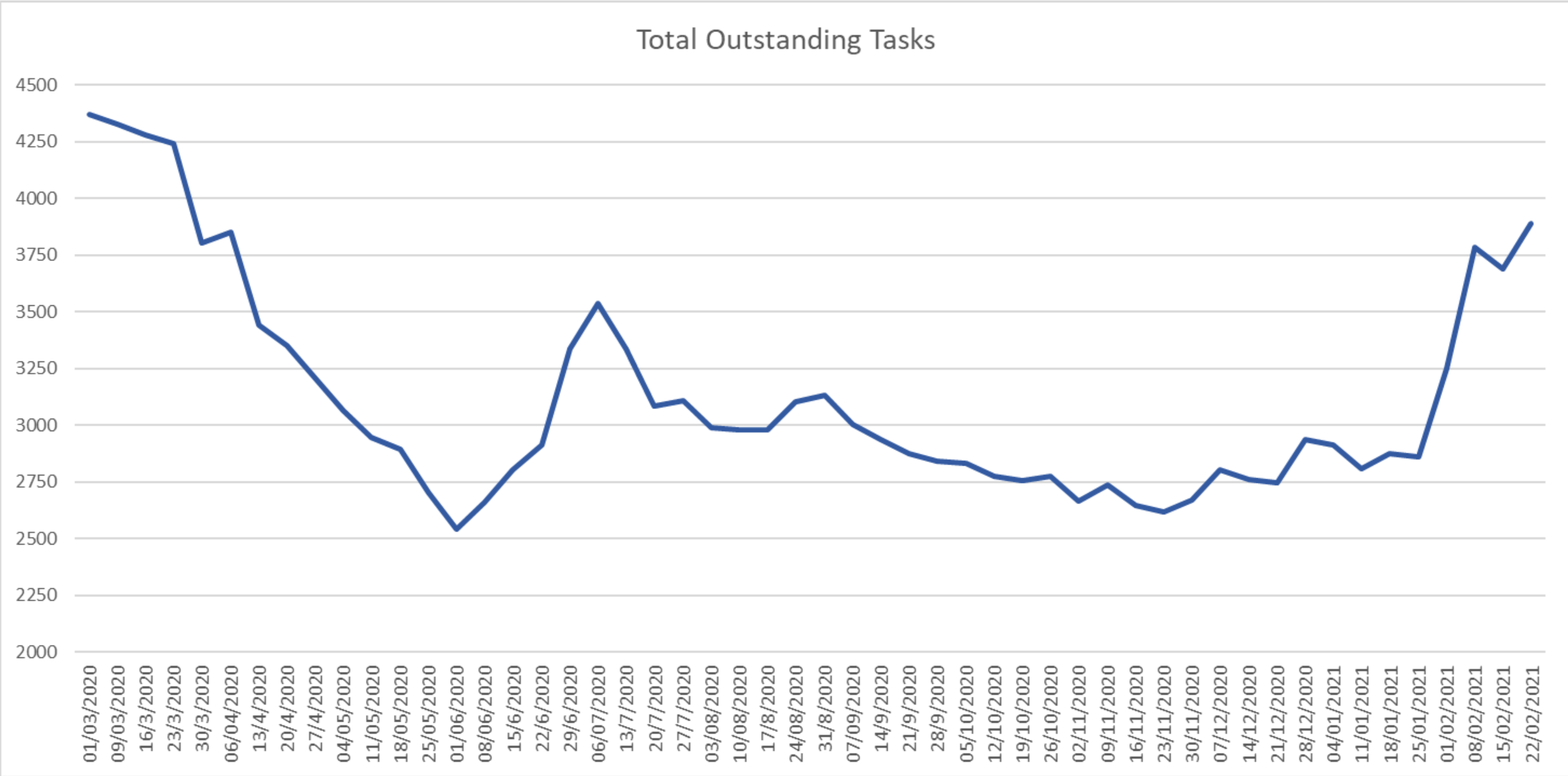
The report was circulated to the following members prior to publication:
Local Member(s): None
Other members: Councillors Kaur & Gifford

Appendix 1



120%
100%
80%
60%
40%
20%
0%
1.Letter detailing transfer in quote
2.Letter detailing transfer out quote
3.Process and pay a refund
4.Letter notifying estimate of retirement benefits (Active)
5.Letter notifying actual retirement benefits (Active)
6.Process and pay lump sum (Active)
7.Process and pay death grant
8.Initial letter notifying death of a member
9.Letter notifying amount of dependents benefits
10.Divorce quote letter
11.Divorce settlement letter
12.Send notification of joining scheme to member
13.Deferred benefits into payment
14.Calculate and notify deferred benefits.
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Target Line

Appendix 2



Total Outstanding Tasks
4500
4250
4000
3750
3500
3250
3000
2750
2500
2250
2000
01/03/2020
09/03/2020
16/3/2020
23/3/2020
30/3/2020
06/04/2020
13/4/2020
20/4/2020
27/4/2020
04/05/2020
11/05/2020
18/05/2020
25/05/2020
01/06/2020
08/06/2020
15/6/2020
22/6/2020
29/6/2020
06/07/2020
13/7/2020
20/7/2020
27/7/2020
03/08/2020
10/08/2020
17/8/2020
24/08/2020
31/8/2020
07/09/2020
14/9/2020
21/9/2020
28/9/2020
05/10/2020
12/10/2020
19/10/2020
26/10/2020
02/11/2020
09/11/2020
16/11/2020
23/11/2020
30/11/2020
07/12/2020
14/12/2020
21/12/2020
28/12/2020
04/01/2021
11/01/2021
18/01/2021
25/01/2021
01/02/2021
08/02/2021
15/02/2021
22/02/2021

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Agenda Item 6

Warwickshire Local Pension Board

Warwickshire Local Pension Board Update to Breaches Reporting Procedure

13 April 2021

Recommendation(s)

1. Note the report and comment on the proposed changes to the reporting and publication of breaches in sections 5 and 7.

1. Purpose of the Report

1.1 At its meeting on 26th January 2021 the Local Pensions Board (LPB) asked for further explanation in regard to the way that breaches are recorded and reported, in order to provide them with an assurance that this aspect of pensions administration is being effectively managed. This report provides that explanation.

2. Background: Reporting Breaches of the Law

2.1 The Pensions Regulator Code of Practice 14 sets out the legal requirements for reporting breaches of the law. In essence, certain people are required to report breaches of the law to the Pensions Regulator (tPR) where they have reasonable cause to believe that:

a) A legal duty which is relevant to the administration of the scheme has not been or is not being complied with; and

b) The failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.

2.2 For the LGPS, the people who are subject to the reporting requirement are:

- The Scheme Manager (i.e. Staff and Pensions Committee).
- Members of the Local Pension Board.
- Any person otherwise involved in the administration of the Fund.
- Employers within the Scheme.
- Professional advisers .
- Any person otherwise involved in advising the managers of the Scheme.

2.3 Warwickshire Pension Fund's approach to complying with the requirements of the code is set out in its Breaches Policy, which is available on the Fund's website: https://www.warwickshirepensionfund.org.uk/home/employers-new-employers/1 under information for current employers.

3. Recording of Breaches

3.1 To determine whether a breach is reportable to tPR, it is necessary to establish firstly that:

a) There is reasonable cause to believe that a breach has occurred.
b) A legal duty has not been complied with.
c) The failure to comply is likely to be of material significance.

Materiality is based on the following factors:

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? Is it likely to cause, for example, ineffective internal controls, lack of knowledge and understanding, inaccurate records, potential for further breaches occurring.
Reaction	e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate.
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 emerge in the future.

3.2 The Pensions Administration Service (PAS) records all breaches in order that the above tests can be applied, and decisions taken to determine whether a breach should be reported to tPR.

3.3 In reality, most breaches relate to the late submission of data or late payment of contributions by employers.

4. Assessment of Breaches

4.1 The Breaches Policy sets out the process for assessing breaches, which are categorised as red, amber or green, according to their severity. This process is included at Appendix A. In order for this assessment process to be carried out, the PAS records all breaches on its Breaches Log.

4.2 It is a requirement of tPR that breaches that are not found to be material are still recorded. This allows action to be taken to improve areas of activity where breaches occur. It also allows the PAS to identify instances where there are repeated breaches, for example, by a particular employer, which because of their ongoing nature should be escalated through the “traffic light” system.

4.3 For example, where an employer submits data or contributions more than one week late on more than three occasions in one year, or more than five weeks late on one occasion, the breach would be escalated from Green to Amber. All such Amber breaches are addressed directly with the employer to attempt resolution. If resolution cannot be reached within a reasonable timeframe, the assessment process is used to determine whether the issues should be reported to tPR as a Red breach. Senior managers meet monthly to review all breaches, to ensure timely action is being taken to address areas of concern, and where appropriate, to escalate to Red and report to tPR.

4.4 It is proposed to simplify and increase the robustness of the breaches triggers for data submissions and contributions by amending them to the following:

Criteria	Data Submissions and Contributions	Other Breaches
Green	Late (1 day or more)	Literal / technical breaches with no practical consequences or action required
Amber	Late on more than one occasion	Breaches with noticeable but not material implications for the Fund or Employers or Members, which require action to resolve
Red	Late on more than 3 occasions having been escalated to senior level to attempt resolution with the employer	Material breaches as per the tPR code.

4.6 It is proposed that the breaches policy and the administration strategy will be amended to reflect these changes, subject to approval by Staff and Pensions Committee.

5. Reporting of Breaches

5.1 Statistics on breaches are reported to each meeting of the Local Pension Board and the Staff and Pensions Committee. However, following discussions at the LPB meeting on 26th January, it is agreed that the format of this reporting could be made more informative and meaningful. This would also help to ensure consistency with reporting elsewhere on the Board and Committee's agendas.

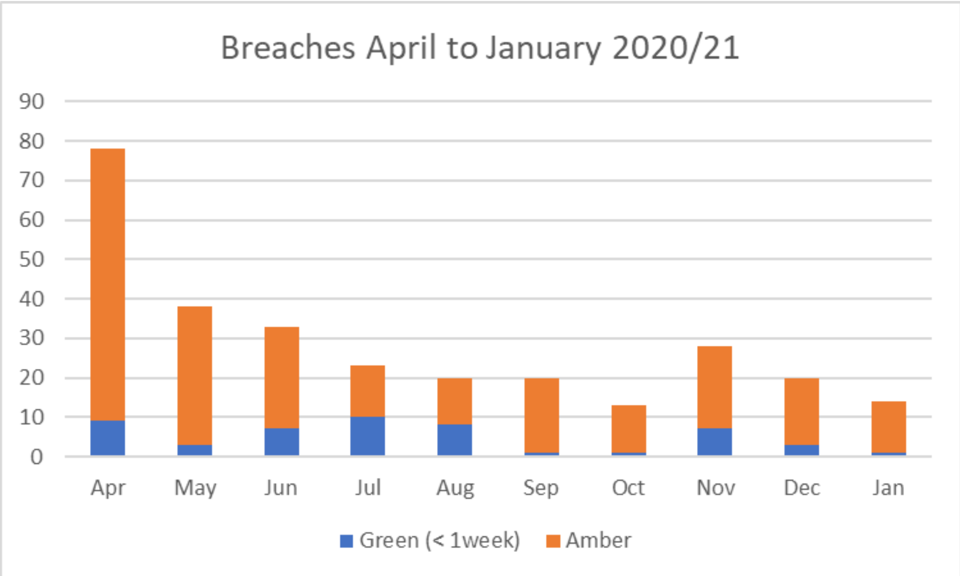
5.2 With this in mind, the PAS has reviewed the way that it records and reports breaches. For future reports it is proposed that the number of red, amber and green breaches for each month are reported, accompanied by a narrative explaining any key areas of concern and action being taken. This information can be presented graphically, so that over time, trends can be identified and used to manage improvements in performance.

5.3 For this meeting, the latest breaches information is shown in section 6 of the report. From July 2021, the information will be presented as part of the regular Pensions Administration Activity and Performance Update report.

6. Breaches Information 2020/21 April to January

6.1 This section of the report sets out information on the breaches recorded from April to January 2020/21. Employers are required to submit their data and contributions by the 19th of the month following the submission period (or 23rd of the month where contributions are paid by BACS). The PAS then have to review one-off and repeated late submissions in order to update the breaches register, so there is a short time-lag between the deadline and the recording of breaches.

6.2 Chart 1 below shows the number of breaches that occurred by month from April 2020 to January 2021 (noting that the Fund has approximately 200 employers submitting data):



6.3 As more employers are onboarded onto i-Connect it is expected that over the coming months we will see a decline in breaches related to late data submissions.

