Local Pension Board

Wednesday 5 April 2023
10.00 am
Meeting Room 224, 160 Tooley Street

Membership

Mike Ellsmore (Independent Chair)

Dominic Cain (Vice Chair) – Employer Representative

Allan Wells – Employer Representative

Mike Antoniou – Schools Employer Representative

Diana Lupulesc – Employee Representative

Stuart Mumford – Employee Representative

Tony O'Brien – Retired Employee Representative

Southwark Council
southwark.gov.uk

Local Pension Board

Wednesday 5 April 2023
10.00 am
Meeting Room 224, 160 Tooley Street

Order of Business

Item No.	Title
	PART A – OPEN BUSINESS
1.	**TRAINING SESSION – UK SPRING BUDGET 2023**
2.	**APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**
3.	**NOTIFICATION OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING**
4.	**DISCLOSURE OF INTERESTS AND DISPENSATIONS** Members of the board to declare any interests and dispensation in respect of any item of business to be considered at this meeting.
5.	**MINUTES** To agree as a correct record, the open minutes of the meeting held on 18 January 2023.
6.	**ACTION TRACKER**
7.	**PENSIONS SERVICES**

Date: 16 March 2023

Item No. 1	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		Training Session - UK Spring Budget 2023	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance and Governance Senior Finance Manager, Treasury & Pensions	

RECOMMENDATION

1. The Local Pension Board (the **Board**) is asked to note this update on the recent Spring Budget.

BACKGROUND INFORMATION

2. From 6 April 2023 significant changes to the pension tax allowances were announced in the Budget.

3. The Budget also announced an upcoming consultation on changes to investment pooling requirements, consideration of the consolidation of existing pools, and a potential requirement for funds to invest further in illiquid assets.

PENSION TAX ALLOWANCES

4. Much of the finer detail is still to be published, but the headline information is detailed below.

5. The Lifetime Allowance charge will be removed from 6 April 2023, and the Lifetime Allowance (**LTA)**, presently £1.073 million or pension equivalent of circa £50k pa) will be abolished from 6 April 2024 as part of a future Finance Bill.

6. The maximum Pension Commencement Lump Sum for those without protections will be retained at £268,275 (25% of £1,073,100) and remain frozen at that level.

7. For those who had Individual | Fixed Protections in place before 6 April 2023, they will retain a higher Pension Commencement Lump Sum based on the individual level of indemnity (for example £375,000 based on £1.5m protection).

8. The standard Annual Allowance (**AA**) will increase from £40,000 to £60,000.

9. The tapered AA will now commence for individuals with adjusted income

in excess of £260,000 (previously it was set at £240,000).

10. The minimum tapered AA will increase from £4,000 to £10,000 (so based on the current working of the taper, it will taper down from £60,000 to £10,000 for adjusted income between £260,000 and £360,000

11. The Money Purchase Annual Allowance will increase from £4,000 to £10,000.

INVESTMENT POOLING

12. The UK Government announced in the Spring Budget that it was challenging the LGPS in England and Wales to move further and faster on consolidating assets. The Budget stated that a forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025.

CHALLENGES

13. Concerns have been raised around the lack of detail that has been provided. Clarity is required on what investments will be included in the potential deadline for pooling of listed assets.

14. Given a considerable percentage of LGPS assets sit in passive life funds, it will be interesting to see if these are captured in the requirement to transition assets. For funds in the London Collective Investment Vehicle (LCIV) passive assets are counted as pooled in an oversight arrangement. The Southwark fund has c.43% of its assets (equities and gilts held with Legal and General and BlackRock) in this oversight arrangement.

POOL CONSOLIDATION

15. The Budget stated “this may include moving towards a smaller number of pools in excess of £50bn to optimise benefits of scale.”

16. There are currently eight pools across England and Wales, representing various shapes and sizes. This, and the significant up-front work and negotiations at the outset of pooling funds to align closely with either geographic region or belief set, means reducing the number of pools will be a complex exercise.

INVESTING IN ILLIQUID ASSETS

17. The Budget also sets out that the government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital.

LEVELLING UP OR LOCAL INVESTMENT AGENDA

18. LPGS funds have already been advised that they should set out a plan for how they might support the levelling up agenda, with a 5% allocation to levelling up assets. It is unclear at this stage whether this new requirement captures this new 5% or whether the government is looking for funds to go further on this.

CURRENT ILLIQUID ASSETS

19. The Southwark fund has already made significant allocations to illiquid assets (including property, sustainable infrastructure, private equity, bereavement services and timberland). Consideration of further illiquid allocations will be impacted by factors such as existing illiquid exposures, cash flow requirements, fiduciary duty over investment returns, and the impact of risk on the overall investment strategy. The ultimate objective remains to pay the pensions promised to scheme members.

KEY ISSUES FOR CONSIDERATION

20. N/a

Policy framework implications

21. There are no immediate implications arising from this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

22. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

23. There are no immediate implications arising from this report.

Health impact statement

24. There are no immediate implications arising from this report.

Climate change implications

25. There are no immediate implications arising from this report.

Resource implications

26. There are no immediate implications arising from this report.

Legal implications

27. There are no immediate implications arising from this report.

Financial implications

28. There are no immediate implications arising from this report.

Consultation

29. There are no immediate implications arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

30. Not applicable.

Strategic Director of Finance and Governance

31. Not applicable.

Other officers

32. Not applicable.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Authors	Barry Berkengoff, Pensions Manager, Finance and Governance Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final	
Dated	24 March 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	N/a
Strategic Director of Finance and Governance	No	N/a
List other officers here		
Cabinet Member	No	N/a
Date final report sent to Constitutional Team / Scrutiny Team		

Local Pension Board

Wednesday 18 January 2023

10.00 am

Meeting Room 217, 160 Tooley Street

Present

Mike Ellsmore (Independent Chair)

Dominic Cain (Vice Chair) – Employer Representative

Allan Wells – Employer Representative

Mike Antoniou – Schools Employer Representative

Tony O'Brien – Retired Employee Representative

Diana Lupulsec - Employee Representative

Others Present

Caroline Watson – Senior Finance Manager

Barry Berkengoff – Pensions Manager

Carys Haines – Pensions Liaison Officer

Aisling Hargadon – Finance Graduate Trainee

Jack Emery – Divisional Accountant

Geraldine Chadwick – Technical Accountant

Laura Caudwell – Aon (agenda item 1 only)

Loren Wynn – Aon (agenda item 1 only)

1. PRESENTATION ON RESULTS OF THE 2022 ACTUARIAL VALUATION – AON

Delivered by Laura Caudwell and Loren Wynn - Aon.

It was noted that the membership profile from the 2016 valuation up to the most current date shows that active members have reduced, whilst deferred and pensioner members have increased.

MA asked about active membership falling and how it would impact ongoing funding if less contributions were received by the Fund. LW confirmed that Aon would be keeping an eye on it and work with the administering authority. However, there were no immediate concerns.

Life expectancy is proving hard to analyse due to factors such as Covid. Assumptions have changed on life expectancy since 2019, which are now balanced out and, overall Covid has not had as much of an impact as originally thought.

TOB asked about England and Wales death rates and rates varying in different parts of the country and whether Southwark's data is used, or national statistics as people in the pension fund live all over the UK? LC confirmed that national statistics are used and there isn't a chart specifically for Southwark. However, they do use Southwark's data when undertaking the valuation process.

The next steps will be to send the revised Funding Strategy Statement out for consultation to scheme employers, and to finalise the valuation results and sign off the valuation report by 31 March 2023.

ME spoke about good governance around the valuation and he also raised the impact of the Fund's net zero carbon policy on the valuation.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

None received.

3. NOTIFICATION OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING

None received.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

None.

5. MINUTES

The open minutes of the meeting held on 19 October 2022 were agreed.

6. ACTION TRACKER

CW confirmed that the conflicts of interest policy that currently applies to the Board will be extended to cover all aspects of the Fund.

7. PENSIONS SERVICES

BB confirmed he had sent an interim report around in November which had addressed some of the issues/questions raised from the October board meeting.

Senior Management recruitment had been two thirds successful where a new Pensions Payroll Manager and Pensions Admin Manager were now in place. However, the fund had taken temporary measures to put in place and acting Data Systems Manager and would undertake a further recruitment exercise later in March/April for this post. BB explained that as most senior pension roles are classed as ‘hard to fill’, the fund had been using a specialist recruitment agency, Morgan Law.

BB then went on to discuss IT systems and the improvement/action plan that was attached as an appendix. Most big ticket IT issues were now resolved as a result of the work undertaken on the Annual Benefit Statement (ABS) exercise. Some IT snagging exists which is due to specific customisation of the legacy pension system, Altair, and how data was migrated over to the new system, UPM. BB confirmed that all outstanding actions are with the new system provider who are working with us to resolve.

However, until such time that IT snagging is fully resolved, BB explained that additional quality assurance was in place where all calculations were being manually produced for three months, alongside all system produced calculations for comparison to ensure accuracy.

BB did emphasise however that the new Payroll software had been very successful, as had the new single payments system.

Pensioner Increase 2023 planning is starting soon, where the expected increase is 10.1%. This will be run from UPM for the first time so it requires careful planning and testing. A new Payroll Manager, Louise Charman joins the team on 23/01/23. ME stressed the importance of this and that quality assurance will be paramount given the size of the increase and the new system.

BB confirmed there was a plan in place to save all legacy data (which goes back 40+ years). AON colleagues are assisting with this and will help the pension fund create a secure access database, so legacy data can always be referred to. There will be limited access to this data.

A discussion took place about longer term goals to promote Member Self-Service as the new admin software has more functionality for members.

No updates on Pensions dashboard except that expected launch date for local government employers is late 2023/early 2024. Data will be extracted monthly from Southwark and uploaded to the national dashboard. ME asked about staff levels for this task, BB said that once data extracts were signed off then it should not be a difficult task but it depends on overall data quality so the data team may need to be further resourced going forward. BB expressed the point that all employers had a responsibility to ensure their data was wherever possible, particularly when it is sent via outsourced payroll providers.

McCloud is still ongoing, directions had now been issued however around compensation and what interest rates could be applied. Expected date for work to commence is late 2023, and it is only expected to affect a small number of individuals.

Further progress on communications - the ABS exercise had been delayed due to data migration issues and was undertaken in a phased approach. As this was a legal breach it was reported to the Pensions Regulator (TPR). 97% of annual statements were issued as part of the ABS exercise and the remaining 3% have been contacted offering similar projections at normal retirement age. ABS training modules are now available and offered to all employers and staff.

The new Member portal will be communicated to all membership categories soon, including those staff who had opted out, encouraging individuals to consider the benefits that pension fund membership brings including the 50/50 scheme which is more cost effective). MA asked how many members are in the 50/50 scheme and ME stressed the importance of the 50/50 scheme. DC mentioned the cost of living crisis and asked about opt outs and how 50/50 was communicated to them. DL asked about reasons why and did the fund have any data on people opting out. BB explained the reasons behind people opting out of the LGPS, and can obtain further stats on opt out numbers and those in the 50/50 scheme. BB did say from memory that around 1,000 staff were opted-out at any one time, and 50/50 had been promoted recently as part of a wider cost of living crisis communications being managed by HR.

Complaint Management – all complaints were in hand and being dealt with, with the exception of a number of employer complaints around pension contribution deduction from Council payroll. JE confirmed he was affected by this and BB responded by saying they were being investigated by HR. DC also confirmed that the issue was widely known and SAP consultants were also assisting with this particular matter, and that once the matter was resolved a communication exercise would follow.

Performance monitoring/metrics hasn't changed since the last update and will be reinstated once resources permit following completion of all IT snagging. The board expressed its concern which was duly noted by the Pensions Manager who gave assurance that all financially sensitive items were being processed swiftly as normal.
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Future work, a plan is in place over the next few years for work that needs to be undertaken and will be shared with the Board for their input.

MA asked about the ABS breach and what the consequences were. BB explained that TPR were taking no further action as they wanted accurate statements to be issued later than planned, rather than inaccurate statements issued quickly. In all, three ABS breaches were reported to TPR who were kept up-to-date on the matter.

MA asked what issues are of ongoing concern to BB. Schools was the response due to involvement of outsourced payroll providers. MA asked how that situation could be improved. BB responded by saying that Education and Schools HR had a role to play in ensuring schools become more accountable for their staff data and revisiting payroll provider contracts to ensure they have adequate cover in place (i.e. recovery of fines).

DC asked about the 2023 ABS exercise and any manual processes to be supported by AON, and how confident were we that we would not be in the same position. BB confirmed that 2022 had been a steep learning experience and that because of the significant data cleansing that was undertaken, he was confident that 2023 would be less troublesome.

TOB asked about future work progress and said that should be recorded under forward planning, and measuring properly complaints

8. APPOINTMENTS PROCESS DRAFT POLICY

Encouragement for individuals to join and remain on Board for 3 years, and to open up the representation to the wider membership.

AW asked about substitutes. CW confirmed there are substitutes in place for some Board members, but they have reduced over time. MA asked about long term non-attendance, and CW confirmed there was not a formal process currently in place. A table setting out Board attendance is included in the annual report.

ME suggested that contact should be made if more than a few Board meetings are missed.

Agreed: The appointments process policy was confirmed.