6.4 Issues relating to two employers have been escalated and are being reviewed to assess whether they should move to Red status according to the material significance of each breach.

7. Publication of Breaches

7.1 Currently, the Breaches Log is publicly available through the Employer section of the Warwickshire Pension Fund website. It is proposed that this detailed log is removed and replaced with summarised and anonymised data which is updated each month and sets out the total number of breaches and their "traffic light" status.

7.2 The detailed breaches register would continue to be maintained within the PAS and used to populate the information published on the website at summary level.

8. Financial Implications

None

9. Environmental Implications

None

10. Timescales associated with the decision and next steps

10.1 Subject to agreement by the Board, these new arrangements for reporting on breaches will be introduced with immediate effect.

Appendices
None

Background Papers
None

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Lead Director	Strategic Director for Resources	robpowell@Warwickshire.gov.uk
Lead Member	Portfolio Holder for Finance and Property	

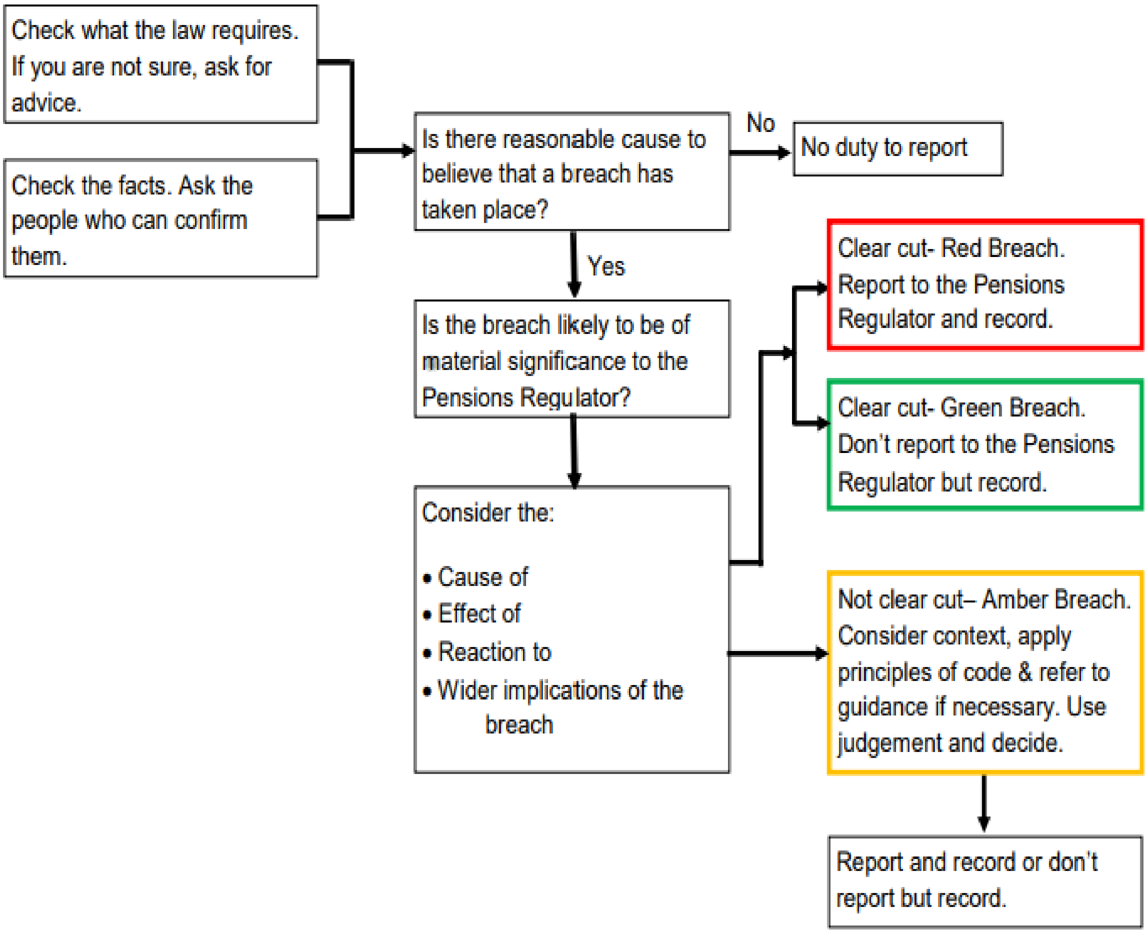
The report was circulated to the following members prior to publication:

Local Member(s):

Other members:

Appendix 1

Process for assessing whether a breach has occurred



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Agenda Item 7

Warwickshire Local Pension Board

Regulatory Update

13 April 2021

Recommendation(s)

1. The Local Pension Board note and comment on the report.

1. Executive Summary

1.1 This report seeks to update the Local Pension Board on developments that impact on the Local Government Pension Scheme.

2. Financial Implications

2.1 No direct costs identifiable at present.

3. Environmental Implications.

3.1 The Government has issued proposals for pension schemes to comply with the improved governance and risk management arrangements relating to climate change risks.

4. Supporting Information

4.1 On 11th February 2021 the UK Pensions Act received Royal Assent. The Act sets out changes in a wide range of areas many of which are not relevant to the Local Government Pension Scheme. Those relevant are detailed below:

- **Pensions Dashboards;** the Act introduces a framework to support pensions dashboards including new powers to compel schemes to provide information. The impact for the administration service is discussed in more detail in the Administration Update.

- **Limiting Transfer Rights;** the Act will allow schemes to block transfer requests where specified conditions are not met. This item is discussed in more detail in the Administration Update.

- **Climate Change Governance;** Regulations can force schemes to ensure there is effective governance with respect to the effects of climate change. Local Authority pension funds are to make disclosures in line with the recommendations of the Task Force on Climate Related Financial Disclosure. Funds are expecting the Ministry for Housing, Communities and Local Government to release a consultation on TCFD for the LGPS in the summer. See 4.3 below

4.2 **Increase in minimum pension age;** on 11th February Her Majesty's Treasury launched a consultation on the implementation of increasing the minimum pension age from 55 to 57 in April 2028. This is the age at which individuals will be able to access their pension benefits without incurring a tax charge and was introduced in 2010 when it was increased from age 50. However, the proposal is that members of the LGPS as of the 5th April 2028 will retain the right to retire from the age of 55 whereas new members on or after 6th April 2028 will be subject to the amendment. There is uncertainty about whether the age for members retiring on redundancy or efficiency will remain at age 55 for those members of the scheme prior to 6 April 2028.

4.3 **Climate change risk and the Task Force on Climate Related Financial Disclosures;** in January the Government published a response to its August 2020 consultation, *Taking action on climate risk: improving governance and reporting by occupational pension schemes,* along with draft regulations and non-statutory guidance.

4.4 The consultation contained proposals for occupational pension schemes to comply with the recommendations of the TCFD and have effective governance and risk management. The Department for Work and Pensions has launched a consultation on draft regulations and statutory guidance, and it is expected that Regulations on how this will apply to the LGPS will be issued after a consultation by MHCLG expected later in 2021.

5. Timescales associated with the decision and next steps

5.1 Officers will keep the Local Pension Board updated on future developments.

Appendices
1. None.

Background Papers
1. None

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The report was circulated to the following members prior to publication:

Local Member(s): n/a
Other members: n/a

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Agenda Item 8

Warwickshire Local Pension Board

Funding Strategy Statement

13 April 2021

Recommendation(s)

1. The Local Pension Board note and comment on the report.

1. Executive Summary

1.1 Following an amendment to the Local Government Pension Scheme Regulations, a review was undertaken of the Funding Strategy Statement and subsequent amendments are recommended which will provide additional flexibilities to manage the financial impact of certain pension fund issues on employers such as flexibilities in the making of exit payments and the facility to amend contribution in between valuations.

1.2 The new flexibilities become options for employers but the Fund retains discretion over their use in any given case and the Fund will consider the risks and benefits in determining their use on a case by case basis.

2. Financial Implications

2.1 The review of employer contributions allows the Fund to manage and mitigate risk for an employer which has experienced a significant change to their liabilities or covenant. Whilst the spreading of exit payments and deferred debt arrangements for exiting employers enables the Fund and the employer to manage a cessation payment.

3. Environmental Implications

3.1 None.

4. Supporting Information

4.1 The Funding Strategy Statement has been amended to reflect amendments to the Local Government Pension Scheme Regulations. Briefly, these amendments (highlighted in yellow in Appendix 1, note j; pages 17, 18, 19 and 20) are:

- The amended regulations enable the administering authority to enter into a deferred debt agreement with an employer that is leaving the Pension Fund.
- The amended regulations enable an administering authority to spread payment of an exit credit for an employer leaving the Fund. This may be of use where the administering authority does not consider that granting deferred employer status is in the interests of the Fund or other Scheme Employers.

4.2 The ability for an employer to apply to the administering authority for a review of the contribution rate part way through the valuation cycle is also permitted by the amending regulations to cover the following situations: (highlighted in Appendix 1, note f; pages 14 and 15)

- Where it appears likely to the administering authority that the Scheme Employer's liabilities have changed significantly since the previous valuation,
- Where it appears likely to the administering authority that there has been a significant change in a fund employer's ability to meet their statutory obligations (e.g. payment of employer contributions), or
- Where a Scheme Employer has requested a review and undertaken to meet the costs of that review.

4.3 There is no requirement on an administering authority to use any of the new powers. The amendment regulations require that an authority may do so only where it has set out its policy in its Funding Strategy Statement. This is to ensure transparency.

4.4 A review of policies impacted by the amendment to the regulations is underway.

4.5 The revised Funding Strategy Statement has been commented upon by Hymans Robertson, the Fund's actuary.

5. Timescales associated with the decision and next steps

5.1 Following this meeting the Funding Strategy Statement will be circulated to all Scheme Employers for comment before being approved by the Pension Fund Investment Sub-Committee at its June meeting

Appendices

1. Appendix 1 The Funding Strategy Statement (amended June 2021).

Background Papers

1. None.

	Name	**Contact Information**
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Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: n/a

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HYMANS ROBERTSON

Warwickshire Pension Fund

Funding Strategy Statement

June 2021

PUBLIC SECTOR

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Warwickshire Pension Fund ("the Fund"), which is administered by Warwickshire County Council, ("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 14 June 2021. This FSS superseded the FSS that had been in place since June 2020.

1.2 What is the Warwickshire 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 Fund, in effect the LGPS for the Warwickshire 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 on 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 whose council participates in the Fund: 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 queries please contact Neil Buxton in the first instance at wpfinvestments@warwickshire.gov.uk

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 - employers such as town and parish councils are able to participate in the LGPS via 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. A shorter period will lead to higher contributions, and vice versa (all other things being equal). 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.

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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 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 Fund will make a risk based judgement of the employer. This judgement will have regard to the type of employer, its membership profile and funding position, any guarantors or other security provision, material changes anticipated, etc. This helps the Fund to establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

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. The Fund has increased the prudence in employer funding plans by increasing the likelihood of success for all employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

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.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund 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 and Police**	**Colleges and other FE establishments**	**Academies**	**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)	No	No	No	No	No
Maximum time horizon – Note (c)	19 years	19 years	19 years	19 years	Future Working Lifetime, subject to 19 years maximum	Outstanding contract term
Secondary rate – Note (d)	Monetary	Monetary	% of payroll	Monetary	Monetary	Monetary
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	80%	70%	80%	80%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	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	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation is assumed not to occur, 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 debt 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 is assumed to expire at the end of the contract. Exit debt/surplus calculated on the contractor exit basis. Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

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.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council
Max cont increase	+0.75% of pay p.a.	+2.0% of pay p.a.
Max cont decrease	-0.75% of pay p.a.	-1.0% of pay p.a.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

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.

Note (d) (Secondary rate)

The Secondary contribution for each employer covering the three year period until the next valuation will be collected as a monetary amount except for Academy Schools where it will be set as a percentage of pay.

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.

The Administering Authority may review an employer's likelihood at any time in the event of significant changes in the Administering Authority's assessment of an employer's security.

Note (f) (Regular Reviews)

Under the Regulations the Fund may amend contribution rates between valuations where there has been "significant change" to the liabilities or covenant of an employer. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;

- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

It should be noted that any review may require increased contributions.

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. As an alternative to (iv), the academy will have the option to elect to pay contributions over the period to 31 March 2023 in line with the contribution rates detailed in the table below:

Year	Contribution rate (% of pay)
2020/21	23.2
2021/22	23.2

2022/23	23.2

vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/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 (iii), (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.