9. BREACHES LOG

BB confirmed that all data and legal breaches are recorded with actions and outcomes, and that every six months these are reported to the Corporate Governance Panel via the Corporate Information Governance Manager. The breaches log was up to date at January 2023 and BB mentioned a few specific breaches and how these were not necessarily the fault of the pension fund or indeed Southwark employers.

TOB asked about Injury Allowance (IA) and said that a national agreement was in place. BB agreed but said Southwark’s own IA Policy was out of date and that it was currently with HR colleagues for review.

10. FORWARD PLAN – 2023-24

CW set out the forward plan for 2023-24. The risk register and breaches log will be tabled every 6 months.

Some individual items are included on the forward plan with no specific date and will be tabled as and when information becomes available.

AW requested clarification on the date the Pensions Dashboard will be live and also asked for clarification on the funding strategy (FSS) statement consultation. CW explained that the FSS consultation will include scheme employers only.

11. TRAINING PLAN – 2023-24

CW explained that the training plan for the Board sets out the priorities for training topics for 2023-24. However, this can be revised depending on issues that may require the Board's consideration during the year.

Agreeing a training plan and recording the training undertaken by the Board to date ensures compliance with the CIPFA Knowledge and Skills Framework.

12. PENSIONS ADVISORY PANEL MEETING PAPERS – OPEN PAPERS

Details of the revised investment strategy is set out in the PAP papers. ME noted the push to deliver the 2030 net zero target. As part of the revised investment strategy, PAP agreed the reallocation of the diversified growth (10% of the Fund) and absolute return bond holdings (5% of the Fund) to a new multi asset credit allocation, and an increase in the equity allocation. It was noted that £30m was invested in the Temporis Renewable Energy Fund in December 2022.

Work is progressing on a cash policy which will manage liquidity for the Fund going forward. It was confirmed that there is currently no requirement to use investment income to fund current expenditure. Where mandates allow, investment income will continue to be reinvested.

13. ANY OTHER OPEN BUSINESS

None.

Item 6
Local Pension Board - Action Tracker

Date of Meeting	Action Ref	Action	Due Date	Response	Status
07 April 2021	18	Revised administration strategy to be tabled at a future LPB meeting.	TBC	Barry Berkengoff is currently working on an update to the existing administration strategy. Once completed, this will be tabled at a future PAP and then LPB meeting.	Outstanding
05 April 2023	19	Conflicts of Interest Policy – whole of Fund	April 2023	A recommendation was made, as part of the COP14 review of the Fund, for a bespoke conflicts of interest policy to be put in place. In July 2021 a policy covering LPB was agreed. A revised version that covers the whole Fund is included as agenda item 8 of the April 2023 meeting papers.	Complete

Item No. 7	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		Pension Services - administration function update	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance and Governance	

RECOMMENDATION

1. The Local Pension Board (the **Board)** is asked to note this update on the pensions administration function.

BACKGROUND INFORMATION

2. The Board received an update in January 2023 which set out specific information on recruitment, IT/systems, National Dashboard Programme, the McCloud judgement, comms and complaint management.

RECRUITMENT

3. Our new Pensions Payroll Manager, Louise Charman, joined Southwark on 23 January 2023.

4. An existing Senior Data Officer has been acting up in the Data Systems Manager role for the last three months. Significant progress has been made in addressing the IT/data migration issues with Civica UPM in that time. Therefore, we have extended the acting up role for a further three month period.

5. A number of vacancies exist across the pensions function and recruitment is ongoing.

IT/SYSTEMS

6. An updated Civica UPM Improvement/Action Plan capturing all remaining issues is attached as an Appendix.

7. The Pensions Manager has secured three Civica technical resources to work directly with our Data team until the Action Plan is fully resolved. To date, excellent progress has been made and updates are reported on a weekly basis. As some work relates to calculations it has been agreed that for the next few months the admin team will parallel check all UPM calculation output against manually performed calculations.

8. The planning phase of the 2023 Pension Increase exercise began in February 2023 to ensure pension increases are effective from April's pay-run. As the increase is high (10.1%) additional quality assurance checks will be in place.

UK PENSIONS DASHBOARD PROGRAMME

9. Go-live for LGPS employers was expected to be during 2023/24, however this has now been delayed at national level.

10. Whilst the Southwark Pension Fund expects to be able to test dashboard functionality in a later Civica UPM release planned for June 2023, the on-boarding date for LGPS employers is now expected to be during 2024/25.

11. We do not expect the dashboard to ever replace Annual Benefit Statements (**ABS**) as the level of detail contained within the ABS exceeds the dashboard offering, which is more generic and where data will be refreshed on a regular basis (daily or weekly).

PROGRESS TO APRIL 2023

Since the last Board update, further progress has been made in the following areas.

COMMUNICATION INITIATIVES

12. The 2023 ABS exercise will start in April/May after all Southwark employers have submitted year-end data to us. Given the level of data migration correction work undertaken in 2022 we do not expect to face the same issues during 2023.

13. Following the issue of Annual Allowance statements in October 2022 (for the 2021/22 tax period), it has been decided to hold specific training on this because we anticipate more individuals could be affected in 2022/23, due to the fact that both the April 2021 and April 2022 pay awards were made in the same financial year. Training will be rolled out initially to pension fund staff and HR colleagues.

14. Going forward, we expect the recent tax changes to impact on the number of Southwark staff affected as the standard Annual Allowance will increase from £40,000 to £60,000 with effect from 6 April 2023. This means there is scope to increase 'pension's growth' from £2,500 to £3,750 over the financial year without tax implications.

COMPLAINT MANAGEMENT

- The Pensions Ombudsman - ill-health tiering award appeal against a former school employer. All ill-health tiering awards are recommended by Occupational Health following medical assessment, but the employer makes the final decision. The matter is still with the Pensions Ombudsman pending a formal decision.
- The Pensions Ombudsman - original AVC investment instructions not followed resulting in a possible financial loss. A second Opinion (partial uphold) was accepted by both parties, resulting in the pension fund contacting the AVC provider to assess any potential loss. The results of the financial assessment showed the member was better off being in the less volatile (albeit incorrect AVC investment funds) so no redress was required. The matter is now closed.
- The Pensions Ombudsman - cohabiting pension award claim made against the pension fund. The applicant alleges that both he and the deceased member were financially dependent on one another but there is no evidence of that relationship. Under the IDRP process the complainant was asked to provide

specific evidence of inter-dependency but no information was provided. Pending response from Ombudsman office.

- IDRP stage 1 - a number of complaints remain with the Council concerning claimed incorrect employee pension deductions made from the Council's payroll system. All complaints are with Council HR as the stage 1 adjudicator. The pension fund is monitoring and is aware of Union involvement in some cases. The outcome of the complaints will be known later in April when the payroll system makes a final year-end adjustment to pension contributions.
- IDRP stage 1 - dispute over the distribution of a death grant between two siblings. No Expression of Wish form was held on file and the Last Will and Testament/death certificate provided to the pensions team indicated a sole executor was dealing with the estate. Case is ongoing.

PERFORMANCE MONITORING

Performance metrics will be reinstated once Civica UPM functionality is tested and signed off. All available resource has been directed towards the remaining IT/data migration issues.

Despite the absence of performance metrics the admin team continue to process all financially sensitive transactions around payroll cut off dates. And, although performance metrics are not available, the Pensions Manager is confident no material breach has occurred.

A timeframe for reinstatement will be provide to the Board at the next meeting.

FUTURE WORK PLANNING

15. Due to existing resourcing levels across Pension Services, a work plan and their implementation timeframes are still to be signed off by the Pensions Manager.

CONCLUSIONS

16. Recruitment and retention of key staff with the necessary skills is critical to the achievement of all future plans, as is succession planning.

17. There will continue to be some reliance on specialist external support. However, with internal training now firmly established and taking place each week, 95% of all business as usual and project work is managed in-house by Pension Services.

18. Performance monitoring remains an important part of the pensions function. The procurement of Civica UPM software will allow Pension Services to develop much improved workflow and task management, where more detailed Management Information can be extracted around admin and enquiry performance.

KEY ISSUES FOR CONSIDERATION

19. N/a

Policy framework implications

20. There are no immediate implications arising from this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

21. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

22. There are no immediate implications arising from this report.

Health impact statement

23. There are no immediate implications arising from this report.

Climate change implications

24. There are no immediate implications arising from this report.

Resource implications

25. There are no immediate implications arising from this report.

Legal implications

26. There are no immediate implications arising from this report.

Financial implications

27. There are no immediate implications arising from this report.

Consultation

28. There are no immediate implications arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

29. Not applicable.

Strategic Director of Finance and Governance

30. Not applicable.

Other officers

31. Not applicable.

APPENDICES

No.	Title
Appendix 1	Civica UPM Improvement/Action Plan

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance		
Version	Final		
Dated	29 March 2023		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		No	N/a
Strategic Director of Finance and Governance		No	N/a
List other officers here			
Cabinet Member		No	N/a
Date final report sent to Constitutional Team / Scrutiny Team			

Area	Issue	Update
Employer Hub	*Monthly Contribution Process Error: at the Data Validation - Stage 2 step, the process is giving error 2.21 “The previous Month’s Contribution is missing” for all rows. But the previous month’s contribution is not missing on any folder.	Resolved.
	*Monthly Contribution Process Error: at the Data Validation - Stage 5, the process prevents employers from progressing further, the process loops to the beginning of Stage 5.	Resolved.
	Employer submissions report not working.	Ongoing - further errors identified.
	Functionality needed to import data retrospectively in UPM.	Resolved.
	The employer hub to have less steps in the process when importing data.	Ongoing - half way there, we have reduced stages in the database to allow data to flow more fluidly.
Member Portal	The functionality to project a members pension in various circumstances does not work.	The issue has been escalated and is being looked at by calcs team.

Area	Issue	Update
	Members logins were not recognised by the system due to an authentication issue.	Resolved.
UPM Calcs	Calc Error: Death in retirement.	Ongoing - fix expected April 2023.
	Death of a preserved refund (Calc error accounts elements).	Ongoing - fix expected April 2023.
	Late interest on pension not being paid.	Resolved.
	Death in Deferment: no grant pay.	Resolved.
	When reaching the calculation stage on the LG Trivial Commutation Quote process, we get error: "Unknown Doc Type" and are unable to continue.	Resolved.
ABS	The database is not picking up Annual Allowance - Pension Interest when importing data.	Resolved.
	Investigate migration of 50/50 data from Altair to UPM.	Ongoing - further test cases under review.
	Reviewing the SQL behind ABS process on UPM to streamline.	Resolved.
Payroll Error	Effective date blocking movement of UPM process for payroll membership.	Resolved.
UPM Test	The test hub was never mirrored.	Resolved.

Item No. 8	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		Proposed PAP Conflict of Interest Policy	
From:		Technical Accountant, Finance and Governance	

Recommendations

1. The Local Pension Board (LPB) is asked to note the report.

Background

2. The Local Pension Board (LPB) agreed a bespoke conflict of interest policy in July 2021. This was to ensure that LPB members are not conflicted or perceived to be conflicted both upon appointment and on an ongoing basis.

3. The primary objective of the Pensions Advisory Panel is to assist the Strategic Director of Finance in the management of the pensions function within the Council. The roles and functions are set out in Southwark's constitution. Given the strategic importance of the PAP and in the interests of good governance and the need to draw a distinction between Southwark Council's role as an employer member of the Fund and its separate role as an Administering Authority, it was suggested that a bespoke conflict of interest policy could be drafted for approval by PAP members.

PAP Conflict of Interest Policy

4. This draft policy was presented to the PAP on the 6 March 2023. The PAP asked that this was re-presented at the next meeting in June with a legal concurrent. This has been added at paragraph 18-21 to the proposed June PAP covering report.

5. Both the revised covering report and the proposed Conflict of Interest policy are appended to this report.

Community, Equalities (including socio-economic) and Health Impacts

6. **Community Impact Statement**

   No immediate implications arising.

7. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising

8. **Health Impact Statement**

   No immediate implications arising

9. **Climate Change Implications**

   No immediate implications arising

10. **Resource Implications**

    No immediate implications arising

11. **Legal Implications**

    No immediate implications arising

12. **Financial Implications**

    No immediate implications arising

13. **Consultation**

    No immediate implications arising

AUDIT TRAIL

No.	Title
1	G:\3. Pension Fund Account\2. Investment\Pensions Advisory Panel\2022-23\March 2023 Meeting\Final Papers\Item 12(2) - Appendix 1 Draft Conflict of Interest Policy.docx G:\3. Pension Fund Account\2. Investment\Pensions Advisory Panel\2022-23\March 2023 Meeting\Final Papers\Item 12(2) - Appendix 1 Draft Conflict of Interest Policy.docx

Lead Officer	Duncan Whitfield. Strategic Director of Finance and Governance
Report Author	Geraldine Chadwick, Technical Accountant
Version	Final version

Dated		
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Item No.	Classification: Open	Date: 19 June 2023	Meeting Name: Pensions Advisory Panel
Report title:		Draft Conflict of Interest Policy	
From:		Technical Accountant, Finance and Governance	

Recommendations

1. To approve the conflict of interest policy for the Pensions Advisory Panel (PAP) members and for those officers dealing with matters relating to the Pension Scheme.