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's default approach is that a new TAB will participate in the Fund via a fixed contribution rate arrangement with the letting employer. The certified employer contribution rate will be set equal to the fixed contribution rate agreed between the letting authority and the contractor. The fixed rate that will be paid is at the discretion of the letting authority and contractor subject to a minimum of the letting authority's primary rate on the contract start date. Upon cessation the contractor's assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any letting employer and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place. It is at the sole discretion of the Administering Authority as to whether any risk sharing agreement is recognised in the certified employer contribution rate. If the risk arrangement is not recognised, then the letting employer and the contractor will need to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of the risk sharing arrangement in place.

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.

Note (j) (Admission Bodies Exiting the Fund)

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;
- 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; or –
- On termination of a Deferred Debt Arrangement

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. The Administering Authority reserves the right to put in place a Deferred Debt Agreement (as described in Regulation 64 (7A)). This is covered in further detail on page X21 / 22.

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified. However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that

1. the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.
2. the arrangement is covered by a legally-binding agreement.
3. at any point during the spreading period, any outstanding exit payment is paid immediately in full.

In circumstances 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 1% loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

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 deficit/surplus 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 the 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, Administering Authority may enter into a written agreement with the Admission Body to defer their obligations to make an exit payment and continue to make Secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The Admission Body must meet all requirements on Scheme employers and pay the Secondary rate of contributions as determined by the Fund Actuary until the termination of the Deferred Debt Agreement.
The Administering Authority will consider Deferred Debt Agreements in the following circumstances:

- The Admission Body requests the Fund consider a Deferred Debt Agreement;
- The Admission Body is expected to have a deficit when the cessation valuation is carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the Admission Body's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- The agreement to be formalised in a legally-binding written document;
- All costs of the arrangement to be met by the Admission Body, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A Deferred Debt Agreement will normally terminate on the first date on which one of the following events occurs:

- the Admission Body enrols new active Fund members;
- the period specified, or as varied, under the Deferred Debt Agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;

- the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the Deferred Debt Arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Admission Body defaults on any payment due under the agreement;
- the Fund actuary assesses that the Admission Body has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. Admission Body is now largely fully funded on their cessation basis); or
- The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Admission Body pays their outstanding cessation debt on their cessation basis).

On the termination of a Deferred Debt Agreement, the Admission Body will become an exiting employer and a cessation valuation will be completed in line with this FSS.

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 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.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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.

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

3.4 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.

3.5 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.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies	- up to 5 years
Community Admission Bodies and Designating Employers	- payable immediately
Colleges and other FE establishments	- payable immediately
Academies	- payable immediately
Transferee Admission Bodies	- payable immediately

3.6 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.7 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.

3.8 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 employers.

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.

3.9 Policies on bulk transfers

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.

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 the Annual General Meeting.

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 the Ministry of Housing, Communities & Local Government (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 April / May 2021 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published, in June 2021.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.warwickshirepensionfund.org.uk ;

A copy sent by e-mail to each participating employer in the Fund;

A copy sent to the Local Pension Board;

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

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 Investment Sub-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 www.warwickshirepensionfund.org.uk

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 an 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.
6. In accordance with the Fund's Administration strategy, scheme employers should pay due costs / charges imposed by the fund.

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. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. 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. 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. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

Risk	Summary of Control Mechanisms
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. 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	The Fund actively considers this risk when allocating assets and appointing Fund Managers.

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. 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. 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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3).

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. 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. 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. 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
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. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions are 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. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.

Risk	Summary of Control Mechanisms
	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. 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. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). 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 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:

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 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 Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

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 analysing movements 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.

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?

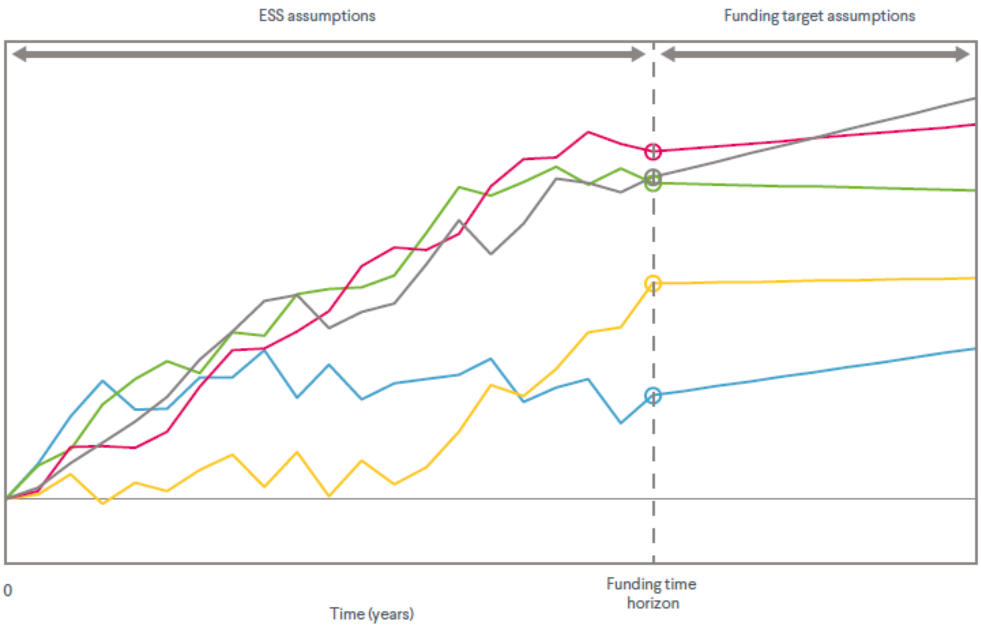
These are expectations of future experience used to place a value on future benefit payments ("the liabilities") and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). 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.

		Annualised total returns									
		Cash	**Index Linked Gilts (medium)**	**Fixed Interest Gilts (medium)**	**UK Equity**	**Overseas Equity**	**Property**	**A rated corporate bonds (medium)**	**RPI inflation expectation**	**17 year real govt bond yield**	**17 year govt bond yield**
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

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 an AOA equal to the AOA 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

The salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2021, followed by

2. 1.0% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This gives a single "blended" assumption of CPI plus 0.8%. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.6% per annum. The change has led to an increase in the funding target (all other things being equal).

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 inflation is 1.0% per annum lower than RPI inflation. (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

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.
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**.
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.
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.

Agenda Item 9

Warwickshire Local Pension Board

Summary Note of Scheme Advisory Board meeting 8th February 2021

13 April 2021

Recommendation(s)

1. The Local Pension Board notes and comments on the report.

1. Executive Summary

1.1 The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 110 – 113.

1.2 It seeks to encourage best practice, increase transparency, and coordinate technical and standards issues. It considers items passed to it from the Ministry for Housing, Communities and Local Government (MHCLG), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. The Scheme Advisory Board has a liaison role with The Pension Regulator and issues guidance and standards for local scheme managers and pension boards.

1.3 Set out at Appendix 1 is a summary of notes of the Scheme Advisory Board meeting held on 8th February 2021.

2. Financial Implications

2.1 None

3. Environmental Implications

3.1 None.

4. Supporting Information

4.1 None

5. Timescales associated with the decision and next steps

5.1 None

Appendices

1. Appendix 1 summary notes of Scheme Advisory Board meeting of 8th February 2021

Background Papers

1. None.

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The report was circulated to the following members prior to publication:

Local Member(s): n/a
Other members: n/a

Summary note of the Scheme Advisory Board meeting held on 8th February 2021
Appendix 1.

Summary note of (virtual) meeting held on 8 February 2021

Full details of the meeting and agenda papers can be found on board meetings page.

The minutes of the meeting on the 2nd November were approved.

The main points arising from the meeting are shown below :-

McCloud – The Board was advised that on February 4th HM Treasury published a Written Ministerial Statement (WMS) outlining the government's response to the consultation on the McCloud remedy for the unfunded public service schemes. Given the proposed options of offering affected scheme members either immediate or deferred choice the government has decided that deferred choice will apply. The LGPS will require its own remedy process. MHCLG advised that a Written Ministerial Statement is expected in mid-March which will include details on timing of the necessary amending regulations.

The government's WMS also covered the impact of the McCloud remedy on HM Treasury's cost cap arrangement. Board members were advised that separate discussions on the Board's own cost management arrangement for the LGPS will remain paused until HM Treasury Directions, detailing how remedy costs are to be calculated and taken into account, have been published. In the meantime, the Board agreed that discussions with the Government Actuary's Department to assess the extent of McCloud costs should commence when HM Treasury has shared its draft Directions. These provisional costings will help the Board to consider how McCloud remedy costs should be taken into account in their own cost management arrangement.

The Board also agreed the need for further communications aimed at managing scheme member expectations around potential benefit increases resulting from McCloud.

95K Cap – The Board was advised that the legal uncertainty caused by the inconsistency between HM Treasury's exit cap regulations and the scheme's 2013 Regulations will continue for the foreseeable future until the current judicial review cases, and any subsequent appeals, have been determined. The judicial review hearing is scheduled for the 24th, 25th and possibly 26th March when 16 separate grounds of appeal will be heard. The key question for the Board will be how HM Treasury's exit payment regulations impact on scheme members' entitlement to unreduced pensions, and the calculation of such benefits under current LGPS regulations.

Discussions with the Pensions Ombudsman's legal team continue to assess the scope for fast-tracking complaints from scheme members relating to the cap. Although the Ombudsman is likely to be prevented from accepting any complaint based on decisions made under the regulations while the judicial review cases are ongoing there may be other instances when cases could be accepted, for example, where the complaint involves maladministration.

The Board agreed that more work should be undertaken to assess the scope for converting cash equivalents under Regulation 8 of the exit payment regulations into pension benefits. At present, the 2013 regulations allow such cash payments to be made into the scheme but there remains uncertainty about how this can then be converted into scheme members' pension benefits.

SAB 2021/22 Workplan and Budget

The Board considered and agreed a draft 2021/22 workplan and budget which will now be discussed with MHCLG before being formally considered when the Board next meets on the 10th May. In summary the workplan proposed no new items but rather a continued focus on the existing workplan projects, scheme developments and continuing to support stakeholders on COVID issues.

Responsible Investment – The Board was advised that work on preparing the responsible investment A to Z website continues. The first milestone, a working version of the website, has been reached and work will now commence on populating the underlying database with relevant items. The aim remains for the website to go live towards the end of March.

The Board also agreed membership of the new Responsible Investment Advisory Group (RIAG) as recommended by the investment, governance and engagement committee. The first meeting of the RIAG is scheduled for early March.

Details of both the website and RIAG can be found at https://lgpsboard.org/images/PDF/BoardFeb2021/Item_6_Paper_D-Responsible_Investment.pdf

Work is also underway to review the recent consultation from DWP on reporting against TCFD recommendations by trust based occupational pension schemes to identify any issues that might have a specific and particular relevance to the LGPS. The intention is for the board to submit a response to MHCLG to assist in the preparation of their consultation on how broadly similar provisions should be introduced for the LGPS.

The Board was also advised that a follow up event to the responsible investment workshop held in January 2020, organised in conjunction with DG Publishing, is now planned for the 28th and 29th April. This will be a virtual event with a two-hour session on the afternoon of each date. Further details will be circulated when available.

Good Governance project - The Board considered and agreed an action plan based on the final report prepared by the project team at Hymans Robertson. The Board's Chair will now write to the Local Government Minister, Luke Hall, inviting him to consider the Board's action plan. (Copies of the final report and action plan can be found on the Board's website at www.lgpsboard.org).

The Board also agreed that the Chair should write to the project team at Hymans Robertson thanking them for all their work and support during the project.

AOB – The Chair expressed thanks to the Board's Secretariat for all their help and support in particularly difficult times during the COVID emergency, and highlighted the help and support given to scheme stakeholders on 95k cap and McCloud.

Date of next meeting – 10th May 2021

Warwickshire Local Pension Board

Scheme Advisory Board Final Good Governance Report

13 April 2021

Recommendation(s)

1. The Local Pension Board note and comment on the report.

1. Executive Summary

1.1 In February 2021 the Scheme Advisory Board published its final Good Governance Phase 3 Report which was produced by the Hymans Robertson project team.

1.2 The report provides further details on the recommendations that will be submitted to the Local Government minister for consideration.

2. Financial Implications

2.1 No direct costs occur immediately, but the recommendations would have resourcing implications, both in terms of how resources are organised and the total cost.

3. Environmental Implications

3.1 None.

4. Supporting Information

4.1 The Phase 3 report (Appendix 1) provides detailed recommendations. The key recommendations are summarised below':

- **LGPS senior officer;** a single named officer who is responsible for the delivery of the LGPS activity for a fund. Details of the core functions of the role and competencies needed to fulfil the role and how it can be incorporated into different organisational structures.