Background information

2. Southwark Council undertakes the role of Administering Authority for the Southwark Local Government Pension Scheme. Whilst the Council is the major employer in the scheme, the scheme does include over 60 other employers. It is therefore important that these distinct roles are fully understood and any potential conflicts of interest are clearly stated.

3. The Local Pension Board (LPB) agreed a bespoke conflict of interest policy in July 2021. This was to ensure that LPB members are not conflicted or perceived to be conflicted both upon appointment and on an ongoing basis.

4. The primary objective of the Pensions Advisory Panel is to assist the Strategic Director of Finance in the management of the pensions function within the Council. The roles and functions are set out in Southwark's constitution. Given the strategic importance of the PAP and in the interests of good governance and the need to draw a distinction between Southwark Council's role as an employer member of the Fund and its separate role as an Administering Authority, it was suggested that a bespoke conflict of interest policy could be drafted for approval by PAP members.

5. This draft policy was presented to the PAP on the 6 March 2023. The PAP asked that this was re-presented at the next meeting with a legal concurrent. This has been added at paragraph 18-21.

PAP Conflict of Interest Policy

6. The intention of establishing a conflict of interest policy is to ensure that PAP members and the relevant officers follow sound governance principles and that conflicts of interest (and potential conflicts of interest) are properly managed.

7. The draft conflict of interest policy is at Appendix 1. If adopted, the policy will apply to all members of PAP whether voting or not and sets out the procedures in place to ensure that interests are declared, potential conflicts are identified and how any such conflicts or potential conflicts are to be managed.

8. The policy establishes an operational procedure for PAP members and the relevant officers (and new members prior to appointment) to ensure an ongoing review, monitoring and reporting of potential and actual conflicts of interest.

9. If adopted, a register of interests will be kept which will be circulated annually to PAP members for review.

Community, Equalities (including socio-economic) and Health Impacts

Community Impact Statement

10. There are no immediate implications arising.

Equalities (including socio-economic) Impact Statement

11. There are no immediate implications arising.

Health Impact Statement

12. There are no immediate implications arising.

Climate Change Implications

13. There are no immediate implications arising.

Resource Implications

14. There are no immediate implications arising.

Legal Implications

15. There are no immediate implications arising

Consultation

16. There are no immediate implications arising.

Financial Implications

17. There are no immediate implications arising.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Assistant Chief Executive (Governance and Assurance)

18. The report is asking the panel to approve a conflict of interest policy which will apply to members of the panel and to anyone advising or reporting to the panel.

19. There is no legal requirement for such a policy to be in place, although it is a recommendation of the Good Governance project (referred to in the policy) and has been referred to in previous guidance relating to pension committees and panels. The Good Governance Project envisages that statutory guidance will be produced advising authorities to establish such conflict of interest policies.

20. This policy builds on the conduct requirements that are already relevant for councillors and officers. Councillors have a responsibility to comply with the council's code of conduct for members, setting out any interests in the council's register of interests and ensuring that do not deal with any matter where they have a disclosable pecuniary interest. Officers have to declare any potential conflict of interests in accordance with their code of conduct. Officers and councillors also have to complete an annual declaration of any related party interests.

21. The policy additionally makes provision for others who advise the panel to declare any potential conflict of interest in order that these can be dealt with appropriately. Adherence to the conflict of interest policy should be included in the terms and conditions of any appointment of advisers.

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Geraldine Chadwick, Technical Accountant	
Version	Final	
Dated		
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Assistant Chief Executive (Governance and Assurance)	Yes	Yes
Strategic Director of Finance	N/A	N/A

Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		

LONDON BOROUGH OF SOUTHWARK

PENSIONS ADVISORY PANEL

DRAFT CONFLICTS OF INTEREST POLICY

April 2023

Effective date: April 2023

Reviewed: Every 3 years

Introduction

1. This conflict of interest policy (hereafter the ‘policy’) is established to ensure that Pensions Advisory Panel (PAP) members follow sound governance principles and that conflicts of interest are properly managed. Failure to follow applicable codes of conduct or declare a conflict of interest can impact on good governance in a variety of ways and may result in the Pensions Advisory Panel acting improperly.

2. This policy sets out how Southwark Council (the “Council”) will identify, manage and mitigate potential conflicts of interest that may arise in carrying out its role as the administering authority for the Southwark Council Pension Fund (the “Fund”). The Council recognises that its functions as an Administering Authority, managing the Fund, is quite different from its other functions and this policy has been developed with the specific requirements of Fund governance and is mindful that the PAP acts as quasi-trustees to the Pension Fund.

3. 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. Furthermore, those individuals involved in managing, overseeing or advising the Fund may, from time to time, find that they face competing incentives, financial or otherwise, as a result of their professional or personal circumstances.

4. It is important, therefore, that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund’s employers, scheme members and beneficiaries are treated fairly and equitably. This policy sets out the procedures in place to ensure that interests are declared, potential conflicts are identified and how any such conflicts or potential conflicts are to be managed.

5. The potential for conflicts of interest has always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities and for advisers to LGPS funds. This reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the LGPS, as an elected member or board member of an employer participating in the LGPS or indeed as an adviser to more than one administering authority. Furthermore, any of those persons may have a personal, business or other interest which might conflict, or be perceived to conflict, with their role in advising LGPS funds.

6. It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the LGPS beneficiaries and participating employers. This, however, does not preclude those involved in the management of an LGPS fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a Policy how any such conflicts or potential conflicts are to be managed.

7. Further, the Good Governance Review[1] recommended that each fund should have a fund-wide published conflicts of interest policy. This recommendation is being considered by the Department for Levelling Up, Housing and Communities (DLUHC). It is understood that there is now ministerial approval to bring the recommendations into law and suggested that April 2023 is the most likely date for any changes to come into force. It is therefore timely that Southwark has already adopted a bespoke conflict of interest policy for Local Pension Board members and is now proactively considering a having a policy in place for its Pensions Advisory Panel.

Purpose and objectives

8. This Policy is established to guide the PAP members and advisers. Along with other constitutional documents, including the Code of Conducts and the Member and Officer Protocols (see paragraph 15), it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund.

To whom this Policy applies

9. The Policy applies to all members and officers and advisors (see paragraph 11) of the Pensions Advisory Panel whether voting members or not.

10. This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role.

11. The Policy also applies to all advisers to the PAP. In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the PAP. This includes, but is not limited to actuaries, investment consultants, independent advisers, officers, benefits consultants, any selection panel member involved in the appointment of Fund managers, third party administrators, fund managers, lawyers, and officers of the London CIV, custodians and Additional Voluntary Contributions (AVC) providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the PAP rather than the firm as a whole.

12. The Senior Finance Manager (Pensions and Treasury) will be responsible for ensuring that this policy is adhered to and that any processes for managing conflicts of interest are followed. In any situation where the Senior Finance Manager (Pensions and Treasury) may have a potential or actual conflict of interest, the responsibility for ensuring that this policy is adhered to and that any relevant processes are followed shall lie with the Monitoring Officer for the Council.

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[1] Phase 3 report published February 2021 https://www.lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf and is being considered by DLUHC.

PAP members agree that they must:

- be open about any actual or potential conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- Plan ahead and agree with the Chair of the PAP how they will manage any potential conflicts of interest, which arise in future.

Legislative and related context

13. The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are detailed in Appendix 1.

Standards and Behaviours: Pension Advisory Panel (PAP) members

14. In addition to the requirements of this Policy, PAP members and the voting co-opted members are required to adhere to the Constitution of Southwark Council", Part 13 (Code of Conduct) and Part 14 (Member and Officer Protocol). This includes the requirement to register disclosable pecuniary interests. Council officers are required to adhere to the officer code of conduct. For the full text see the links below:

    https://moderngov.southwark.gov.uk/documents/s109094/Code%20of%20conduct_May%202014.pdf

    https://moderngov.southwark.gov.uk/documents/s109095/Member%20and%20Officer%20Protocol%20February%202020.pdf

    http://thesource/tools-and-resources/business-managers-handbook/people/code-of-conduct/

Advisers

15. The Administering Authority appoints its own advisers. How conflicts of interest will be identified and managed should be addressed within the contractual arrangements.

16. There may be circumstances where advisers are asked to give advice to the Council as an employer, other employers, LGPS members or member representatives such as the trades unions in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Fund. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

17. Where the Local Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pension Advisory Panel or Fund officers if there is no conflict of interest between the two roles.

Conduct at Meetings

18. There may be circumstances where a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, at a PAP meeting and that this is recorded in the minutes.

What is a Conflict or Potential Conflict and how will it be managed?

19. The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

    Therefore, a conflict of interest may arise when an individual has a responsibility or duty in relation to the management of the Fund and at the same time has:
    - a separate personal interest (financial or otherwise); or
    - another responsibility in relation to that matter giving rise to a possible conflict with their first responsibility.

20. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

21. The Council encourages a culture of openness and transparency, including in relation to its activities as Administering Authority. It encourages individuals to be vigilant and to have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how potential conflicts should be managed. The Senior Finance Manager (Treasury and Pensions), with advice from the Monitoring Officer as required, will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Fund operations and good governance were an actual conflict of interest to materialise.

22. Under the Member and Officer Protocol paragraph 28-30

    '28. If the member is present at a meeting of the council assembly, or any committee, sub-committee, joint committee or joint sub-committee of the council, or any meeting of the cabinet or a committee of the cabinet, and they are aware they have a disclosable pecuniary interest in any matter to be considered or being considered at the meeting,

    • They may not participate in any discussion of the matter at the meeting
    • They may not participate in any vote taken on the matter at the meeting
    • If the interest is not registered, the member must disclose the interest to the meeting

• If the interest is not registered and is not the subject of a pending notification, the member must notify the monitoring officer of the interest within 28 days.

29. Members who have a disclosable pecuniary interest in any matter to be considered or being considered at any meeting or by an individual cabinet member must not seek improperly to influence a decision about that business.

30. Where a cabinet member may discharge a function alone and becomes aware of a disclosable pecuniary interest in a matter being dealt with or to be dealt with by her/him, the cabinet member must notify the monitoring officer of the interest within 28 days and must not take any steps or further steps in the matter.'

23. Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, the Council shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, the individual will be required to resign from the Panel.

24. The areas where conflicts of interest may arise are detailed below and further examples are provided at appendix 2.

(i) Contribution setting for employers

The setting of employer contribution rates must be done in a way that is fair and transparent. No employer or individual should be in the position to unduly influence the contribution setting process.

The Fund achieves this in the following way:

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 Panel. The approach to contribution setting is based on specific employer characteristics such as its time horizons and risk profiles. This approach ensures consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.

(ii) Delivering the LGPS function for all employers

All employers within the Fund are entitled to receive the same high-quality service and support from the Fund. Equally, the expectation on employers in respect of their obligations under the LGPS are the same for all employers. There should no perception that the Council receives more favourable terms with regards to the service received from, or the obligations expected to, the Fund.

The Fund’s administration strategy will set out the way in which the Fund works with its employers and the mutual service standards expected. The strategy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations.

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 resources are approved by the Panel on recommendation from the S151 officer.

iii) Investment decisions

The primary investment objective of the Fund is to ensure that over the long term there will be sufficient assets to meet all pension liabilities as they fall due. Investment decisions have an impact on all employers within the Fund and so should reflect the long-term requirements of the Fund.

The Investment Strategy Statement sets out how the Fund’s money will be invested in order to meet future liabilities and contains the Fund’s investment objectives and the asset classes in which it will invest. It also contains the Fund’s approach to assessing environmental, social and governance risks and how it will act as a responsible asset owner with regard to engagement and voting shares for companies in which it is invested. The Statement also explains the Fund’s approach to investments which deliver a social impact as well as a purely financial return.

All investment decisions are taken in accordance with the Investment Strategy Statement, following appropriate professional advice. No person with a conflict of interest relating to a particular investment decision may take part in that decision.

From time to time the Council may pursue certain climate related goals. Actions taken in pursuit of these goals may impact on members and employees of the Council in certain ways, for example members and staff may be required to pursue low carbon travel options when travelling on Council business. Where this is the case, members and employees carrying out work related to the management of the Fund will be subject to the same polices as all other Council members or staff, insofar as they reflect operational matters. However, decisions in respect of Fund investments are made by the PAP on behalf of all employers in the Fund and as such will follow separate and distinct policies and strategies.

Responsibility

25. 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 to arise in certain areas. 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 the Fund's employers and scheme members are treated fairly and equitably

26. Southwark Council, as the Administering Authority for the Fund must be satisfied that conflicts of interest are appropriately managed and maintain a register of interests. The register will be updated when an interest is declared by a member of the PAP.

27. The PAP should cultivate a culture of openness and transparency; it should identify, monitor and manage dual interests and responsibilities, which are or have the potential to become conflicts of interest.

28. The PAP should evaluate the nature of any dual interest and responsibilities and assess the impact on their operations and good governance if a conflict of interest were to materialise.

29. However, it is the responsibility of each individual covered by this policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for Pensions Advisory Panel members

30. The PAP will operates a register of conflicts of interests for the recording of all declarations of interest. Further details of how potential conflicts of interest should be identified and managed are set out in the table below.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all relevant individuals will be provided with a copy of this Policy and will be required to complete a Disclosure of Interests form. The information contained in disclosures will be collated into a register of interests. Each individual is responsible for maintaining their register on a continuous basis.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	Where possible, any conflicts should be advised in writing to the Senior Finance Manager (Treasury and Pensions) before the start of any PAP meeting. At the commencement of each PAP meeting, the Chair will ask all those present who are covered by this Policy to declare any new potential conflicts. Any disclosures will be recorded in the minutes of the meeting and in the register of interests. In addition, the latest version of the register will be made available by the Senior

	Finance Manager (Treasury and Pensions) to the Chair of every meeting prior to that meeting if required. The Chair, in consultation with the relevant officers will decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Senior Finance Manager (Treasury and Pensions) and, where it relates to the business of any meeting, also to the Chair of that meeting. Senior Finance Manager (Treasury and Pensions), in consultation with the Chair and with the advice of the Monitoring Officer where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Senior Finance Manager (Treasury and Pensions) may seek such professional advice as he or she thinks fit on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the register of interests and in the minutes of the meeting, if raised during a meeting.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Senior Finance Manager (Treasury and Pensions) will provide to all individuals to whom this Policy applies a copy of their currently declared PAP register of interests. All individuals will confirm in writing that their information is correct or highlight any changes that need to be made

Operational procedure for advisers

31. All of the Fund’s key advisers are expected to have their own policies on how conflicts of interest in their relationships with their clients are managed and these should be shared with the Administering Authority.

32. Although this Policy applies to advisers, the operational procedures outlined above relating to completing ongoing disclosures are not expected to apply to advisers. Instead all advisers must:
    - be provided with a copy of this Policy on appointment and whenever it is updated;
    - adhere to the principles of this Policy;

- provide, on request, information in relation to how they manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to the Fund.; and
- notify the Senior Finance Manager (Treasury and Pensions) immediately should a potential or actual conflict of interest arise, including declaring such actual or potential conflicts at the beginning of PAP meetings

33. All potential or actual conflicts notified by advisers will be recorded in the register of interests.

Monitoring and Reporting

34. In order to identify whether the objectives of the Policy are being met the Senior Finance Manager (Treasury and Pensions) will review the register on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

Key Risks

35. The key risks to the delivery of the Policy are outlined below.
    - insufficient training or poor understanding in relation to individuals' roles on Fund matters;
    - insufficient training or failure to communicate the requirements of the Policy;
    - absence of the individual nominated to manage the operational aspects of the Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with the Policy; and
    - failure by a relevant Chair to take appropriate action when a conflict is highlighted at a meeting.

36. All of these could result in an actual conflict of interest arising and not being properly managed. The Senior Finance Manager (Treasury and Pensions) will monitor these and other key risks and consider how to respond to them.

Appendix 1

1. The statutory requirements for Local Pension Board members are made explicit in the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013. These are restated below.

2. To comply with the values set out in the Good Governance project[2], the same principles should be applied to those decision making committees such as the PAP. This will ensure that all those involved in the administration of the Pension Fund abide by the same principals in relation to any potential or actual conflicts of interest.

The Public Service Pensions Act 2013

3. Section 5 of the Act requires that the scheme manager (in the case of the LGPS this is the administering authority) must be satisfied that a pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

4. The Act defines a conflict of interest as "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the LGPS or any connected scheme)."

5. Further, the Act requires that LGPS managers must have regard to any such guidance that the national Scheme Advisory Board issue (see below).

The Local Government Pension Scheme Regulations 2013

6. Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act 2013 to the LGPS, placing a duty on each administering authority to satisfy itself that pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

7. Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to pension boards. Further, regulation 110 provides that the national Scheme Advisory Board has a function of providing advice to administering authorities and pension boards. The LGPS national Scheme Advisory Board issued guidance relating to the establishment of pension boards including a section on conflicts of interest. This Policy has been developed having regard to that guidance.

[2] https://lgpsboard.org/images/Other/Good_Governance_Final_Report_February_2021.pdf *'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'*

The Pensions Act 2004

8. The Public Service Pensions Act 2013 also added several provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

9. Section 90A requires The Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Policy has been developed having regard to that Code.

10. Further, under section 13, The Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for pension board members are not being adhered to.

Localism Act 2011

11. All members and co-opted members of the Pension Committee are required by the Localism Act 2011 to register and declare 'disclosable pecuniary interests' and 'other registerable interests' and abide by Southwark Council's Code of Conduct. That Code contains provisions relating to disclosable pecuniary interests, other registerable interests, non-registerable interests and sensitive interests including their disclosure and any limitations on members' participation where they have any such interest.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

12. This Guidance states:

"*the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisors might have*."

It includes some examples of how conflicts of interest could arise in these new roles and highlights the need for administering authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities;
- ensure declarations are updated appropriately.

13. This Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

Principles of Public Life

14. The Seven Principles of Public Life, otherwise known as the "Nolan Principles," apply to anyone who works as a public office holder. They cover everyone elected or appointed to an office within local government and many are integral to the successful implementation of this Policy. They are as follows:
    - selflessness;
    - integrity;
    - objectivity;
    - accountability;
    - openness;
    - honesty; and
    - leadership.

Advisers' Professional Standards

15. Many advisers are required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary is bound by the requirements of the Institute and Faculty of Actuaries. Any protocol or other arrangement between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Appendix 2

Further Examples of Potential Conflicts of Interest

a) An elected member on the PAP may be required to provide views on a funding strategy which could result in an increase or decrease in employer contributions payable by the employer he or she represents.

b) An elected member on the PAP may be a member of a political party or a special interest group that has specific areas of interest that might influence Fund decision making.

c) In considering actuarial advice and reports PAP members have an overriding responsibility to protect the long-term solvency of the Fund which could conflict with short-term budgeting priorities of individual employers.

d) A member of the PAP is on the board of, or employed by, an Investment Manager or other supplier that the PAP is considering appointing.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Strategic Director of Finance, who has responsibility for the Council budget, is expected to approve the report to go to the PAP which, if agreed, would result in a material reduction in the charges to the Council from the Fund.

g) An employer representative may be aware of a system which would help to improve standards of service and/or record keeping but would be expensive to implement and lead to increased contribution rates. A conflict could arise through the representative's dual interests.

h) Officers of the Fund are asked to provide a report to the PAP on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for themselves.

I) A Fund adviser is party to the development of a strategy which could result in additional work for his or her firm, for example, providing delegated or fiduciary management of Fund investments, providing assistance with monitoring the covenant of employers.

j) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the PAP. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the PAP.

k) An officer of the Fund or member of the PAP accepts hospitality from an Investment Manager or other supplier who has submitted a bid as part of a tender process.

l). A proportion of the Fund's assets may be invested through the London CIV. Any members of the PAP or senior officers of the Fund who are members of the Board of the London CIV or its Shareholder Committee must also comply with any requirements relating to the management of actual or potential conflicts of interest for the governance of the London CIV. The Council is one of 32 equal shareholders in the London LGPS CIV Ltd (“LCIV”). The shareholders, as LGPS administering authorities, also purchase investment management services from LCIV. The nature of this relationship has the potential to lead to conflicts of interest that must be managed.

Item No. 9	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		DHLUC Consultation on LGPS: Changes to the Scheme Advisory Board Cost Management Process	
From:		Graduate Finance Trainee, Finance and Governance	

RECOMMENDATIONS

1. The Local Pension Board is asked to note the update provided in this report.

BACKGROUND INFORMATION

2. On 30 January 2023, The Department for Housing, Levelling up and Communities (DHLUC) launched a consultation proposing changes to the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) cost control mechanism, which included some draft amendments to the LGPS Regulations. The closing date for responses was 24 March 2023.

3. Following the 2010 election, the Independent Public Service Pensions Commission was set up to conduct a structural review of public service pension provision and recommended a structure that included sharing the risk and cost of public service pensions fairly between employers and the Government. The cost management processes were agreed to be legislated by HM Treasury (HMT) for all public service schemes.

4. In addition, LGPS administrating authorities also carry out local valuations to determine contributions by employers into individual funds and assess whether they are on target to meet future pension liabilities.

5. The LGPS, therefore, has two separate cost control mechanisms (ccm) – HMT ccm which applies to all major UK public service schemes and SAB, which is applied to scheme-wide valuations and can result in changes to benefits and member contributions.

6. The first SAB, scheme-wide valuation was applied in 2016 and resulted in no changes to the Scheme benefits for the LGPS (arrived at in 2021). However, the process is still subject to judicial review brought by the unions.

7. The current SAB process operates within and is subject to the HMT mechanism. It is broadly similar but can use different assumptions around employee cost elements, and has its own target levels among other differences. SAB recommendations are taken into account when HMT calculates scheme costs. Following the Government Actuary's review of the HM Treasury ccm in 2021, the SAB has considered changes

it wishes to make so as to remain generally aligned with that of HMT. The proposals are detailed below in paragraphs 8-11

PROPOSED AMENDMENTS

8. Scheme-wide valuations taken every 4 years
Valuations and the cost control process will be required every 4 years rather than the current 3 yearly valuations to be consistent with HMT directions, similar to other public service schemes.

9. Introduction of Additional Flexibility
Recommendations may be made by SAB to bring the scheme “to or towards” the target cost. This will avoid situations where the SAB are required to come up with a package of benefits/contribution changes to bring funds exactly to the target cost.

10. Abolition of the cost 2% corridor under the SAB cost control centre
The plus or minus 2% corridor set out in the LGPS Regulations would disappear so there will be no cost change so large that the SAB would be required to make recommendations for change. This differs from the HMT process where the corridor is 3% and changes must be made if costs fall outside that corridor. This contributes to the above flexibility.

11. Economic Check
The Government’s Actuary recommended introducing an economic check to protect taxpayers, by forcing the mechanism to consider the long-term economic assumptions when calculating the actual cost of providing a pension. This check will be introduced to the ccm so that a breach of the mechanism will only be implemented if it would still have occurred had the impact of any long-term economic assumptions been considered. For funded schemes, this approach ensures that there will be a higher bar for benefit increases to be awarded if the country’s long-term economic outlook has worsened and conversely if the long-term economic outlook has improved. For funded schemes like the LGPS, the purpose of an economic check is to ensure consistency between benefit changes and changes in the wider economic outlook. The exact details of this will be released by the Government via the valuation directions.

AON’S VIEW

12. Aon’s view is that the proposed changes appear reasonable and provide more flexibility for SAB to make recommendations following 4-yearly valuations, with fewer risks of perverse outcomes when interacting with the HMT mechanism.

13. It is likely that the SAB's cost management process will not follow the principles of the HMT economic check but instead, consider changes in the ‘LGPS discount rate’. It is unclear how this will operate in practice due to the timing mismatch between the cost control and local valuations, and the range of discount rates used by LGPS funds.

14. The economic check for HMT ccm will be separate from SAB ccm. The introduction of the economic check will likely require further LGPS regulation changes which have not yet been specified pending further detail on the operation of the economic check.

15. The proposed reforms to HMT and SAB cost management process aim to reduce automatic scheme valuation-triggered changes.

16. The change in wording ('to or towards') makes it slightly more likely for SAB to recommend benefit changes, but the final decision would still rest with the Government. The remit of SAB is to provide advice, on request, to the Secretary of State who takes this advice into account when making decisions, leaving the final decision to Government.

COMMUNITY, EQUALITY AND HEALTH IMPACTS

17. **Community Impact statement**

    No immediate implications arising

18. **Equalities (Including socio-economic) Impact Statement**

    No immediate implications arising

19. **Health Impact Statement**

    No immediate implications arising

20. **Climate Impact Statement**

    No immediate implications arising

21. **Resource Implications**

    No immediate implications arising

22. **Legal Implications**

    No immediate implications arising

23. **Financial Implications**

    No immediate implications arising

24. **Consultation**

    No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Aisling Hargadon, Graduate Finance Trainee, Finance and Governance	
Version	Final	
Dated	28 March 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBERS		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		

Item No. 10	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		LGPS – Update on Current Issues	
From:		Graduate Finance Trainee, Finance and Governance	

Recommendations

1. The Local Pension Board (LPB) is asked to note the updates provided in this report.

Good Governance Project

2. The Department of Levelling Up, Housing and Communities (DLUHC) provided an update at the Local Government Pension Scheme (LGPS) Technical Group on 2 September 2022 which was reported to the LPB in October 2022. There has been little development since then but the project is being closely monitored.

3. It is expected that a further two-part consultation will take place this year together with draft regulations and guidance. This will include the recommendation to have a workforce strategy in place. DLUHC expect some elements will be in regulation rather than guidance as originally recommended. The date of this consultation is yet to be announced.

4. The LGPS Scheme Advisory Board (SAB) reported that the Board Chair and Secretary met with the minister for Local government, Lee Rowley, in December 2022 to discuss progress on the Good Governance recommendations. No more information has been published.

The Pensions Regulator

5. The Pensions Regulator (TPR) published on 27 September 2022, an action plan in partnership with the pensions industry, to improve diversity and inclusion across the trustee boards. Whilst not of direct relevance to the LGPS, it is suggested that administering authorities consider the benefits of diversity and inclusion when seeking candidates for local pension boards and committees.

6. The publication of the final Code of Practice has been delayed following the change in conservative party leadership and Covid-19. It was reported in March this year that the consolidated single code of practice will be called the 'General Code' and is expected to be published in spring 2023. This is largely a

consolidation exercise but does require compliance. We will continue to monitor this for updates.