- **Conflicts of interest;** all administering authorities should publish a conflicts of interest policy.

- **Representation;** each administering authority must publish a policy on how scheme members and non-administering authority employers are represented on pension committees.

- **Skills and training;** key individuals, such as pension committee members and section 151 officer have the appropriate knowledge to carry out their duties efficiently. The administering authority must publish a training strategy.

- **Service delivery;** regulation change for it to be compulsory for an administering authority to publish an administration strategy.

- **Key Performance Indicators;** ensuring that the administering authority has defined service standards and the governance in place to monitor these.

- **Business planning process;** senior officers and committee must be satisfied with the resource and budget allocated to administer the LGPS each year. This must be based on the business plan and not the previous years' budget increased by inflation.

5. Timescales associated with the decision and next steps

5.1 The Scheme Advisory Board has produced an Action Plan for the Recommendations which is reproduced in Appendix 2.

5.2 Officers will keep the Local Pension Board updated with developments.

Appendices

1. Appendix 1 Good Governance Phase 3 report
2. Appendix 2 Good Governance Action Plan

Background Papers

1. None.

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Good Governance: Phase 3 Report to SAB

February 2021

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Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a * the proposals addressed further in this report.

Area	Proposal
A. General	***A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	***A.2** Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	***B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2** The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – **now updated
C. Representation	***C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	***D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	***D.2** Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	***D.3** Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	***D.4** CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	**E.1** Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of

	delegation and constitution and be consistent with role descriptions and business processes.
	***E.2** Each administering authority must publish an administration strategy.
	***E.3** Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	***E.4** Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	***F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

Committee a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

Further Discussion on Recommendations

A General

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance[1]. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision[2] that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that he outcome of The Supreme Court's judgment on LGPS boycotts (The Palestinian Case)[3] may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund's strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator's codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority's senior leadership level;

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[1] LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200
[2] See Regulation 2(3A)
[3] R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

Representing the fund at a senior level. The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

Capacity. The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

Reporting Lines. As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

Resourcing. The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

An ability to build strong relationships and influence. The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

Strong technical skills. There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

Strategic thinking. It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

Operational effectiveness. The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

Strong ethical standards. The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund's members and employers. They demonstrate and positively promote the seven principles of public life.

Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority's s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations[4] require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

[4] **See Regulation 55 "Administering Authorities: Governance Compliance Statement"**

B Conflicts of Interest

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct[5]. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

[5] Similar codes apply for non-local authority administering authorities.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.

C Representation

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB''s view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

D Skills and training

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

Treasury Guidance[6] requires that all government departments should have professional finance directors and that "It is good practice for all other public sector organisations to do the same, and to operate to the same standards".

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual's ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

[6] See Managing Public Money (July 2013), Annex 4.1

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

E Service delivery for the LGPS Function

E.2 Each administering authority must publish an administration strategy.

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6th January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
    - Minimum standards of performance;
    - Assessment of inefficiency costs;
    - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

Governance KPIs

Subject Area	*KPI*	*Notes*
Breadth of representation	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	*1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings*
Training and expertise	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
Compliance/ Risk	*5.* Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	*Key focus of TPR*
Appropriate governance time spent on key areas	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

Administration KPIs

		Notes
Data quality	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	*Include explanation where less than 100%.*
Service standards/SLAs	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	*Y/N*
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
Engagement and communication – capabilities and take-up	6. Specify which online services are available to members/employers	*Measuring services provided by Fund online, perhaps against an agreed standardised list.*
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	*Measuring take up of services*
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	*Percentage take-up could be weighted to size of employer.*
Customer satisfaction	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	*Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. "The service was excellent – Strongly Disagree/ Disagree/Agree/Strongly Agree."*

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

F Compliance and Improvement

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

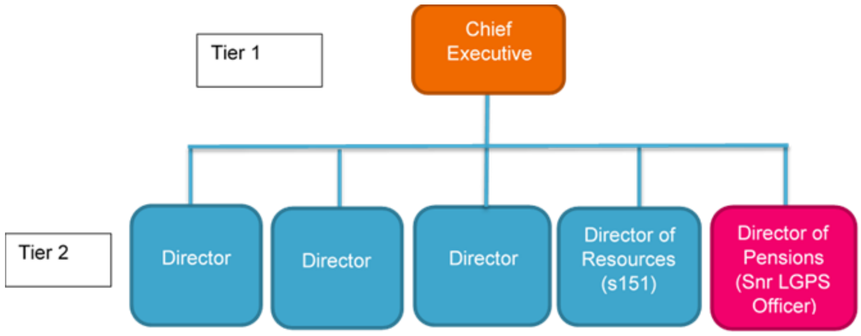
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

Appendix 1 - Senior officer organisational structures

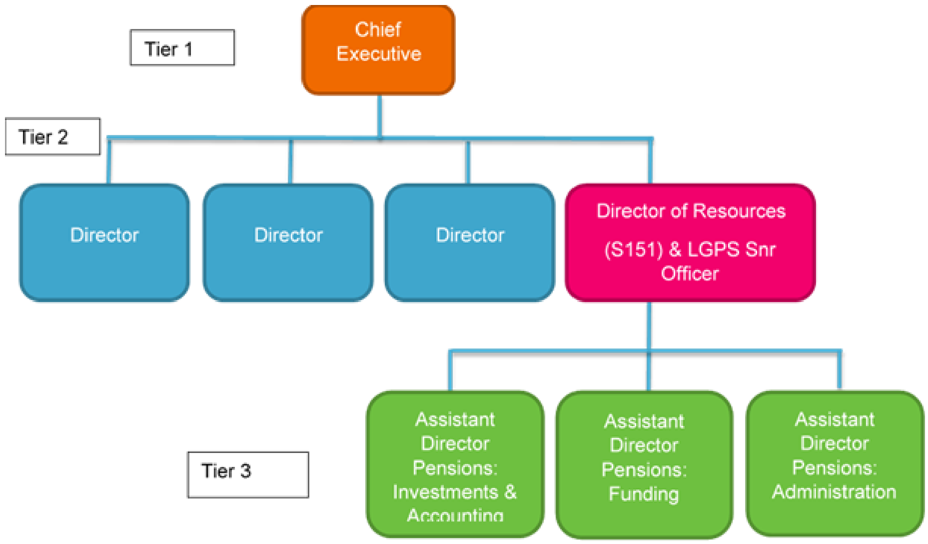
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



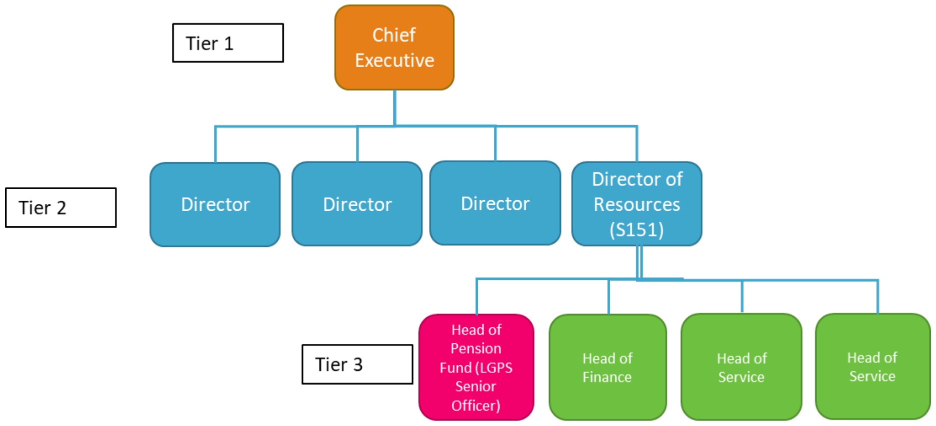
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



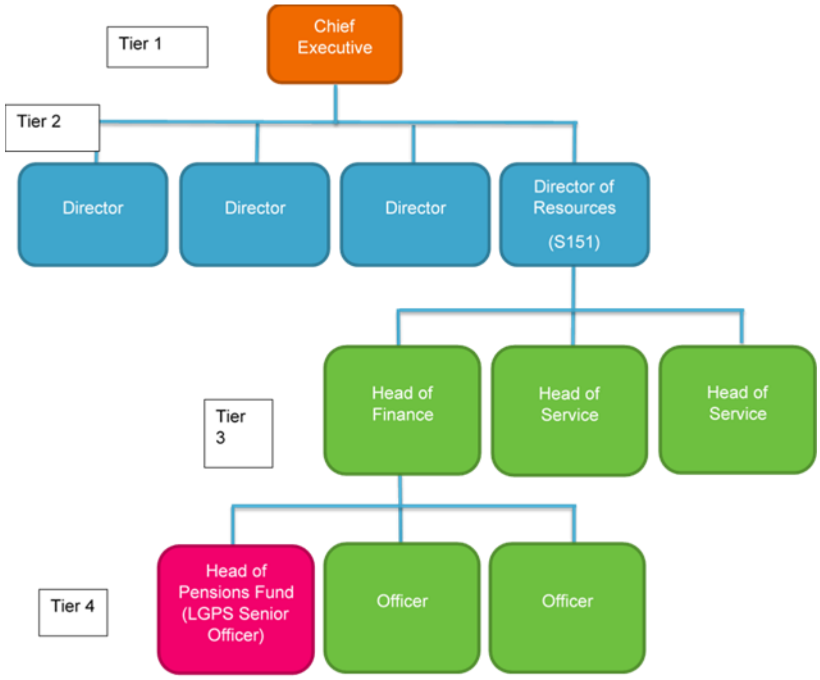
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



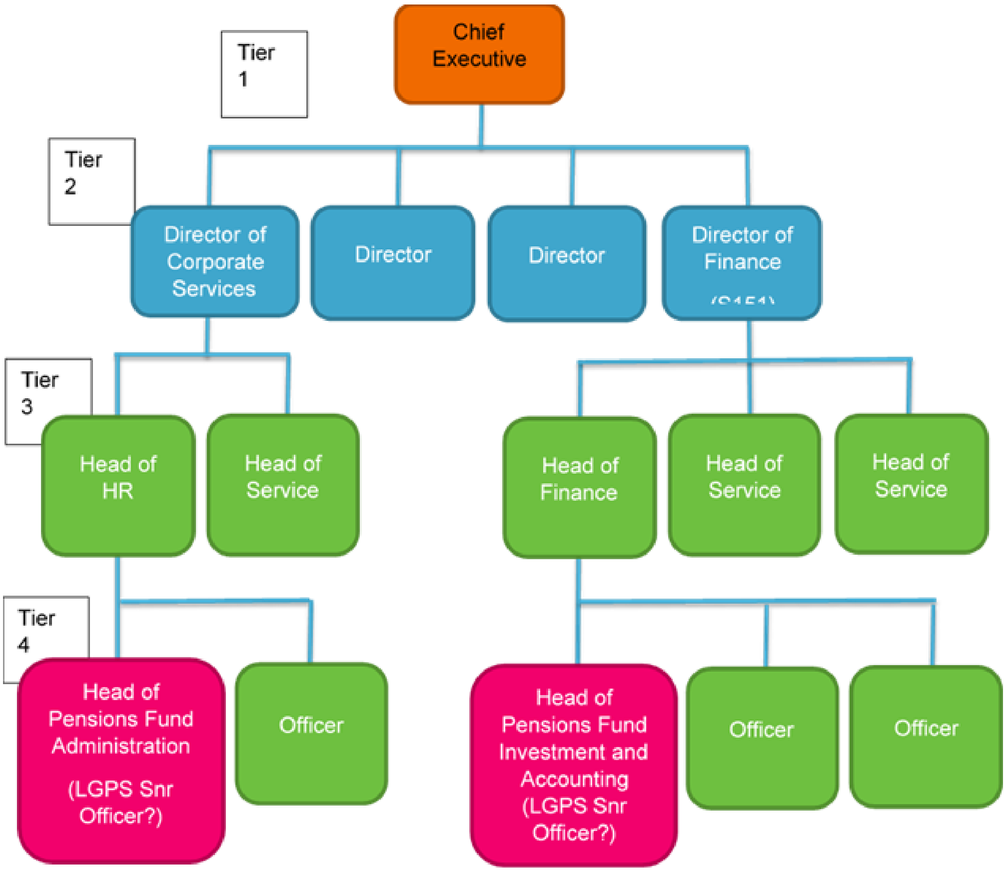
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

(a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

A Conflicts of interest

A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes it approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

C Sufficiency of resources for service planning and delivery

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

C.1 Business planning and budget setting

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

C.2 Service delivery

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;

- the Fund's approach to the use of technology in pension administration.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

D. Representation and engagement

The Fund has published a Policy on representation and engagement.

D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr B (vice-chair)	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
Cllr C	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr D	**Administering Authority**	**N**	**Y**	**Y**	**N**	**50%**
Cllr E	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
F	**Employer representative**	**Y**	**Y**	**N**	**Y**	**75%**
G	**Member representative**	**N**	**Y**	**Y**	**Y**	**75%**
Vacancy		**N**	**N**	**N**	**N**	**0%**
Average attendance (including vacancies) %						**78%**
Average attendance (excluding vacancies) %						**69%**
Proportion of voting members not from the Administering Authority						**2 out of 7 (28%)**
Non-Voting Members						
H	**Member representative**	**Y**	**Y**	**Y**	**N**	**75%**
I	**Member representative**	**Y**	**Y**	**Y**	**Y**	**100%**

D.2 Membership of the Local Pension Board

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
    - 2 elected members of the Council
    - 1 elected member of the District Council
    - 1 member representing all other employers
- 4 scheme member representatives comprising;
    - 1 member appointed by trade unions
    - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

E. Training

E.1 Training Strategy

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		***Subject***				**Total (hours)**
		Governance	***Investment***	***Pensions Administrati***	***Other (specify)***	
Pensions Committee						
Cllr A (chair)		**2**	**5**	**1**	**1**	**9**
Cllr B (vice-chair)		**2**	**4**	**1**	**1**	**8**
Cllr C		**4**	**5**	**2**	**2**	**13**
Cllr D						
Cllr E						
F						
G						
Vacancy						
					Sub-Total	**130**
Pensions Board						
R (chair)		**2**	**5**	**1**	**1**	**9**
S (vice-chair)		**2**	**4**	**1**	**1**	**8**
T		**4**	**5**	**2**	**2**	**13**
U						
V						
W						
X						
					Sub-Total	**100**
Officers						
LGPS Senior Officer		**6**	**8**	**3**	**4**	**9**
X						
Y						
Z						

Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	Y	N	Y	Y	**75%**
Cllr B (vice-chair)	**Administering Authority**	Y	Y	Y	Y	**100%**
Cllr C	**Administering Authority**	Y	N	Y	Y	**75%**
Cllr D	**Administering Authority**	N	Y	Y	N	**50%**
Cllr E	**Administering Authority**	Y	Y	Y	Y	**100%**
F	**Employer representative**	Y	Y	N	Y	**75%**
G	**Member representative**	N	Y	Y	Y	**75%**
Vacancy		N	N	N	N	**0%**
Average attendance (including vacancies) %						**78%**
Average attendance (excluding vacancies) %						**69%**
Proportion of voting members not from the Administering Authority						**2 out of 7 (28%)**
Non-Voting Members						
H	**Member representative**	Y	Y	Y	N	**75%**
I	**Member representative**	Y	Y	Y	Y	**100%**

Pensions Committee – Meeting Content (Governance KPI 7)

			Meeting Date				Number of times item considered
			MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
		Meeting duration (hours)	3.0	2.5	4.0	2.5	
Governance							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
Funding							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
Investment							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
Pensions Administration							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

Appendix 4 - Summary of the Independent Governance Review

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG

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Scheme Advisory Board

ANNEX to letter from SAB Chair to Luke Hall MP 11.2.2021

Action Plan (extract from Board report of 8 February 2021)

The action plan consists of formal requests from the SAB to MHCLG and other bodies to implement the recommendations from the project together with actions for the SAB which are either dependant on or regardless of the outcome of those requests.

- Column 1 of the grid below sets out the recommendations listed in the final report from Hymans Robertson.
- **Column 2 shows the actions proposed for MHCLG either by way of regulation or statutory guidance**.
- Column 3 shows any associated work that would need to be undertaken by bodies other than MHCLG or SAB
- Column 4 shows work that would need to be undertaken by SAB dependant on MHCLG guidance/work by other bodies being completed and;
- Column 5 shows actions that SAB can undertake to further improve scheme governance and administration immediately, regardless of the actions of MHCLG and other bodies.

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").	Publish statutory guidance (SG) to include requirements set out below using either reg 2(3A) powers or a new regulation in section 3			

Scheme Advisory Board Secretariat

18 Smith Square, London SW1P 3HZ

The Board secretariat is provided by the Local Government Association

Recommendation	**MHCLG**	**Other bodies**	**SAB Dependant Actions**	**SAB Immediate Actions**
A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund (“the LGPS senior officer”).	Set requirement in scheme regulations	CIPFA to refer to the role in their guides	Publish a guide to the named officer role	Letter to CIPFA confirming SAB’s recommendation to Minister
A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.	Set requirement in scheme regulations and publish high level statutory guidance		Publish a guide to GCS, including best practice examples	
B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.	Set requirement in statutory guidance at **A.1**		Publish a guide to CoI policies, including best practice examples	Survey AAs to identify extent of conflict of interest policies already in existence

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	Request that MHCLG clarify Fiduciary Duty in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish guide on statutory and fiduciary duty based on A1 guidance and further legal advice	Seek further legal advice in co-ordination with Administering Authorities and recommend any further action in this area
C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.	Set requirement in statutory guidance at **A.1**		Publish a guide to representation based on requirements of SG	Survey AA's for analysis of current representation
D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	Set requirement in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	Investigate existing training in this area and publish results

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.	Set requirement in statutory guidance at **A.1**	CIPFA to make reference in their Knowledge and Understanding framework	Publish a guide to relevant training including suppliers	
D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.	Set requirement in statutory guidance at **A.1**		Publish a guide to training plans	Survey AA's for existing training plans and publish for best practice
D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.		CIPFA to produce appropriate guidance and training		Letter to CIPFA setting out request
E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The	Set requirement in statutory guidance at **A.1**		Publish a Guide to Roles and Responsibilities Matrix	Survey and publish existing delegation arrangements in AA's

Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
matrix should reflect the host authority's scheme of delegation and constitution, and be consistent with role descriptions and business processes.				
E.2 Each administering authority must publish an administration strategy.	Set requirement in scheme regulations		Publish a guide to administration Strategy	Obtain and publish examples of existing PSAs
E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service	Set requirement in scheme regulations or SG	CIPFA to include in AR&A guidance		
E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.	Set requirement in statutory guidance at **A.1**	CIPFA to publish appropriate guidance		Investigate and publish current arrangements for agreeing pensions budget

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Recommendation	MHCLG	Other bodies	SAB Dependant Actions	SAB Immediate Actions
F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.	Set requirement in scheme regulations, and include in high level statutory guidance		Establish panel of experts to review biennial governance reviews	Investigate the work of any similar bodies and consider potential structure and membership
F.2 LGA to consider establishing a peer review process for LGPS Funds.		LGA to consider proposal		Letter to LGA setting out request

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Agenda Item 11

Warwickshire Local Pension Board

The Pension Regulator consultation on a new Code of Practice

13 April 2021

Recommendation(s)

1. That the Local Pension Board notes and comments on the report.

1. Executive Summary

1.1 The Pension Regulator (TPR) has published a consultation document on a new code of practice. The period of consultation ends on 25th May 2021.

1.2 The code has been introduced to incorporate changes by the 2018 governance regulations (which do not apply to public service pension schemes) and to encourage increased member engagement, public scrutiny of pension schemes and those who run them, and growing concerns about climate change

1.3 The new code is aimed at all pension schemes, defined benefit and defined contribution, across both the private and public sector.

1.4 The code comprises of five core sections; The governing body, Funding and investment, Administration, Communications and disclosure and Reporting to TPR.

1.5 A number of existing codes of practice will continue to apply but significantly not Code of Practice 14 which covers public service pension schemes.

1.6 The modules are designed to be presented online and will be interlinked. A web based version of the draft Code has been published as part of the consultation. Below is the link:

https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice

2. Financial Implications

2.1 No direct costs occur immediately, but the recommendations would have resourcing implications, both in terms of how resources are organised and the total cost.

3. Environmental Implications

3.1 **None**

4. Supporting Information

4.1 There are a number of areas applicable to the Local Government Pension Scheme within the five core sections of the new Code:

The Governing Body:
- Meetings and decisions **(new)**
- Remuneration policy **(best practice)**
- Managing Adviser and service providers **(new)**
- Continuity planning **(best practice)**
- Assurance of governance and internal controls **(new)**

Funding and Investment
- Investment governance **(best practice)**
- Investment monitoring **(best practice)**

Administration
- Administration **(new)**
- Financial transactions **(new)**
- Transfers **(new)**
- Scheme records **(new)**
- Data monitoring **(new)**
- Maintenance of IT **(new)**
- Cyber controls **(new)**

Communications and disclosure
- General principles for member communications **(new)**
- Scams **(new)**

Reporting to TPR
- Registrable information and scheme returns **(new)**

5. Timescales associated with the decision and next steps

5.1 It is anticipated that the new code will come into effect later this year.
5.2 Officers will ensure that the new code is part of the business planning cycle.

Appendices
1. None

Background Papers
1. None

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The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

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Agenda Item 12

Local Pension Board

13 April 2021

General Investment Activity Update

Recommendations

That the Local Pension Board notes and comments on this report.