Scheme Advisory Board (SAB)

7. McCloud Data issues
   SAB has published guidance to help authorities with McCloud data issues if they are unable to collect the data needed to implement the McCloud remedy. This should be used alongside the legal advice provided by Eversheds.

8. Climate Risk Reporting Survey
   SAB submitted a response to DHLUC's consultation on the governance and reporting of climate risk and commissioned their own survey on this (This consultation was reported to LPB in October 2022). They found that of the 51 responses, 30% indicated they lack the resources to produce a risk report, 45% said that had insufficient project plans in place to deliver a report by the December 2024 deadline, and 27% are unsure if they have access to the necessary data (especially concerning scope 3). They are hoping to better understand the challenges facing authorities and how SAB could help.

9. 2021-22 Annual Reports
   The Board acknowledges pension fund audit delays and proposes solutions to improve audit completion. It urges administering authorities to publish their annual reports by the December deadline as required under regulation 57 of the LGPS Regulations 2013. They should use the best available data, even if it is unaudited. The Board suggests that authorities label such reports as "draft" and update them with audited data when available.

10. Statement of Employer Contributions
    SAB reviewed triennial fund valuations in October and urged fund employers to prioritize long-term stability in pension contributions over short-term reductions when considering whether reductions in employer contributions are desirable, despite the challenging financial circumstances faced by local government.

11. New Local Government Minister
    Lee Rowley was announced as the new Local Government Minister in November 2022 so took on responsibility for the LGPS. The SAB Chair and Secretary met with the Minister on 7 December and discussed pooling, good governance recommendations, climate risk and reporting regulations, and the impact of the National Living Wage.

12. Public Sector Pension Increase
The Pensions Increase and Revaluation Order for public sector pensions was published in February. Public service pensions which have been in payment for a year will be increased by 10.1% from 10 April 2023 in line with the September-to-September increase in the Consumer Price Index (CPI).

Governance and Reporting of Climate Risk

13. The results of the consultation are yet to be released but we are keeping an eye out for changes.

14. The initial consultation was reported to the LPB in October 2022. DLUHC published the consultation seeking views on the proposal to require LGPS funds to assess, manage and report on climate-related risks in line with recommendations from the Task Force on Climate-related Financial Disclosures.

15. The proposed regulations were to come into force in April 2023 and apply to the 2023-24 financial year, and the first report is currently required by December 2024.

Pension Fund Accounting and Investments Team Restructure

16. As advised at the July 2022 Board meeting, a review has been conducted of the structure and resourcing of the accounting and investments team. A need has arisen to increase the resources within the team given the increase in the size and complexity of the Fund over recent years. The aim of the review is to ensure the team is adequately resourced to meet the challenges it faces over the next five to seven years, particularly in meeting the net zero carbon target by 2030.

17. The strategic director of finance and governance has approved the following new roles, including associated job descriptions: chief investment officer (replaces senior finance manager); investment mandates manager; ESG manager; governance manager; and administrative officer.

18. We are now working with HR to implement the new structure, with temporary staff providing cover in the short term.

Community, Equalities (including socio-economic) and Health Impacts

19. **Community Impact Statement**

No immediate implications arising.

20. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising

21. **Health Impact Statement**

No immediate implications arising

22. **Climate Change Implications**

No immediate implications arising

23. **Resource Implications**

No immediate implications arising

24. **Legal Implications**

No immediate implications arising

25. **Financial Implications**

No immediate implications arising

26. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield. Strategic Director of Finance and Governance
Report Author	Aisling Hargadon, Graduate Finance Trainee, Finance and Governance
Version	Final version
Dated	28 March 2023
Key Decision?	N/A

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A

List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Item No. 11	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		Pension Fund Risk Register	
From:		Senior Finance Manager, Treasury and Pensions Pensions Manager, Finance and Governance	

Recommendations

The Local Pension Board is asked to:

- Note the Pension Fund risk register attached as Appendix A.
- Note the risk assessment methodology set out at Appendix B.

Risk Register

1. In line with overall council risk management procedures, the Pension Fund maintains a register of the key financial, operational and reputational risks to the Fund and the controls in place to mitigate the impact or likelihood of these risks occurring. The updated risk register is set out in Appendix A.
2. The risk register is not a complete database of all risks faced by the Fund, but is limited only to those considered as materially significant to the Fund.
3. Recent changes to the risk register include:
    i. Review and re-weighting of impact and likelihood scores.
    ii. Review and amendments for mitigation measures.
    iii. Column added with a revised risk score after mitigations have been applied.

<u>Community, Equalities (including socio-economic) and Health Impacts</u>

4. **Community Impact Statement**

    No immediate implications arising.

5. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising

6. **Health Impact Statement**

No immediate implications arising

7. **Climate Change Implications**

No immediate implications arising

8. **Resource Implications**

No immediate implications arising

9. **Legal Implications**

No immediate implications arising

10. **Financial Implications**

No immediate implications arising

11. **Consultation**

No immediate implications arising

APPENDICES

No.	Title
Appendix A	Pension Fund Risk Register
Appendix B	Risk Assessment Methodology

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions Barry Berkengoff, Pensions Manager, Finance and Governance
Version	Final version

Dated	31 March 2023		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	Comments Included
Director of Law and Democracy		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
List other officers here			
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			N/A

Risk ref	Risk Description	Risk Owner	Risk Category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	PRIMARY RISK SCORE	Risk Controls (Mitigation)	RISK SCORE AFTER MITIGATIONS	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)
R20	Failure to communicate with relevant stakeholders.	BB	Financial/ Operational	9	7	89	1. Pension fund website under ongoing development. 2. Member information guides under review. 3. Training material developed and exists on Member Learning Source.. 4. Meetings held regularly with HR/employers. 5. ABS sent annually to active and deferred members. 6. Annual report prepared in accordance with statutory guidelines published on the website. 7. Newsletters are issued etc.	69	7	6
R2	The Fund's asset allocation strategy is not sufficient to meet obligations and liabilities.	CW	Financial	9	7	89	1. Reports on the funding level produced quarterly by Fund actuary and reviewed by PAP. 2. Funding strategy statement reviewed every 3 years. 3. Fund actuary takes liability profile into consideration when setting contribution rates at each triennial valuation. 4. Investment strategy review conducted following each triennial actuarial valuation, to determine optimal asset allocation for the Fund. 5. Actual asset allocation reported to PAP every quarter with variances of actual allocation to target discussed. 6. The Fund holds investments in assets, the value of which are linked to inflation, a key driver of pension liabilities, such as index linked gilts	61	7	5
R1	Poor investment performance of individual mandates could lead to a deficit and therefore a requirement for higher employer contributions.	CW	Financial	9	6	84	1. Investments are monitored regularly. 2. Pensions Advisory Panel (PAP) reviews fund manager performance quarterly against benchmark. 3. Regular reports received from Investment Advisers providing ratings of managers. 4. Regular meetings with fund managers regarding performance. 5. The Fund undertakes regular reviews of its investment strategy to ensure that the investment asset and manager allocation is appropriate to meet the future pension obligations for the fund.	42	6	4
R23	Employer systems - calculation of employee pension contribution bandings on SAP	BB	Operational / reputation	7	8	82	1. HR creating a new employee banding Policy effective from 6th April 2022. 2. Affected members will be contacted as part of a historical exercise. 3. Any members who owe money will have opportunity to enter a repayment plan over a mutually agreed period.	60	6	6
R9	Employers fail to provide information that fund requires resulting in poor service, increased complaints and possible fines and penalties.	BB/CW	Reputational	6	9	81	1. Employer/HR function going through business transformation exercise, with emphasis on more robust processes and better understanding of fund requirements. 2. New Admin Strategy has been agreed by Strategic Director of Finance & Governance which allows employers to be fined for poor performance following an agreed escalation process.	75	6	8

Risk ref	Risk Description	Risk Owner	Risk Category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	PRIMARY RISK SCORE	Risk Controls (Mitigation)	RISK SCORE AFTER MITIGATIONS	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)
R10	Employer data is inaccurate or contributions are received late creating a financial or regulatory risk to the fund.	BB/CW	Financial	6	9	81	1. Admin Strategy clearly sets out roles and responsibilities and consequences of non-compliance. 2. Communication Strategy to ensure employers reminded of information required. 3. Regular monitoring and reconciliation of contributions from employers. 4. Employers required to provide sufficient information for monthly returns to enable verification that the amounts due are correct. 5. Fund can charge interest on the late payment of contributions 6. The rollout of i-Connect software allows employers to efficiently upload information directly to the Fund with automatic data verification checks. 7. The new Pension Services structure includes a specialist Data Team to manage data from employers.	50	5	6
R18	Inaccurate or incomplete member data.	BB	Financial/ Operational	9	5	78	1. Data Systems team in place, reconciliation against other Council/employer systems. 2. Administration Strategy supports monitoring of employer compliance. 3. Data matching exercises (National Fraud Initiative) help to identify discrepancies. 4. Mortality Screening and address tracing is performed frequently. 5. Data Management Plan to be agreed. 6. New pension and payroll software has been procured with greater analysis functionality. 7. Fund participates in DWP "Tell us Once" initiative. 8. Triennial valuation exercise helps picks up incomplete data.	70	8	5
R19	Inadequate controls to safeguard pension fund records.	BB	Financial/ Operational	8	6	77	1. Cloud hosting and back up arrangements in place. 2. Newly procured pension system will have greater audit functionality. 3. Software regularly updated to meet LGPS requirements. 4. Audit trails and reconciliations in place. 5. GDPR in place. 6. Pensions staff undertake data management training as required.	50	5	6
R13	Detrimental investment performance and reputational damage resulting from untimely or incorrect implementation of the Fund's commitment to achieve net zero carbon by 2030	CW	Financial	8	6	77	1. The Fund has committed to achieve net zero carbon within its investments by 2030. 2. An updated investment strategy has been launched which sets out how this will be achieved in the short, medium and long term, whilst maintaining acceptable levels of risk and return. 3. The Fund maintains regular contact with like minded LGPS Funds and other advisory bodies to keep abreast of all pertinent regulatory and investment developments. 4. The Fund will monitor the impact of any changes in investment strategy.	42	6	4
R8	Reliance on a smaller pool of specialist staff across LGPS impacts on ability to recruit and retain staff and increases the risk of a potential loss of knowledge and expertise.	BB	Staffing & Culture	8	5	70	1. Use of external advisers with specialist knowledge. 2. Develop and implementation/roll-out of training programmes to help ensure staff are equipped with appropriate skills and knowledge, and to show recognition of value placed on them. 3. Pension Services new structure agreed which moves away from former flat structure with limited development opportunities. This will mitigate against risks around staff retention and succession planning. New specific training role focuses on training, knowledge management, development and multi-skilling.	61	7	5

Risk ref	Risk Description	Risk Owner	Risk Category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	PRIMARY RISK SCORE	Risk Controls (Mitigation)	RISK SCORE AFTER MITIGATIONS	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)
R3	International conflicts and changing market conditions impact fund performance and income from investments, resulting in a reduction in fund value and impact on ability to pay pensions	CW	Financial	7	6	69	1. Ongoing monitoring of Fund performance and investment markets. 2. Advice obtained from investment advisers on continuing suitability of asset allocation. 3. Review of scheme employers' financial strength and likelihood of exit. 4. The Fund holds investments in diversified assets, reducing volatility and ensuring long term stability. 5. Cash flow monitored on a regular basis. Investment income reinvested and not required to pay pensions. 6. Review of investments to identify holdings in Russia completed. Fund has a very small exposure representing 0.023% of total Fund value. Plans are in place to exit these holdings as soon as Russian investment markets reopen. 7. Additional reporting received on emerging market holdings to monitor impact of ongoing conflict.	42	6	4
R22	Inadequate resourcing across pension fund accounting and investment functions, following recently increased complexity of investment strategy, could lead to insufficient management of investments resulting in a potential reduction in Fund value.	CW	Financial	7	6	69	1. Restructure underway to identify additional resources required to address increased complexity and number of investment mandates introduced as a result of net zero carbon commitment. 2. Additional support obtained from investment advisers to ensure ongoing management of increasingly complex investments. 3. Temporary staffing resources in place until restructure is completed.	42	6	4
R24	ABS and P60/payroll/tax communications - frontline operatives SAP data	BB	Operational / reputation	6	7	68	1. HR identifying all frontline operatives who do not have access to internal Southwark IT systems and emails. 2. Appropriate marker on SAP will be activated to ensure that frontline operatives receive employer communications by post (and not internal email). 3. Alternatively, employer communications will be sent directly to depots for distribution to members.	41	5	5
R5	Failure of third party providers for investment management and custodial services, including LCIV, could have a serious financial impact on the Fund.	CW	Financial	7	5	61	1. Contracts are monitored regularly. 2. PAP provided with quarterly information for each manager. Where there are concerns additional monitoring is put in place to ensure financial risks are kept to an acceptable level. 3. Third parties provide Fund with an annual SAS70 (or equivalent) report which provides assurance from their auditors that adequate controls are in place and are operating effectively. 4. Assets to be transferred to the pool only upon satisfactory business case and due diligence	20	5	2
R16	Major IT failure or data corruption/cyber attacks results in administration function's inability to progress pension queries, and potential loss or permanent corruption of data files.	BB	Reputational	9	2	54	1. Civica UPM, has been extensively tested and secured against cyber-attack. 2. the system only allows access from pre-approved IP addresses, limited to the Southwark Council network and Aon. 3. maintain business continuity and disaster recovery plans. 4. data is stored in cloud servers hosted by Civica in a UK data centre. ISO certifications provide confidence that Civica operations meet the highest levels of information security, IT service management and has the Government's IL3 accreditation rating, the highest security rating available. 5. a secondary disaster recovery database is continuously running, and so in the event of cyber-attack or other downtime, the system can switch to a backup with limited loss of data. Every keystroke on the system is fully logged and audited.	35	7	2

Risk ref	Risk Description	Risk Owner	Risk Category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	PRIMARY RISK SCORE	Risk Controls (Mitigation)	RISK SCORE AFTER MITIGATIONS	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)
R15	Failure to comply with data protection legislation which results in reputational damage, scrutiny by the ICO and potential financial loss.	BB	Legal & regulatory	7	3	43	1. Robust procedures are in place which are subject to audit review. 2. Council's action plan for GDPR includes the pension fund and is on track. 3. New training is available and all pensions staff will be required to complete this and refresher training on an annual basis.	26	5	3
R14	Structural changes in Fund membership, leading to unforeseen cash flow implications and the forced sale of assets to meet pension benefits	CW	Financial	6	4	42	1. The Fund undertakes long term cash forecasting to identify trends in cash in/outflows which is built into a strategy to ensure suitable cash inflows to support pension benefit costs. 2. The Fund currently generates surplus cash flows through investment income which could be directed to pay pension benefits if required. 3. A formal cash flow management policy has been adopted, which ensures officers have the ability to maintain adequate liquidity to meet obligations, whilst limiting cash balances in order to maximise investment returns.	20	5	2
R17	That required liquidity in investment assets is not available to allow the fund to meet pension fund obligations as they fall due.	CW	Financial	6	4	42	1. Changes to investment strategy include consideration of split between liquid and illiquid investments. 2. Ongoing monitoring of investments to ensure appropriate balance between liquid and illiquid investments ensuring the fund benefits from the potential for higher returns associated with illiquid investments, whilst still being able to meet obligations as they fall due. 3. The investment strategy is split across a range of asset classes and means of implementation to allow for a variety of redemption options. 4. Cashflow forecasting allows the Fund to predict likely cashflow requirements well in advance.	20	5	2
R21	Impact of McCloud judgement	BB	Financial/ Operational	4	6	40	1. Scoping level of resources in line with SAB guidance and MCHLG consultation paper. 2. Expected to take LGPS employers 18-24 months to complete. 3. Pension Fund website regularly provides news updates to members. 4. Civica UPM provider has already built/tested McCloud software.	32	4	5
R12	Fraud perpetrated against the fund either internally or externally resulting in a significant financial loss	BB	Financial	7	2	35	1. The internal controls for the Fund and Council as Administering Authority are reviewed by internal and external audit on a regular basis. 2. Control arrangements are in place to ensure transactions require multiple layers of authorisation. 3. Participation in NFI matching exercises. 4. Fund now participates in DWP "Tell us Once" initiative.	20	5	2
R11	Pension information to scheme members is inaccurate resulting in claims for compensation against the fund and the Pensions Ombudsman.	BB	Financial	4	5	32	1. Robust procedures in place including appropriate internal checking processes carried out by Senior Officers. 2. Specialist advice can be obtained from external advisers where appropriate.	13	3	3
R7	Admitted/Scheduled Bodies – failure of body/deficits on termination of contracts – could lead to an increase in other scheme employers' contributions	CW	Financial	3	5	24	1. Admission agreements for transferee admission bodies place liability for pension deficits with Southwark Council limiting the Fund's counterparty exposure risk 2.Funding levels for employers are monitored at each valuation. Contributions and deficit recovery periods set at appropriate level to take into account strength of covenant 3. Regular monitoring of amounts due from admitted/scheduled bodies. Actions taken to recover late payments. 4. Academy pension liabilities are supported by a guarantee from the Department for Education.	13	3	3

Risk ref	Risk Description	Risk Owner	Risk Category	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)	PRIMARY RISK SCORE	Risk Controls (Mitigation)	RISK SCORE AFTER MITIGATIONS	Impact - 1 to 10 (10 highest)	Likelihood - 1 to 10 (10 highest)
R6	Failure to comply with existing/new Scheme regulations – resulting in legal sanctions and detrimental effect on Council's reputation.	BB	Legal & regulatory	3	4	18	1. Monitoring of compliance with regulations. 2. Pension Services restructure now agreed and ongoing use of external advisers with specialist knowledge to advise on implementation of regulations if required. 3. Fund breaches policy sets out clear guidance and mechanism for the reporting of breaches by those involved in management of the Fund and to the Pensions Regulator.	13	3	3
R4	Inaccuracy of financial information affects organisational decision making.	CW	Reputational	4	2	14	1. Accounting data reconciled on timely basis. 2. Fund manager valuations independently verified by Fund's custodian. 3. Accounts prepared in accordance with relevant regulatory codes	5	2	2

Appendix B – Risk Assessment Methodology

Likelihood

Score	Range	Example likelihood criteria (not to be followed strictly)
10	Extremely likely	*Numerous, highly credible sources indicate that this event is imminent.*
9	Very likely	*Numerous, highly credible sources indicate that this event will occur soon.*
8	Fairly likely	*Numerous, highly credible sources indicate that this event will occur in the future.*
7	Likely	*A single highly credible source or multiple less credible sources suggest that this event is imminent.*
6	More likely	*A single highly credible source or multiple less credible sources suggest that this event will occur soon.*
5	Less likely	*A single highly credible source or multiple less credible sources suggest that this event will occur in the future.*
4	Unlikely	*A small number of unreliable indicators suggest that this event is imminent.*
3	Fairly unlikely	*A small number of unreliable indicators suggest that this event will occur soon.*
2	Very unlikely	*A small number of unreliable indicators suggest that this event may occur in the future.*
1	Extremely unlikely	*A single unreliable source suggests that this event may occur in the future.*

Risk Scoring Matrix

Impact										
10	55	64	72	79	85	90	94	97	99	100
9	45	54	63	71	78	84	89	93	96	98
8	36	44	53	62	70	77	83	88	92	95
7	28	35	43	52	61	69	76	82	87	91
6	21	27	34	42	51	60	68	75	81	86
5	15	20	26	33	41	50	59	67	74	80
4	10	14	19	25	32	40	49	58	66	73
3	6	9	13	18	24	31	39	48	57	65
2	3	5	8	12	17	23	30	38	47	56
1	1	2	4	7	11	16	22	29	37	46
	1	2	3	4	5	6	7	8	9	10
	Likelihood									

Score	Range	'Life and Limb'	Customer Service	Staffing & Culture	Compliance with regulations/Law	Reputation	Financial
10	Catastrophic	Multiple fatalities and wide-spread serious injuries	Severe, prolonged impact on customer service affecting whole Council with process change required	Severe impact on employee motivation leading to Council-wide prolonged dissatisfaction and industrial unrest.	Major breach leading to suspension / discontinuance of business or outsourcing/ privatisation of core services and/or functions long term.	Very substantial adverse media comment at National level with long-term impact such as resignation of key senior staff and/or Audit Commission enquiry.	Over £100m
9	Critical	More than one fatality and multiple serious injuries	Severe, & prolonged impact on customer service affecting whole Council	Severe impact on employee motivation leading to short-term Council-wide dissatisfaction and industrial unrest	(as above for medium period of time)	(as above for medium term)	£50m to £100 m
8	High/ critical	Multiple serious injuries and/ or one fatality	Severe impact on customer service affecting whole Council for short term	Significant impact on employee motivation, poor quality service delivery across Council short-term	(as above for short period of time)	(as above for short term)	£20m to £50 m
7	Very high	Individual fatality and separate serious injury	Serious impact on customer service affecting majority of Departments for short period of time	Significant impact on employee motivation resulting in poor quality service delivery majority of Depts	Serious breach causing intervention, sanctions, legal action and threat of suspension etc (as above)	Serious short-term damage to reputation, with prolonged adverse media comment at regional level	£10m to £20m
6	High	Individual fatality	Serious disruption to service delivery from more than one department	Significant impact on employee motivation resulting in poor quality service delivery at more than one Department	Serious breach causing intervention, sanctions, and legal action.	Serious short-term damage to reputation, with adverse media comment at regional level	£5m to £10m
5	High/ medium	More than one serious injury	Serious disruption to service delivery from one department prolonged period.	Significant impact on employee motivation resulting in poor quality service delivery at one Dept.	Significant breach leading to sanctions and legal action.	Adverse media comment at regional level	£3m to £5m
4	Medium/ high	Serious injury	Serious disruption to service delivery from one department for short period of time.	Moderate impact on employees motivation at single department level	Significant breach leading to sanctions and/or legal action.	Significant, adverse local media comment/public perception - long term impact	£1m to £3m
3	Medium	Moderate number none life threatening injuries	Moderate impact on customer service at single divisional level	Moderate impact on employees motivation at single divisional level	Significant breach leading to reprimand or sanctions, legal action	Significant, adverse local media comment/public perception – medium term	£500k and £1m
2	Low/ medium	Small number minor injuries	Moderate impact on customer service at business unit level	Affects motivation of small groups of employees.	Moderate impact leading to warning, threat of sanctions	Minor, local adverse media comment/public perception, short term.	£100k and £500k
1	Low	Small number superficial injuries	Minor impact on customer service e.g. small number of complaints	Impact limited to individuals at business unit level	Minor impact only, no reprimand, sanction, or legal action	Damage very localised, does not result in adverse media comment	Up to £100k

Item No. 12	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		2022 Triennial Actuarial Valuation	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Note the report on the 2022 actuarial valuation and the updated funding strategy statement as Appendix 1 and 2 of this report.

Background

1. LGPS administering authorities are required to obtain an actuarial valuation report under Regulation 62 of the Local Government Pension Scheme Regulations 2013. It summarises the results of the funding valuation of the Fund as at 31 March 2022, including the rates and adjustments certificate which sets out the contributions payable by employers from 1 April 2023 to 31 March 2026.

Summary of Results

2. Overall funding position: £177m surplus of assets relative to the liabilities.

3. Funding level: 109% (103% - 2019 valuation).

4. Southwark Council (largest employer in Fund): total contribution rate remains unchanged at 21.5%.

5. Results for other employers range with some seeing reductions and others increases.

6. One academy trust requested stepping of the increase in their rate to achieve affordability. This is incorporated in the rates and adjustments certificate.

7. Climate change scenario analysis has been included for the first time, in order to meet the requirements in relation to climate change related reporting and expectations from the Government Actuary Department.

<u>Community, Equalities (including socio-economic) and Health Impacts</u>

8. **Community Impact Statement**

   No immediate implications arising.

9. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising

10. **Health Impact Statement**

    No immediate implications arising

11. **Climate Change Implications**

    No immediate implications arising

12. **Resource Implications**

    No immediate implications arising

13. **Legal Implications**

    No immediate implications arising

14. **Financial Implications**

    No immediate implications arising

15. **Consultation**

    No immediate implications arising

APPENDICES

No.	Title
Appendix 1	Report on the 2022 Actuarial Valuation
Appendix 2	Funding Strategy Statement

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions	
Version	Final version	
Dated	31 March 2023	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Funding Strategy Statement

SECTION 1
INTRODUCTION

Overview

This Statement, originally prepared in accordance with Regulation 76A of the Local Government Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the Regulations). The Statement describes the London Borough of Southwark's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Southwark Pension Fund (the Fund).

As required by Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA. The statement has also been reviewed having regard to updated guidance published by CIPFA in September 2016, and not the original guidance issued in October 2012 as referred to in the LGPS Regulations at time of writing this Statement.

In preparing the FSS, the Administering Authority must also have regard to the supplementary statutory guidance issued by MHCLG (now DLUHC): Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements. The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS and associated policies in Section 7 of this Funding Strategy Statement.

Consultation

In accordance with Regulation 58, the Administering Authority has consulted such persons as it considers appropriate on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the contents of this Statement.

Policy Purpose

The purpose of this Funding Strategy Statement is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy that will identify how employer's pension liabilities are best met going forward.

- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant primary employer contribution rates as possible.
- Ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding the Fund's liabilities.

Links to investment policy set out in the Investment Strategy Statement

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement and the funding strategy set out in this Statement.

The assets that most closely match the liabilities of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the Investment Strategy Statement invests a significant proportion of the Fund in assets such as equities which are expected but not guaranteed to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate, including where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in January 2023.

The Administering Authority will formally review this Statement as part of the triennial valuation following the 31 March 2022 valuation, currently expected to be as at 31 March 2025, unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

SECTION 2
AIMS AND PURPOSE OF THE FUND

Purpose of the Fund
The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income in order to:

- produce a Fund to pay Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment Regulations over the long term and in so doing;
- to smooth out the contributions required from employers over the long term.