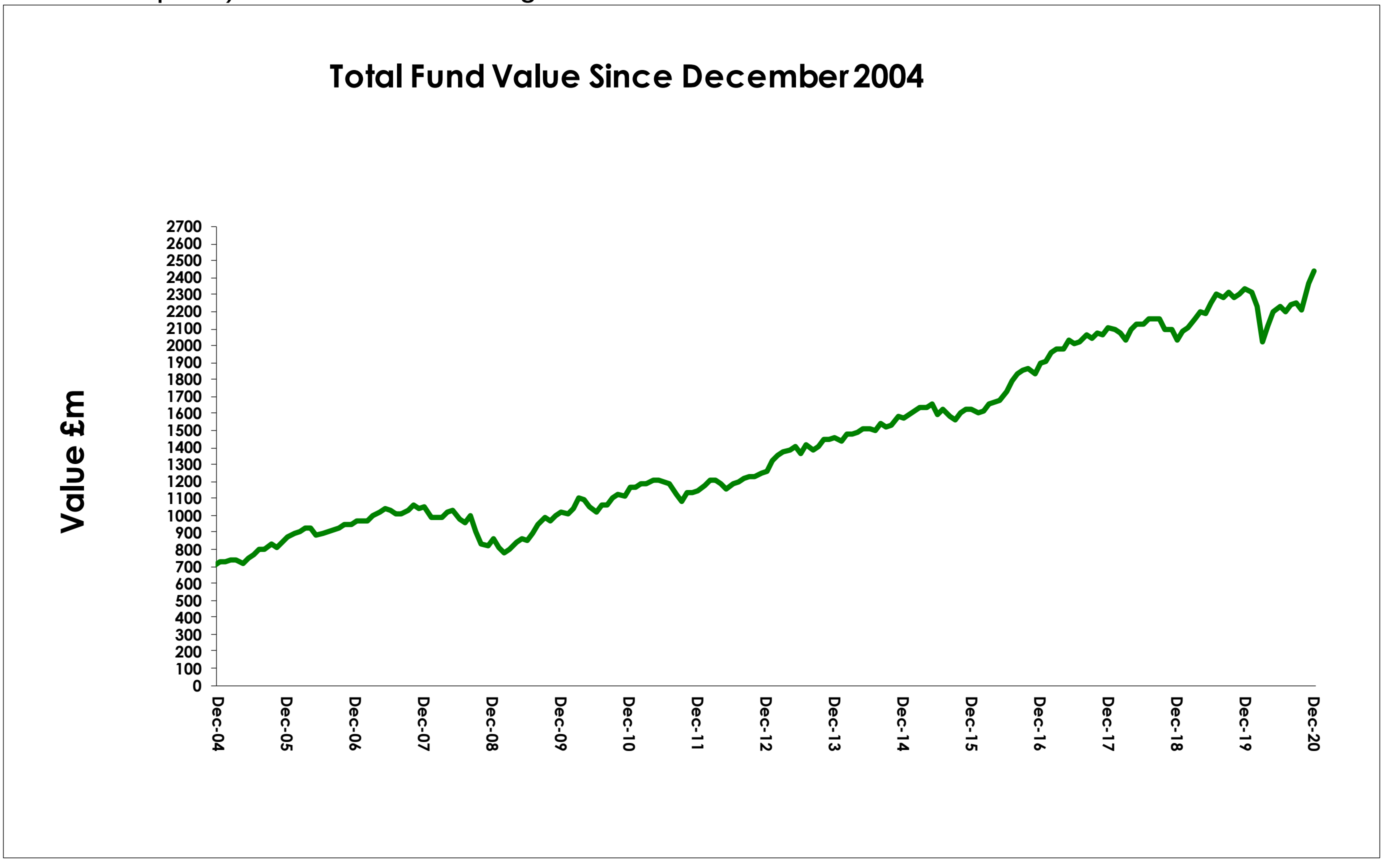
1 Executive Summary

1.1 This report provides a general update on investment related activity.

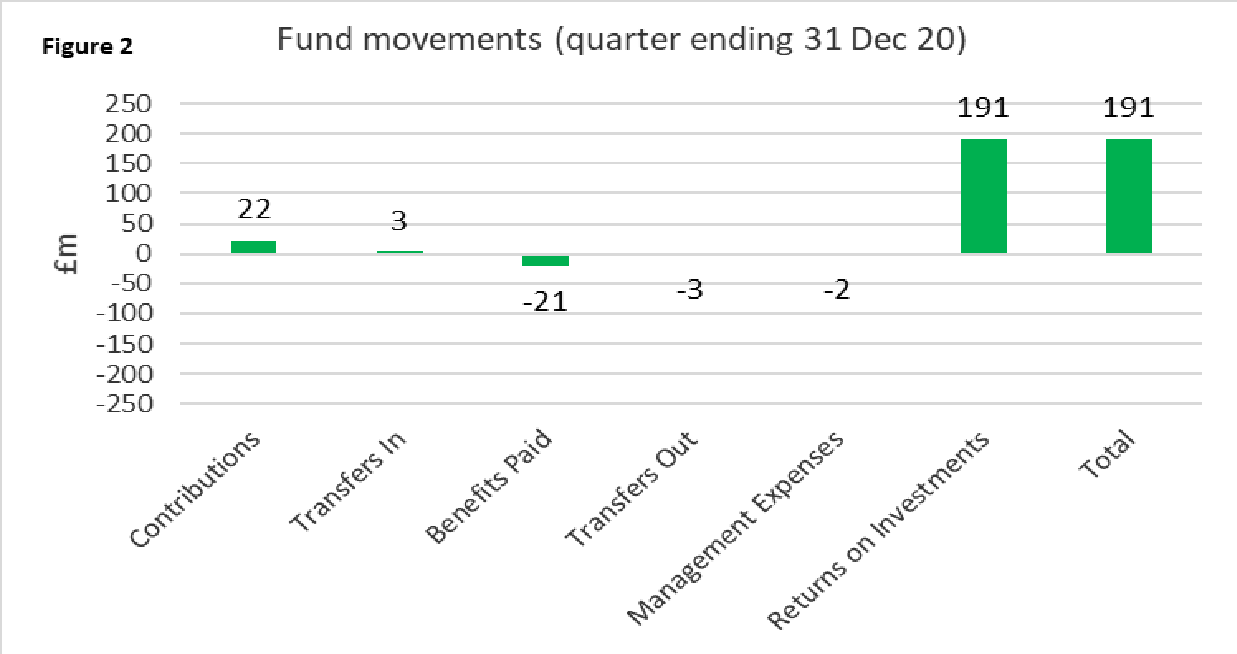
2. Fund Update

2.1 The funding level as at 31 December 2020 was 91.4%.

2.2 The value of the Fund now stands at £2.45bn (its highest absolute value since inception) as shown in the long term chart below.



2.3 The total value of the Fund's assets increased by 8.4% over the quarter ending 31st of December 2020. This was driven by equity gains over the quarter. The chart below summarises the main cash flow changes



2.4 .

3 Portfolio Commentary

Overall

3.1 The Fund's Strategic Asset allocation and current allocation as at 31 December 2020 are shown below:

Asset class	Current (%)	Current benchmark (%)	Long-term target (%)
UK Equities	16.1	16.0	13.0
Overseas Equities*	30.4	25.5	21.5
Overseas Fundamental Equities	9.8	10.0	10.0
Private Equity	5.5	4.0	4.0
Total Growth	***61.7***	***55.5***	***48.5***
Property	9.1	10.0	12.5
Infrastructure	2.8	7.0	7.0
Private Debt	3.6	5.0	7.0
Absolute Return Bonds*	4.7	7.5	10.0
Total Income	***20.2***	***29.5***	**36.5**
UK Corporate Bonds	10.4	10.0	10
UK Index-Linked Bonds	5.4	5.0	5
Cash	2.3	n/a	n/a
Total Bonds/Cash	***18.1***	***15.0***	***15.0***

*2.5% was removed from Overseas Equities and placed in Absolute Return Bonds in early March.

Alternatives

3.2 A key issue for the Fund remains building up investments in alternatives, this continues to occur and the current overall picture for alternatives allocations is that 52.4% of the total amount committed has been called by investment managers to date.

Alternatives	£ invested with fund manager	£ still to be called	Total
£m	283.8	258.0	541.8
% of Total	52.4%	47.6%	100.0%

Cash

3.3 Cash balances as at the end of December were £57.5m. £40m is held in the custodian investment account (Blackrock – this account is used to meet capital calls and take investment distributions), and £17.5m is held in the fund's operating account (Lloyds - to manage transactions such as receiving employer contributions and paying member benefits). The total balance remains high (2.4% of the Fund) due to the intention to protect the fund from the risk of having to sell assets under distress to service cash flow, and also in anticipation of the move to the Border to Coast Multi Asset Credit fund.

Multi Asset Credit Fund Transfer

3.4 In early March, 2.5% (£61m) of the portfolio transferred from the Border to Coast Global Equity Alpha Fund to the PIMCO Diversified Income Fund. The transfer out of the Global Equity Alpha Fund involved crossing units with another Partner Fund allowing c.£50,000 of savings.

3.5 Later in the year the transfer to the fully developed Border to Coast Multi Asset Credit Fund is planned. At present, the outlook for the funding of this transfer is as follows:

Fund	£m	% of Fund
PIMCO DIF Fund	61.0	2.5%
JPMorgan Fund	115.0	4.7%
Additional funds required (source to be confirmed)	68.5	2.8%
Total MAC Transfer	244.5	10.0%

4 Voting

4.1 The Fund holds actively managed equities through funds within the Border to Coast Pension Partnership, and passive equities managed through funds held with Legal and General Investment Management ('LGIM').

4.2 The table below summarises voting activity in the previous quarter in respect of funds held with Border to Coast:

Border to Coast Equity Funds

Voting Direction	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	141	282	89.2%	90.4%
Against	15	30	9.5%	9.6%
Other	2	0	1.3%	0.0%
Total	158	312	100.0%	100.0%

4.3 Border to Coast provide published reports on their website in respect of voting (and engagement) activity, and the link is included here: https://www.bordertocoast.org.uk/our-investments/

4.4 The table below summarises voting activity in the previous quarter in respect of funds held with LGIM:

LGIM Equity Funds

Voting Direction		
	Vote Count	% of Total
For	372	52%
Against / Withold / Abstain	350	48%
Total	722	100%

5 Independent Financial Advisers

5.1 The tendering exercise for the two Independent Financial Adviser contracts has been completed. The results of the exercise are:

- Lot 1 (investment focus) –awarded to Camdor Global Advisors (Bob Swarup). This contract has begun and Bob has been working with fund officers since February.

- Lot 2 (liabilities focus) - contract not let. Officers are reviewing the specification of this contract and the tender process. Only one bid was received indicating that the service specification and/or the process bidders were required to adopt were not attractive to the market.

6 UK Stewardship Code

6.1 Fund officers continue to work alongside colleagues from partner funds within the Border to Coast Pension Partnership to collaboratively progress the creation of a template for adoption by partner funds to be able to sign up to the Code. When the final template is ready, each partner fund may tailor aspects of it as appropriate.

6.2 The plan remains to have a report ready by September 2021.

7 Climate Change

7.1 A training event was delivered for the PFISC in January focusing on climate change. A number of actions were highlighted at the end of the session, and fund officers will convert these into a schedule of priorities and activities.

7.2 Signing up to the UK Stewardship Code 2020 will in itself assist in promoting activity and transparency around climate change, and once that priority has been addressed, it is intended for the Fund to look at the requirements relating to the Task Force on Climate-Related Financial Disclosures (TCFD).

8 Training

8.1 Further to the completion of the National Knowledge Assessment, the results of this are being used to inform a training plan. This has been covered within the “Forward Plan” item elsewhere on this agenda.

8.2 In addition to the identification of appropriate training, it is important to ensure that all training is logged and recorded. This assists with ensuring that training is not duplicated and is also necessary in order to provide evidence in submissions to fund managers when the Fund opts up to investor status.

9 Financial Implications

9.1 Further detailed information about the financial implications of the last quarter’s investment performance were provided to the Pension Fund Investment Sub-Committee. Officers are working on displaying a cost benefit analysis of pooling on the Fund’s investment portfolio.

10 Environmental Implications

10.1 Climate risk is a key issue facing the fund in the longer term. This has been a feature of recent training and set of actions which are being converted into a plan for 2021/22.

11 Supporting Information

11.1 None.

12 Timescales Associated with Next Steps

12.1 None.

Appendices

- None

Background Papers

None

	Name	Contact Information
Report Author	Chris Norton,	chrisnorton@warwickshire.gov.uk,
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Peter Butlin	cllrbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:
Local Member(s): None
Other members: None

Page 1 of 2

Agenda Item 13

Warwickshire Local Pension Board

Minutes of the Pension Fund Investment Sub Committee

13th April 2021

Recommendation(s)

That the Board note and comment on the contents of this Report.

1. Executive Summary

1.1 This report introduces the Pension Fund Investment Sub-Committee (PFISC) public papers for note and comment.

1.2 These papers are in relation to the PFISC meetings held on the 14th December 2020.

1.3 The report covers:

- Agenda Front Sheet of the public meeting for 14th December 2020 (Appendix 1).
- December 2020 Forward Plan (Appendix 2).
- Minutes of the public meeting of the 14th December 2020 (Appendix 3).

1.4 The Risk Monitoring report was a public agenda item. It is not reproduced here as risk is reported to the Local Pension Board directly in a separate agenda item. However, the actual risk report taken to the Pension Fund Investment Subcommittee is publicly available for board members to refer to if they wish.

2. Financial Implications

2.1 None

3. Environmental Implications

3.1 None

4. Supporting Information

4.1 None

Page 2 of 2

5. Timescales associated with the decision and next steps

5.1 None

Appendices

1. Appendix 1 - Agenda Front Sheet of the public meeting for 14 December 2020
   Appendix 2 - December 2020 Forward Plan
   Appendix 3 - Minutes of the public meeting on 14 December 2020

Background Papers

1. None

	Name	Contact Information
Report Author	Sukhdev Singh	01926 412686 sukhdevsingh@warwickshire.gov.uk
Assistant Director	Andrew Felton	01926 412441 Andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	01926 412564 robpowell@warwickshire.gov.uk
Lead Member	Cllr. Peter Butlin	01788 816488 cllrbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: n/a

Pension Fund Investment Sub-Committee

Date: Monday 14 December 2020
Time: 10.00 am
Venue: Microsoft Teams

Membership
Councillor John Horner (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Neil Dirveiks
Councillor Andy Jenns
Councillor Wallace Redford

Items on the agenda: -

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election or appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the Previous Meeting — 5 - 10

2. Forward Plan 11 - 14

3. Risk Monitoring 15 - 26

4. Reports Containing Exempt or Confidential Information

To consider passing the following resolution:

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972'.

5. General Activity Update 27 - 38

6. Investment and Fund Performance 39 - 80

7. LGPS Pooling 81 - 84

8. Border to Coast Presentation 85 - 124

9. Custodian Presentation - Bank of New York Mellon 125 - 146

10. Exempt Minutes of the Previous Meeting 147 - 152

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

To download papers for this meeting scan here with your camera

Disclaimers

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Please note that this meeting will be filmed for live broadcast on the internet and can be viewed on line at warwickshire.public-i.tv. Generally, the public gallery is not filmed, but by entering the meeting room and using the public seating area you are consenting to being filmed. All recording will be undertaken in accordance with the Council's Standing Orders.

Disclosures of Pecuniary and Non-Pecuniary Interests
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Non-pecuniary interests must still be declared in accordance with the Code of Conduct. These should be declared at the commencement of the meeting
The public reports referred to are available on the Warwickshire Web
https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1

Public Speaking
Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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Appendix A

Standing Items

March 2021	June 2021	September 2021	December 2021
Investment and Fund Performance			
LGPS Pooling • Border to Coast Attendance / Presentation • General Activity Update (including fund transfers) •			
Forward Plan			
Risk Monitoring			
Fund Manager Presentations*			
Local Pension Board minutes of meeting			
Policy Reviews*			

*see expected breakdowns below – may alter if circumstances change.