Aims of the Fund
The main aims of the Fund are:

a) To comply with Regulation 62 of the Regulations and specifically to:

- adequately fund benefits to secure the Fund's solvency and long term cost efficiency, which should be assessed in light of the risk profile of the Fund and Employers
- while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled (as defined in Part 1 or deemed employers as per Part 4 of Schedule 2 of the LGPS Regulations), resolution (as defined in Part 2 of Schedule 2 of the LGPS Regulations), and admitted bodies
- enable overall employer contributions to be kept as constant as possible (and subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

The Administering Authority recognises that the requirement to keep employer total contribution levels as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, which should be assessed in light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
- the requirement that the costs should be reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
- maximising income from investments within reasonable risk parameters (see later)

Producing low volatility in the funding position requires material investment in assets which ‘match’ the employer’s liabilities. In this context, ‘match’ means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as stocks and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments within reasonable risk parameters, the

Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver anticipated returns in the long term.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

b) To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

c) To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers are properly informed and consulted, and through regular monitoring of the funding position and the outlook for employers' contributions.

d) To maximise the income from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- Complying with any restrictions set out in the Investment Regulations.
- Restricting investment to asset classes generally recognised as appropriate for UK pension funds.

- Analysing the potential volatility and absolute return risks, and funding risk represented by those asset classes in collaboration with Investment Advisors and Fund Managers, the Fund Actuary and the London CIV and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy.
- Limiting concentration of risk by developing a diversified investment strategy.
- Monitoring the mis-matching risk that the investments do not move in line with the Fund's liabilities.

SECTION 3
RESPONSIBILITIES OF THE KEY PARTIES

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority will:

- Administer the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in LGPS regulations and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.
- Pay from the Fund the relevant entitlements as stipulated by the Regulations
- Invest surplus monies in accordance with the Investment Regulations and the Fund's Investment Strategy Statement.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary
- Ensure it communicates effectively with the Fund Actuary to:

    Agree timescales for the provision of information and provision of valuation results

    Ensure provision of data of suitable accuracy

    Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement

    Ensure that participating employers receive appropriate communication throughout the process

    Ensure that reports are made available as required by relevant guidance and Regulations

    Provide information required by the Government Actuary's Department in relation to Section 13 of the Public Service Pensions Act 2013

- Prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with persons the Administering Authority considers appropriate, and amend these two documents if required.
- Monitor all aspects of the Fund's performance and funding.
- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and Scheme Employer.
- Enable the Local Pension Board to review the valuation process as set out in their terms of reference.
- Take measures as set out in the regulations to safeguard the fund against the consequences of employer default.

- Exercise discretions within the regulatory framework, taking into account the cost of decisions.
- Ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt agreements and spreading exit payments, and ensure the process of applying those policies is clear and transparent to all fund employers

Individual Employers

Individual Employers will:

- Deduct contributions from employees' pay correctly.
- Pay all ongoing contributions, including their employer's contribution as determined by the Fund Actuary and where relevant set out in the rates and adjustment certificate, promptly by the due date (including contributions due under a Deferred Debt Agreement).
- Develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework.
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs (including in relation to ill health retirements) in accordance with agreed arrangements.
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding.
- Notify the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund which affect future funding.
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies.
- Pay any exit payments as required in the event of their ceasing participation in the Fund
- Be aware that responsibility for compensatory added years, which the Administering Authority pays on behalf of the employer as a paying agent, lies with the employer which awards and is recharged for the cost of compensatory added years;

Fund Actuary

The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement
- Actuarial valuations including the setting of employers' contribution rates and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and the LGPS Regulations.
- Any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

- Bulk transfers and individual benefit-related matters such as pension strain costs, compensatory added years costs, etc.
- Valuations of exiting employers.
- Bonds and other forms of security for the Administering Authority against the financial effect on the Fund of Employers' default.

Such advice will take account of the funding position and Funding Strategy Statement of the Fund, along with other relevant matters.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as permitted or required by the Regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance requirements which may be of relevance to his or her role in advising the Administering Authority.

SECTION 4

FUNDING TARGET, SOLVENCY AND NOTIONAL SUB FUNDS

Risk based approach

The Fund utilises a risk based approach to funding strategy.

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

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

These three choices, supported by risk modelling carried out by the Fund's Actuary, define the discount rates (investment return assumption) to be adopted and, by extension, appropriate levels of contribution payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.
These three terms are considered in more detail below.

Solvency Target and Funding Target

<u>Solvency and 'funding success'</u>

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that the liabilities can be met over the long term, using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund, having taken advice from the Fund Actuary, wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate methods and assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, i.e. if the funding level falls below 100%.

For secure tax raising Scheduled Bodies and Admission Bodies with guarantors of sound covenant agreeing to subsume assets and liabilities following exit, the Solvency Target will use appropriate actuarial methods and assumptions that are believed appropriate in the long term for those Bodies. For the 2022 valuation the Solvency Target will be set using an assumed rate of return of 2% in excess of the assumed long term annual increase in the Consumer Prices Index, which is intended to be a prudent outperformance assumption based on assumed future asset holdings.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following exit, the required Solvency Target will be set at a more prudent level dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement (DDA) ends.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers, and asset-liability modelling carried out by the Fund Actuary.

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

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

Trajectory Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Maintaining a stable Trajectory Period avoids undue volatility when setting long term assumptions for the Fund, where the Administering Authority would in ideal circumstances look to reduce the Recovery Period over time in order to achieve full funding. A Trajectory Period of 25 years will be used for the valuation at 31 March 2022.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the actuarial valuation exercise and is not the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serves to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

The discount rate, and hence the overall required level of employer contributions, has been set at the valuation at 31 March 2022 such that the Fund Actuary estimates there an 83% chance that the Fund would reach or exceed its Solvency Target after 25 years.

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

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

For all funding targets an allowance will be made for future pension increases and revaluation of pension accounts using an assumption for future CPI increases which is derived consistently with the modelling underpinning the discount rates. At the 2022 valuation this is a long-term best estimate CPI assumption of 2.3% p.a. Allowance may also be made for any short-term inflationary pressures where this is considered appropriate and prudent. At the 2022 valuation an adjustment of 10% will be added to the liabilities. This adjustment will be reviewed at future calculation dates to ensure it remains appropriate in light of prevailing market conditions.

Application to different types of body

Some comments on the principles used to derive the Solvency and Funding Target for different bodies in the Fund are set out below.

<u>Scheduled Bodies and certain other bodies of sound covenant</u>

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for secure tax raising Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and certain other bodies which are long term in nature i.e. Admission Bodies with a subsumption commitment from such Scheduled Bodies. This is known as the scheduled and subsumption body funding target.

For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Admission Bodies falling under London Borough of Southwark policy

London Borough of Southwark, as an employer, introduced an admissions policy following the actuarial valuation at 31 March 2010 whereby the pensions risk of new admission bodies is underwritten by London Borough of Southwark, and in return the employer's contribution is fixed at the rate at initial entry to the Fund (potentially subject to certain provisos). The Administering Authority has agreed that these contribution rates can be reflected in the actuarial valuation and set out in the Rates and Adjustment Certificate.

London Borough of Southwark subsequently extended this approach to admission bodies which joined the Fund prior to the introduction of this admissions policy with contributions payable at a fixed rate as determined as part of the 31 March 2013 valuation process.

Admission Bodies and certain other bodies whose participation is limited and not subject to a guarantee

For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities). This is known as the (ongoing) orphan admission bodies funding target. It is not the same as the exit basis.

At the 2022 valuation no employers fell into this category.

Full Funding

The Fund is deemed to be fully funded when the assets held are equal to or greater than the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers / groups of employers. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency

Other Aspects of Funding Strategy

Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficit against the Funding Target, employers' contribution rates may be adjusted to target restoration of fully funding the solvent position over a period of years (the Recovery Period). The Recovery Period to an employer or group of employers is therefore the period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

The Recovery Period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund, and whether the employer is in surplus or deficit on the appropriate Funding Target.

Where an employer is in surplus, and where an employer's expected exit date is unknown or expected to be later than the date the revised rates and adjustments certificate will come into force following the next valuation, this surplus will only lead to an adjustment in an employer's contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities valued relative to the appropriate Funding Target (i.e. to the extent that the employer's funding level is greater than 110%).

London Borough of Southwark (which is the largest employer in the Fund) had a surplus of less than 10% of their liabilities at the valuation at 31 March 2022, and so no recovery period has been used for the London Borough of Southwark group of employers.

The Administering Authority recognises that a large proportion of the Fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, and where the employer is in deficit, the Administering Authority may be prepared to agree to Recovery Periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution levels as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery Periods and has agreed with the Fund Actuary a limit of 30 years, for employers which are assessed by the Administering Authority as being a long term secure employer.

Where employers are in deficit, the Administering Authority’s policy is to agree Recovery Periods with each employer which are typically shorter where possible within the above framework. For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

If any employers enter into deferred debt agreement the recovery period for the deferred employer will be the remaining period of the deferred debt agreement.

Grouping

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

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at the initial grouping and at each valuation and to notify each employer that is grouped which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted, unless the grouping is with the letting authority for the purpose of risk sharing arrangements.

Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Stepping

Again, consistent with the desirability of keeping primary (and overall) employer contribution levels as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three annual steps will be permitted. Further steps may be permitted in extreme cases in consultation with the Fund Actuary, but the total is very unlikely to exceed six steps.

Pre-payment of contributions

The Administering Authority may, after considering the advice of the Fund Actuary, permit particular employers to pay contributions early as a lump sum that would otherwise be payable over the following year (or a longer period not exceeding three years). An appropriate discount, as determined by the Fund Actuary, would be applied to the contributions to reflect the early payment. A true-up adjustment may be required if the early payment of contributions based on an estimated payroll results in lower contributions being paid into the Fund (after allowing for the discount) than would otherwise have been the case.

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal funding valuations.

The Administering Authority will consider reviewing employer contributions between formal valuations in certain circumstances. The policy on this is set out in Section 7 – Policy on Employer Flexibilities and reviewing Employer Contributions between Triennial Valuations.

Asset shares notionally allocated to individual employers

Notional asset shares

In order to establish contribution requirements for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own notional asset share within the Fund. Admission bodies with fixed contribution rates are grouped with London Borough of Southwark for this purpose.

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

Roll-forward of notional asset shares

The notional asset shares allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service and any other benefits shared across all employers (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, or where estimated cashflows can be produced with reasonable accuracy, estimated cash flows will be used
- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, or difficult to estimate with necessary accuracy, the Fund Actuary may instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.
- Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

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

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will consider requiring top up payments where deficit contributions fall below a minimum level, or further alternative approaches as it deems appropriate.

Long-term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund’s investment strategy.

SECTION 5

SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions is set out in section 7.

Guarantors

Some employer may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors, and monitors the exposure of the Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer ceases and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

New employers

Initial Rate

When a new employer joins the Fund, the Fund's Actuary determines the initial employer contribution rate payable.

An interim contribution rate may be set pending a more accurate calculation by the Fund's Actuary of the employer contribution rate payable. The Administering Authority will determine these interim contribution rates following each Actuarial Valuation and at any other time at its discretion.

The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities
- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary

New Admission Bodies

Where the Administering Authority makes an admission agreement with a body (the New Body), the default stance of the Fund is that the relevant Scheme employer, as defined in Part 3 of Schedule 2 of the LGPS Regulation 2013, will be required to retain ultimate responsibility for funding the liabilities of the new admission body, with the admission body paying contributions in accordance with the terms of the Admission Agreement or side agreement. This applies to both the liabilities of the initial transferring membership and, in the case of an open admission agreement, any liabilities of the New Body relating to members that commence participation after the initial transfer under the terms of the Admission Agreement.

Bonds and other securitization

Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the Administering Authority (and Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation.

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

The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer or Guarantor on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of bond required from the Admission Body, if any. In this case, the

Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer or Guarantor, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor confirms their agreement to the level of bond cover proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/ Guarantor consider suitable, but this should not be constructed as advice relevant to the Admission Body on this matter.

- In the case of:
  - Admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2
  - Admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the Administering Authority does not judge the Scheme Employer to be of sufficiently strong covenant
  - Other Admission bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant;

  The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. As such, the Administering Authority will obtain some "standard" calculations from the Fund Actuary to assist them to form a view on what level of bond would be satisfactory. The Administering Authority will be pleased to supply this calculation to the Scheme Employer or Guarantor, where relevant, but this should not be construed as advice to the relevant Scheme Employer or Guarantor on this matter. Once the Scheme Employer or Guarantor, where relevant, confirms their agreement to the level of bond proposed, the Administering Authority will be happy to provide a separate document to the Admission Body setting out the level of cover which the Administering Authority and Scheme Employer/ Guarantor, where relevant, consider suitable but this should not be constructed as advice relevant to the Admission Body on this matter.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommend that the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in a mix of growth and matching assets.

Orphan liabilities

Where an employer is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employers' notional assets between the exit date of the employer and each subsequent funding valuation of the Fund. Assets will then be reallocated within the Fund to ensure the orphan liabilities remain 100% funded on a low risk basis after taking account of any outstanding exit payments payable to, or due from the exiting employer, with any investment profit or loss allocated to the contributing employers in proportion to their notional asset share.

Cessation of participation (i.e. Exiting the Fund)

Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of exit of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

The assumptions adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers and will take account of any contractual guarantees where possible and notified to the Administering Authority.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the exit valuation will determine final payments required to make good the funding position revealed unless a contractual agreement sets out that another employer will take responsibility for all the assets and liabilities relating to the exiting employer. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required.