Specific Items

March 2021	June 2021	September 2021	December 2021
2021 / 2022 Business Plan	Multi Asset Credit Transfer – Update		Training Plan
			UK Stewardship Code

Manager Presentations

March 2021	June 2021	September 2021	December 2021
Threadneedle	LGIM	SL Capital	Schroders

Policy Reviews

March 2021	June 2021	September 2021	December 2021
Review Risk Register	Voting policy		
Funding Strategy Statement	Environmental, Social and Governance / Responsible Investment / Climate Risk	Investment Strategy Statement	

Pension Fund Investment Sub-Committee

Monday 14 December 2020

Minutes

Attendance

Committee Members
Councillor John Horner (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Neil Dirveiks
Councillor Andy Jenns
Councillor Wallace Redford

Officers
Neil Buxton, Technical Specialist - Pension Fund Policy and Governance
Kudzai Chengeta, Pensions Assistant
Aneeta Dhoot, Senior Finance Officer
Andrew Felton, Assistant Director – Finance
Liz Firmstone, Finance Service Manager - Transformation
Shawn Gladwin, Senior Finance Officer Pensions Investment
Victoria Moffett, Pensions and Investments Manager
Deborah Moseley, Senior Democratic Services Officer
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)
Jane Pollard, Legal Service Manager (Corporate)
Sukhdev Singh, Principal Accountant

Others Present
Robert Bilton (Hymans Robertson)
Ryan Boothroyd (Border to Coast)
Jim Caulkett (BNY Mellon)
Emma Garrett (Hymans Robertson)
Peter Jones (Independent Advisor)
Karen Shackleton (Independent Investment Adviser)
Andrew Stone (Border to Coast)
Richard Warden (Hymans Robertson)
Calvin Whear (BNY Mellon)

1. General

(1) Apologies

None.

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

None.

(3) Minutes of the Previous Meeting

The minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising.

2. Forward Plan

Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk), presented this report which provided an updated forward plan for the Pension Fund Investment Sub Committee, rolled forward to cover the year ahead. The content of the plan was being gradually improved and the plan was now a more sophisticated document that included a schedule of fund manager presentations and policy reviews.

Members commented that they would welcome the inclusion of a training programme and it was agreed that in future the plan would include training dates and that a broad invite to attend training sessions would continue to be extended to Members sitting on Staff and Pensions Committee and the Local Pension Board.

Karen Shackleton commented that the plan suggested an item on Environmental, Social and Governance / Responsible Investment / Climate Risk in June 2021 and it would be likely that a consultation on the Task Force for Climate Related Financial Disclosures (TCFD) would be taking place around that time. Ms Shackleton felt that it would be helpful to note this against the item and consider a review of how existing managers were aligned to the TCFD recommendations in advance of or alongside the consultation.

Resolved
That the Pension Fund Investment Sub-Committee noted the report.

3. Risk Monitoring

Victoria Moffett, Lead Commissioner Pensions and Investments presented this report which provided an update on the risks to the Fund and actions taken to manage them. It covered both the general risk register and the
COVID-19 risk register with a focus on changes, developments, and management actions. The report included a summary of the two risk registers and comparison of how risks had changed since the original assessments in February and March.

Councillor Bill Gifford sought clarity on the assertion that cyber crime had not materially affected the fund and was advised that whilst members of the team had received some phishing emails, and on the limited occasions links had been clicked on, Warwickshire County Council's ICT Team had stepped in and no breaches had occurred as a result.

Reflecting on the RAG rating system applied to the register, Sub-Committee members were pleased to see some significant (red) risks had reduced to a moderate level (orange) and felt that, in light of the pandemic, the assessment of risk was as expected. The Pensions Team were congratulated on their efforts to keep business as usual as far as possible and for reducing the effects of some of the challenges posed by the pandemic.

Resolved
That the Pension Fund Investment Sub-Committee noted the report.

4. Reports Containing Exempt or Confidential Information

Resolved
That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.

5. General Activity Update

Resolved
1. That the Pension Fund Investment Sub-Committee noted the report;
2. That the Pension Fund Investment Sub-Committee agreed the Competition and Markets Authority's wording that the Fund has investment consultant objectives in place (Appendix 2 to the report); and
3. That the Pension Fund Investment Sub-Committee formally approved the updated Scheme of Delegation (Appendix 3 to the report)

6. Investment and Fund Performance

Resolved
1. That the Pension Fund Investment Sub-Committee noted the presentations.
2. That the Pension Fund Investment Sub-Committee continued to provisionally allocate 10% of the Fund's portfolio to Border to Coast Pension Partnership's ("BCPP") Multi-Asset Credit Fund ("MAC").
3. That the Pension Fund Investment Sub-Committee approved the recommendation to allocate 2.5% of the Fund's portfolio to the PIMCO Diversified Income Fund ("DIF"), in January 2021 in advance of the transition to BCPP's MAC (earliest likely transition is July 2021).
4. That the Pension Fund Investment Sub-Committee delegated authority to authorise the transition of 2.5% of assets to the PIMCO DIF to the Strategic Director for Resources.

7. LGPS Pooling

Resolved
1. That the Pension Fund Investment Sub-committee noted the report.
2. That the Pension Fund Investment Sub-committee noted the performance issues with the Global Equity Alpha Fund.

8. Border to Coast Presentation

Resolved
That the Pension Fund Investment Sub-Committee noted the presentation.

9. Custodian Presentation - Bank of New York Mellon

Resolved
That the Pension Fund Investment Sub-Committee noted the presentation.

10. Exempt Minutes of the Previous Meeting

The exempt minutes of the previous meeting were agreed as a true and accurate record. There were no matters arising.

The meeting rose at 1.04pm

…………………………
Chair

Agenda Item 14

Warwickshire Local Pension Board

Review of the Minutes of the Staff and Pensions Committee 14 December 2020

13 April 2021

Recommendation(s)

1. The Local Pension Board notes and comments on the report.

1. Executive Summary

1.1 The Local Pension Board has a responsibility to assist the Scheme Manager in the management of the pension fund. In order to fulfil this role, it is important for the Local Pension Board to be sighted on the relevant pension fund activity.

1.2 Set out at Appendix 1 are the minutes of the Staff and Pensions Committee (14 December 2020) for information. The Staff and Pensions Committee considers pension fund matters and other matters specific to Warwickshire County Council as an employer. The minutes provided in this report are an abridged version for the Local Pension Board only showing items relating to the pension fund.

2. Financial Implications

2.1 None.

3. Environmental Implications

3.1 None.

4. Supporting Information

4.1 None.

5. Timescales associated with the decision and next steps

5.1 None.

Appendices
1. Appendix 1 Staff and Pensions minutes 14 December 2020 (edited version)

Background Papers
1. None.

	Name	**Contact Information**
Report Author	Neil Buxton	neilbuxton@warwickshire.gov.uk
Assistant Director	Andrew Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Strategic Director for Resources	robpowell@warwickshire.gov.uk
Lead Member	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): n/a
Other members: n/a

Staff and Pensions Committee

Monday 14 December 2020

Minutes

Edited version for the Local Pension Board

Attendance

Committee Members
Councillor Kam Kaur (Chair)
Councillor Neil Dirveiks
Councillor Bill Gifford
Councillor John Horner
Councillor Andy Jenns

Officers
Barnaby Briggs, Assistant Chief Fire Officer
Neil Buxton, Technical Specialist - Pension Fund Policy and Governance
Sarah Duxbury, Assistant Director - Governance & Policy
Andrew Felton, Assistant Director - Finance
Liz Firmstone, Service Manager (Transformation)
Victoria Jenks, Pensions Admin Delivery Lead
Allison Lehky, Service Manager HR & OD
Isabelle Moorhouse, Trainee Democratic Services Officer
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)
Kate Sullivan, Lead Commissioner - Culture, Leadership and Performance
Rich Thomas, Strategy and Commissioning Manager (HROD)

1. General

(1) Apologies

None.

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

None.

(3) Minutes of previous meeting

The minutes of the 14th September 2020 were approved as a correct record.

4. Cyber Security Policy
Neil Buxton (Technical Specialist Pensions Fund Policy and Governance) introduced the report and stated that the pension regulator required all pension schemes to have a cyber security policy in place to protect the integrity of member records and pension fund assets; this policy should stay under review. The pension regulator specifically advises local authority pension funds that they cannot rely on their host authority's policies and must have something bespoke. Therefore, the pension scheme will contact the Risk and Compliance Officer to assess if external experts will be needed.

In response to Councillor Dirveiks' concerns with external officers accessing meetings, Neil Buxton replied that the administration systems were created with external partners so there was a shared compliance.
Councillor Bill Gifford noted the dangers with hackers of security systems.

Resolved:
The Staff and Pensions Committee commented on and approved the draft Cyber Security Policy in Appendix 1 and the associated Action Plan in Appendix 2.

5. The Local Government Pension Scheme (Amendment) (No 2) Regulations 2020
Neil Buxton introduced the report and stated the amended regulations were implemented in September 2020 and were focused on greater flexibility for employers leaving the pension fund and for the fund to revisit employer contribution rates between valuations. The regulations enable the fund to spread out the exit payments for unfunded liabilities over a period, e.g. several years. The regulations also allowed an employer to become a 'deferred employer', which meant that they could continue contributing to the fund even if they no longer have any active members. The revisiting of employer contributions focused on changes, for example if an employer's having difficulties through the Covid-19 pandemic they could approach the fund and change the amount and employer pays into the fund. Statutory guidance from central government will be needed to implement this. Once this has been received and assessed along with the guidance from the Scheme Advisory Board, the funding strategy statements, admissions and termination policy will be amended and presented to March 2021's meeting.

Resolved:
The Staff and Pensions Committee noted and commented on the report.

7. Assessing Employer Covenant in the Pension Fund
Chris Norton (Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk) introduced the report and stated that the report focused on the fund proactively looking at risks around employer financial viability, i.e. their contributions to the pension fund. Policies were already in place to resolve these risks, so the funding strategy statement was already obtained which set out how to deal with employer contributions regarding their risk level. An admin strategy which set out roles and responsibilities between the fund and employers was in place, but the report was to review it because of Covid-19 and the risk it presented. These actions will allow officers to take a risk based approach to individual employers where necessary, and review contribution rates between valuations. Steps that will need following up after this include reviewing the admission agreements to ensure they are fit for purpose, risk base set of actions with at risk employers and reviewing security

In response to Councillor Gifford, Chris Norton confirmed that the fund remains in frequent contact with at risk employers and despite the pandemic there was nothing systematic expressing itself in the activity.

Resolved:
The Staff and Pensions Committee commented on and approved the pension fund's policy and approach to assessing the covenant of employers in the Pension Fund.

8. Schedule of Pension Fund Policies

Chris Norton stated that the report attempted to raise the profile of all fund policies which were due to be reviewed. The schedule covered investment, administration and governance related policies and was designed to keep all policies up to date. The capacity was increased in teams to support the pension fund, this had allowed more work to be done but if things need to change this will be reviewed; especially if difficulties arise with out-of-date policies.

Resolved:
That the Staff and Pensions Committee reviewed and commented on the attached schedule of Pension Fund policies.

9. Pensions Administration - Preparations for McCloud

Liz Firmstone (Service Manager (Transformation) informed the committee of the government consultation which took place in 2020 which focused on McCloud and Sargeant and the proposals to remedy the discrimination issues following various legal challenges. Final details from government are yet to be received but it should be available early 2021. Preparations need to be started for this for both the local government pension scheme (LGPS) and the fire pension scheme. The schemes require things to be done differently; the consultation circulated for the fire schemes asked for views on whether members should make an immediate choice following implementation of the remedy, or a deferred choice at the point of retirement, about which scheme they want their benefits to be calculated on to give them least detriment. It was unknown which option central government would vote for. The LGPS was a slightly different proposal as members will be protected by an underpin. The project states that all scheme membership benefits need to be reviewed, this will affect 25-30% of members and require a lot of resources from the pension and payroll teams It will also affect all 190 employers in the LGPS., The Pension Fund will need to pay for costs relating to the LGPS. The extra resources needed to deal with the fire pension schemes had been obtained and governance arrangements will be implemented for data to start being collected in January 2021.

In response to Councillor Dirveiks, the Chair clarified that Corporate Board have approved the business case and were going through procurement process. Liz Firmstone added that final resource requirements can only be confirmed once all the data is collected.

Following a question from Councillor Gifford, Liz Firmstone replied that seven extra staff members in pension team and four in the payroll are estimated be needed over a 12-month period to review the LGPS cases.

Resolved:

That the Staff and Pensions Committee noted and commented on the report.

10. Administration Activity and Performance update

Vicky Jenks stated that the pension administration team had made good progress which included nearly completing the Governance Action Plan and the I-Connect project's first phase went live to the correct employee numbers and timescales. Warwickshire County Council's payroll was promoted from phase four to phase two because of the good progress it was making, all payrolls will be live on the system in January 2021. Phase three employers have been contacted to ensure their extracts are ready to go live in February-March 2021. The GMP (guaranteed minimum pension) reconciliation work will be complete by 31st January 2021 and KPI's (key performance indictors) had been affected by staff absence. The team completed 32,000 tasks since the 1st March 2020, averaging 2774 task per month but they were still working through backlogs; however, training provided in March 2020 helped with this. The breaches process was updated on the website, so a RAG was available for employers. The team started a tracing service with a tracing company to find members of the fund who cannot be contacted. The internal dispute resolution procedures were being updated by legal and a new Chair of the Fire pension board was appointed in December 2020.

Resolved:

That the Staff and Pensions Committee noted this report

11. Briefing note for £95K exit cap regulation change

Sarah Duxbury (Assistant Director – Governance & Policy) stated that the note was an update of the situation and little had changed; the cap came into force on 4 November 2020 and the report focused on how the two sets of regulations work together and what the technical formula will be for working out people's entitlement in the event of an exit situation where the cap was exceeded by the virtue of the redundancy payment along with the pension actuary.

Andrew Felton (Assistant Director – Finance) added that the council will adopt early advice from government that will come out about how the pension regulations will change for employers. It will also create a risk awareness with the two conflicting legislations.

Resolved

That the Staff and Pensions Committee noted the briefing note.

The meeting rose at 15:09

…………………………….
Chair

Warwickshire Local Pension Board

Tuesday 26 January 2021

Minutes

Attendance

Committee Members
Keith Bray (Chair)
Keith Francis
Alan Kidner
Sean McGovern
Councillor Dave Parsons
Mike Snow

Officers
Neil Buxton, Technical Specialist - Pension Fund Policy and Governance
Aneeta Dhoot, Senior Finance Officer
Andrew Felton, Assistant Director - Finance
Liz Firmstone, Service Manager (Transformation)
Vicky Jenks, Pensions Manager - Administration
Deborah Moseley, Senior Democratic Services Officer
Jane Pollard, Legal Service Manager (Corporate)
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit & Risk)
Sukhdev Singh, Principal Accountant

1. Introductions and General Business

(1) Apologies

Councillor Parminder Singh Birdi

(11)Board Members' Disclosures of Interests

The Chair stated that he worked for the Local Authority Pension Fund Forum and also for a firm of American lawyers which had Pension Fund clients although these did not include Warwickshire.

Alan Kidner stated that his sister-in-law worked for J.P. Morgan.

2. Forward Plan

Neil Buxton, Technical Specialist presented the Board with a one year rolling forward plan for the year ahead. It was not a rigid plan and could be amended at each meeting depending on the latest developments. The plan included a schedule of policies for review on a rolling basis and a training schedule, with the first session covering climate modelling on 28 January 2021. Details of training would continue to be circulated and Members asked for a reminder of joining links/details to be sent through a day or so before any sessions taking place.

Resolved – that the Board noted the forward plan.

3. Business Plan

Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk) presented this report which provided a quarterly progress update against the Business Plan approved for the period ending April 2021. The report provided progress against each business item using ‘Red, Amber, Green’ indicators, which highlighted that there were six areas where the plan objectives were amber: deliver a Pension Fund Annual General Meeting, monitor employer contribution performance
through the year, review employer covenants and risk management for non-statutory employers, continued growth of alternative asset classes towards their new strategic asset allocation, review of contracts for services provided to the Pension Fund, and implement and embed a commissioning/delivery approach to the administration of the Fund. The reasons for these six ‘amber’ ratings were set out in the report.

In response to a query on the implications of expired contracts, Chris Norton responded that there were no issues in terms of continuity of service, the potential for impacts comes from not reletting contracts in a timely manner. The purpose of reletting is to ensure value for money and that the services to the fund remain focussed on the Fund’s needs. One of the findings of the governance review had been that there was not sufficient capacity to service all functions of the fund and capacity has been increased as a result. However in now doing the work to review contracts (and policies) the amount of resource required is more apparent and the Fund is looking at the resourcing issue. A recent example of a contract tender was the financial advice provided by Hymans which is overdue for re-tender but this has not yet happened due to the timing of LGPS pooling and limited officer capacity.

Responding to a query regarding employer contributions not received, Chris Norton advised that there are some issues with some employers but the level of activity was business-as-usual extent. Analysis took place on a monthly basis and no significant systematic change had been noted over the last year. For the small number of employers who did have ongoing difficulties, the pandemic was an additional issue to contend with. It was also noted that the online breaches log showed a discrepancy between the log and this report and officers agreed to look into the reasons for this.

Chris Norton also responded to a query regarding investment in infrastructure which was being driven by government, advising that on the whole Pension Funds had avoided being forced into investing to support national infrastructure investment objectives at the expense of Pension Fund objectives. The Fund had the option to invest through the pool which gives more advantages of scale but the pool was subject to the same challenges as any fund in terms of getting the right risk and return profile to meet the objectives of enough partner funds in order to get them to sign up.

The Fund had signed up to more investment in Border to Coast's alternative funds and needs to keep a watch on cash flow and capital calls from alternative commitments, eg Harbour Vest, to make sure that the balance is not tipped more towards alternatives than had been intended.

Resolved – that the Board noted the report.

4. Risk Register

This report, presented by Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk), provided an update on the risks to the Fund and actions taken to manage them. It covered both the general risk register and the COVID-19 risk register.

In respect of the general risk register, which was originally set before the pandemic impact, some risk assessment scores had increased as detailed in the report.

In respect of the Covid risk register which was originally set out after the pandemic impact had started, none of the risks levels had increased relative to expectations, and several had decreased in light of experience.

In response to a query regarding the impact of Brexit, Chris Norton noted that this was a risk that was on the radar and the Pension Fund was relatively heavily weighted to UK equities. Although Brexit was an issue causing volatility, Covid and international trade tensions were having a bigger impact.

In response to comments about the process of scoring and the mitigations in place around fraud, Chris Norton explained that scoring was undertaken by Fund Officers who reviewed the scores quarterly in accordance with the scoring matrix set out in the report. A review of the risk framework for the County Council itself had taken place which had resulted in a revised risk management framework and it was hoped to follow that model from next year. With respect to Fraud, there were numerous administrative checks in place as mitigation and no changes to the controls had been required as a result of the pandemic. In terms of risks with investment managers, custodian, brokers and within the administering authority (as detailed on page 23 of the pack) there were two drivers - controls not being strongly applied because of Covid impact on staffing and systems, and the potential for there to be more incentive or motivation to commit fraud if an individual's circumstances were more difficult or desperate. In terms of digital and wet signatures, this depended on the process. Sometimes wet signatures were need but at other times Docusign digital signatures could be used. It was difficult to comment on whether the risk of fraud was higher or lower but in terms of actual fraud, there had not been any instances identified on the investment or administration side. Vicky Jenks, Pension Administration Lead, commented that the Team were looking at online methods of ID verification to further mitigate against the risk of fraud.

In response to queries regarding the implications of the impact the pandemic was having on city and town centres and the associated value of commercial properties, Chris Norton advised that property investment fund managers had been foreseeing the reduction in the economy in the high street for some time and had been disinvesting in this area as a result, investing more in out of town warehouses and infrastructure for internet sales. In terms of supporting High Streets, the Fund could, for example invest up to 5% in local impact investing, but at the time of the meeting, the investment strategy was silent on that option. The issue for any investor and investee is to align the objectives of the Fund making the investment with the objectives of the entity seeking investment. If it was the County Council making the investment, it would be a simple task to align with its objectives with regard to the High Street (for example economic development) but the objective of the Pension Fund is to pay pensions when due so it was more complex to make a connection with those objectives. This topic will be explored during the next review of the investment strategy.

Resolved – that the Board noted the report.

5. Pensions Administration Activity and Performance Update

This report, presented by Vicky Jenks, Pensions Admin Delivery Lead, provided an update on key developments affecting pensions administration and the performance of the Pension Administration Service. The report set out the current position with regard to the governance action plan, i-Connect, guaranteed minimum pension reconciliation, key performance indicators, workloads, breaches, tracing service, internal dispute resolution procedure, communication, and preparations for McCloud.

In response to questions regarding the implementation for McCloud, Vicky Jenks advised that there would be a period of data collection prior to the rectification process and there would be approximately one year to make sure all the data is in place in order to assess benefits prior to the regulation change in April 2022. With regard to funding for this project, Liz Firmstone advised that the work was split in two parts - work to manage the implementation of the LGPS and Fire Pension. The proportion relating to the LGPS scheme would be paid for from the Pension Fund and the Fire Service, , would benefit from resources agreed by the Corporate Board.

In terms of workloads, Vicky Jenks acknowledged that virtual training for new members of the team was difficult, sometimes took longer to learn in a digital environment, than to learn processes face to face. However, the team were adapting training methods and providing access to different tools – e.g documenting processes, peer support and mentoring, use of relevant software and online modules. The Board welcomed the personal approach to training.

The Tracing Service had gone through bronze and silver levels and some further analysis would take place before moving to the gold level. This would enable consideration of individual profiles to see if they were due benefits shortly and needed to be traced more urgently than younger members who could be part of a subsequent tracing exercise. Liz Firmstone added that consideration was being given to running tracing on a regular basis although an appropriate frequency needed to be agreed.

In response to comments on the presentation and content of the online breaches log, Vicky Jenks advised that work was taking place to bring this document up to date and improve the format so that it could be more easily updated on a monthly basis. Officers agreed to look into Members' feedback on the format and traffic light ratings to re-assess the entries to ensure they were properly reflected at the correct rating or escalated as necessary.

Resolved – that the Board noted the report

6. Investment Update

Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Insurance, and Risk) presented this report which provided a governance-based overview of the Pension Fund's investment activities. He commented that the value of the Fund's assets had increased from £2.2bn as at 30 June 2020 to £2.3bn as at 30 September 2020, the Fund's cashflow position remained balanced, the National Knowledge Assessment had recently been undertaken by officers and members which would be used to inform training needs, the Fund had issued its compliance statement in accordance with the Competition and Markets Authority's requirement to have Investment Consultant Objectives in place and a procurement process had commenced for the reletting of contracts for Independent Financial Advisors. He particularly drew attention to section 3 of the report which dealt with asset allocation.

Resolved – that the Board noted the report

7. Internal Disputes Resolution Procedure

Neil Buxton, Technical Specialist presented this report which informed the Board that all pension schemes were required by the Pensions Act 1995 and the Pension Regulator to have in place a formal dispute resolution procedure. Similarly, the Local Government Pension Scheme Regulations required scheme employers and administering authorities to have formal procedures in place to address and resolve any grievances from scheme members and other interested parties in how their membership of the scheme or how their benefit entitlement was dealt with either by their employer or the administering authority. As the County Council had been reviewing its internal processes, the opportunity was taken to review the Fund's process in tandem. Following this meeting, the procedure would be presented to Staff and Pensions Committee for approval.

Resolved – that the Board noted the report

8. Review of the Minutes of the Pension Fund Investment Sub-Committee 14 September 2020

The Local Pension Board noted the minutes of the Pension Fund Investment Sub Committee meeting held on 14 September 2020.

9. Review of the Minutes of the Staff and Pensions Committee 14 September 2020

The Local Pension Board noted the minutes of the Staff and Pensions Committee meeting held on 14 September 2020.

10. Minutes of Previous Meeting

The minutes of the meeting held on 20 October 2020 were agreed by the Board as a true and accurate record. The Chair reminded the Board that he was now agreeing minutes in draft form ready for early circulation to the Board but that they would continue to be approved in formal meetings. The quality of the minutes was welcomed.

11. Summary of Key Actions

	Action	
1	Breaches information on the website to be revisited, updated and fully RAG rated/escalated where required	Vicky Jenks / Chris Norton
2	Consult with Board on 2021/22 meeting dates	Deborah Moseley
3	Change timing of the next meeting (14 April 2021) to a 10am start	Deborah Moseley
4	Update website for the updated LPB Terms of Reference	Neil Buxton
5	Provide an update on employers on-boarded to iConnect	Vicky Jenks

The meeting rose at 11.53am

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Chair