Any deficit or surplus in the Fund in respect of the employer will generally be due to the Fund as a termination contribution, or payable by the Fund to the employer as an exit credit respectively, where the exit date is on or after 14 May 2018.

Further details on the Administering Authority's policy on employer exits and interim reviews is included in Section 7.

Academies

Academies are scheduled bodies and, as such, have an automatic right to join the LGPS. Guidance has been issued by the Secretaries of State for Education and Communities and Local Government but in practice differing approaches are being taken when setting the funding strategy for academies.

With effect from the 2019 valuation, the fund will no longer be assessing individual funding positions and contribution rates for each academy where those academies are part of a Multi Academy Trust (MAT). These will instead be assessed at a combined MAT level (based on academies participating in the Southwark Fund for each MAT), given the regulations set out that it is the MAT that is the Scheme Employer and not the individual academy. The Actuary will therefore assess a combined MAT position only for the value of the assets, liabilities and employer cost of benefits accruing to active members. Contribution rates will be determined based on the active membership of the MAT as a whole and the combined academies' funding deficit or surplus.

Where a new academy joins an existing Multi Academy Trust which has been certified a contribution rate in the Fund, the Fund will require that the Multi Academy Trust ensures that contributions are paid in respect of this academies membership of the Fund.

If the relevant Multi Academy Trust has not previously been certified a contribution rate in the Fund an initial rate will be calculated by the Fund Actuary as set out in the section above.

In future for a new academy conversion while the London Borough of Southwark's asset share is in deficit, the Administering Authority's standard approach will be to:

- Allocate liabilities to the academy in relation to its current employees only, with the London Borough of Southwark asset share retaining liability for former employees;
- Allocate a notional share of assets from the London Borough of Southwark's asset share to the new academy's asset share based on what is known as a "capped prioritised share of fund" approach. This means that the academy will inherit an appropriate share of any deficit attributable at conversion to the London Borough of Southwark's former employees as well as the academy's own employees. Where the prioritised share of Fund is greater than the value of the transferring membership, calculated using the appropriate Funding Target, the notional asset share to be transferred will be capped at 100% of the value of the transferring membership.

Where an academy transfers from one Multi Academy Trust participating in the Fund to another Multi Academy Trust participating in the Fund the notional reallocation of assets between the relevant Multi Academy Trusts will be calculated using the "capped prioritised share of fund" approach set out above, unless the transfer of the academy results in cessation of participation in the Fund of a Multi Academy Trust, in which case additional considerations will apply and the method for determining the notional reallocation of assets will be determined by the Administering Authority in consultation with the Fund Actuary.

SECTION 6
IDENTIFICATION OF RISKS AND COUNTER MEASURES

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these before, and after they emerge, wherever possible. The main risks to the Fund are considered below:

Choice of Solvency and Funding Targets

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

The more optimistic the assumptions made in determining the Solvency and Funding Targets, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor an underlying 'low risk' position (making no allowance for returns in excess of those available on Government stocks) to ensure that the Funding Target remains realistic.

Investment Risk

This covers items such as the performance of financial markets and the Fund's Investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

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

The specific risks associated with assets and asset classes are:

- Equities – industry, country size and stock risks

- Fixed income – yield curve, credit risks, duration risks and market risks
- Alternative assets – liquidity risks, property risks, alpha risk
- Money market – credit risk and liquidity risk
- Currency risk
- Macroeconomic risks
- environmental; social and corporate governance risks

The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, and through the use of specialist managers with differing mandates.
The Administering Authority reviews each investment manager's performance quarterly, and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

If there are significant market movements between the valuation date and the date the valuation is signed off the Administering Authority, on the advice of the Actuary, will consider what allowance should be made, if any, when finalising employer contributions.

Employer Risk

The risks arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a deficit in payments and/or orphaned liabilities. Public sector spending challenges and inflation may have adverse consequences for employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64(4) or 64A and the terms of the Administering Authority's policy, as set out in Section 7 below, are met.

The Administering Authority will put in place a funding strategy statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admitted) and other pension fund stakeholders.

The Administering Authority will maintain a knowledge base on their admitted bodies and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and use this information to inform the Funding Strategy Statement.

Climate change

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund Actuary on the potential effect on funding as required.

The Administering Authority has commissioned scenario analysis modelling on the potential effect on funding from the Fund's Actuary which will be reported in the 2022 valuation report. This modelling is expected to meet the Government Actuary's requirements for the 2022 valuations as well as supporting the Fund's reporting under DLUHC's proposed new TCFD (Taskforce on Climate-Related Financial Disclosures) regime for LGPS funds.

Liquidity and maturity risk

This is the risk of a reduction in cash flows into the Fund (including investment income – e.g. potentially resulting from changes in investment holdings), or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Timing of contribution payments by employers can also impact on liquidity requirements were flexibility is granted by the Administering Authority. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- Budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
- Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
- Lower member contribution rates or a change in the contribution rates, agreed as part of the Cost Management Process or otherwise, may lead to lower income if not immediately matched by higher employer contributions,
- An increase in opt-outs and the take-up of the 50/50 option (whether on affordability grounds which may currently be considered to be an increased risk due to current cost of living pressures) will reduce member contributions to the Fund
- Improved funding positions may lead to employer contribution rates being reduced.

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues. The Administering Authority also commissions the Fund Actuary to provide projections of benefit payments and contributions based at each valuation and monitors the cashflow position on a regular basis.

Governance Risk

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), or establishment of a wholly owned company which does not participate in the Fund, or only partially participates, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Particular examples of risk mitigation are set out below:

- Early retirement and ill health strain payments - No allowance is made in actuarial valuations of the Fund for the additional value of the benefits when a member is made redundant, is in ill health or leaves on the grounds of efficiency. To counter the potential 'strain' (or cost) emerging at the next valuation early retirement strain payments are required from the employer to the Fund to meet this additional cost over a period of no longer than 3 years.
- Bodies ceasing to exist with unpaid deficiency **-** Some employers can cease to exist and become insolvent leaving the employers in the Fund open to the risk of an unpaid deficit. For admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2, any such deficit will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund (provided of course that the relevant Scheme Employer is itself regarded to be of good covenant).

Other employers are more problematic and the Administering Authority will as far as practicable look to reduce risks by:

- Use of bond arrangements or,
- Ensuring there is a guarantor to back the liabilities of the body, or,
- Monitoring other employers with small or declining membership to ensure that funding is close to 100% on the solvency measure by the time the last member leaves service and this may affect the funding strategy accordingly

Statistical/Financial Risk

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority policy will regularly assess such aspects to ensure that all assumptions used are still justified.

Liability Risk

The main risks include discount rates, pay and price inflation, life expectancy, changing retirement pattern and other demographic changes.

The Administering Authority will ensure that the Fund Actuary investigates demographic, pay and pension increase experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed, e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigation of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership, early retirements and redundancies and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

Allowance has been made for prevailing high levels of consumer price inflation in the calculation of the liabilities as at 31 March 2022 as set out in paragraph 4.17 above If significant changes in the value of the liabilities become apparent between valuations, including inflation above the levels allowed for in the 2022 valuation, the Administering Authority will notify the affected employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds that are in place for Admission Bodies require review. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

Regulatory and Compliance Risk

The risks relate to changes to both general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify employers of the possible impact and the timing of any change.

There are a number of consultations which have been issued in recent years, some of which represent proposed changes which were first raised a number of years ago, including a cap on exit payments by public sector employers and new Fair Deal arrangements. Some of these may affect funding and pose a risk to the Fund. The Government has also consulted on changes to the valuation cycle although the 2022 valuation is going ahead as previously planned.

There are a number of additional uncertainties associated with the benefit structure at the time of the latest formal review of this Statement, including:

- The timing and detail of any final regulations in relation to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal age discrimination.
- The outcome of the cost management process as at 31 March 2020 (and the Judicial Review of the 2016 process).

- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the Chief Secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based upon a high-level analysis of the employer’s fund membership. Members’ benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

i. It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
ii. The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
iii. Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
iv. Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
v. The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

Smoothing Risk

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. Where such an adjustment is used, the Administering Authority will review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery Period Risk

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority will discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Stepping Risk

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority will limit the number of permitted steps as appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

Section 7: Policy on Employer Flexibilities and reviewing Employer Contributions between Triennial Valuations

Review of Employer Contribution Rates

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation the contributions paid by each employer in the Fund are reviewed and may be increased or reduced.

The employer contributions payable by employers may also be reviewed outside of the triennial Actuarial Valuations where:

i. it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
ii. it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme;
iii. it appears to the Administering Authority that it is likely that the Scheme employer will become an exiting employer; or
iv. a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

Details of the Fund's policy on reviewing employer contributions under these provisions are set out below.

In addition, in exceptional circumstances contributions may be reviewed between valuations where this is indicated in the Rates and Adjustments Certificate.

Factors used to determine when a review is appropriate

In determining whether or not a review should take place under 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

For an admission body where contributions may be reviewed under Regulation 64(4), the following considerations will apply:

- Where the date of exit is known, and is more than three years hence, or is unknown and participation is assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.
- For Admission Bodies admitted under paragraph 1(d) of Part 3 Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. The requirements on employers to inform the Fund of certain events are set out in the Pensions Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers (including any guarantor or employer providing a subsumption commitment) with a view to seeking their agreement to this approach.

Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12-month period from the valuation date although if there were any material changes to the expected liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Cessation of participation, Deferred Debt Agreements and Exit Payments

An employer can cease participation in the following circumstances:

- an active employer ceases to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement,
- a deferred employer ceases to participate where the Deferred Debt Agreement ends.

Where participation ceases, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

London Borough of Southwark's admission policy generally includes a guarantee that it will take on all the assets and liabilities on exit, with no exit payment falling on the exiting employer. For clarity, no exit credit will be payable to such employers on exit. The Fund Actuary will provide the Administering Authority with an exit valuation confirming that no exit deficit or surplus is due to be paid at the exit date and a revised rates and adjustments certificate showing the nil exit payment due from the exiting employer, as required under Regulation 64(2) of the LGPS Regulations.

The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

For subsumed liabilities the Administering Authority's policy is that the funding target for assessing the liabilities on exit is the ongoing funding target appropriate to the subsuming body, updated for financial conditions at the exit date.

In exceptional circumstances the funding target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary. For example, the Administering Authority may, at its discretion, include additional margins for prudence compared to the approach used for determining ongoing contributions, for example in relation to regulatory uncertainty.

The assumptions adopted to value the departing employer’s liabilities for the exit valuation will depend upon the circumstances. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers and will take account of any contractual guarantees where possible and notified to the Administering Authority.

For exits where the calculations are undertaken on or after the date this statement comes into force, the following refinements will be made to the approach at the 2022 funding valuation:

- the allowance made for the potential liabilities arising from the McCloud judgement remedy will be refined as required once the final remedy is known and as the data required to accurately assess any additional liabilities becomes available, as advised by the fund actuary
- the allowance for short-term inflation above the long-term assumption underpinning the exit funding target will be reviewed and updated on the advice of the Fund Actuary

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position disclosed by the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the outgoing employer.

However, where agreed between the parties the deficit (or any exit credit) may be transferred to the subsuming employer or guarantor, in which case it may be possible to simply transfer the former admission body’s members and assets to the subsuming body, without needing to crystallise any deficit or pay an exit credit. This is the case with admission bodies admitted using London Borough of Southwark’s admission policy, where no exit debt or credit is payable on exit.

If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity. These will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor or successor body within the Fund.

At successive triennial Actuarial Valuations the Actuary will allocate assets within the Fund equal to the value of the orphan liabilities so that these liabilities are fully funded. This may require a notional reallocation of assets from the ongoing employers in the Fund.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer.

Regulation 64(4) of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers which are expected to exit at some point in the future, and for the Fund Actuary to certify revised contribution rates, between funding valuation dates.

The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the Funding Target for that employer, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any date of exit of participation may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years hence, or is unknown and participation is assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.
- For Admission Bodies admitted under paragraph 1(d) of Part 3 Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) applies.

Exit payments

Any deficit would normally be levied on the departing employer as a single capital payment although, the Administering Authority may, allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level quarterly amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Suspension notices

Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

The Administering Authority considers that it is appropriate to exercise that discretion in relation to any employer where there is a reasonable expectation that a member will join in the near future (e.g. before the next triennial Actuarial Valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer.

Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

Deferred Debt Agreement (DDAs)

Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. In any case the Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches

Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The matters which the Administering Authority will reflect in a DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- a provision that the DDA will terminate on the first date on which one of the following events occurs-

a) the deferred employer enrols new active members;
b) the period specified, or as varied, elapses;

c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer'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; or
e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

- the responsibilities of the deferred employer
- the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months
- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary.

Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer’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, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Appeals

Any appeal against the administering authority’s decision in relation to any of the matters in this section of the funding strategy must be made in writing within 6 months of being notified of the decision.

An appeal will require the employer to evidence one of the following:

- a deviation from the published policy or process by the administering authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority.

Item No. 13	Classification: Open	Date: 5 April 2023	Meeting Name: Local Pension Board
Report title:		Pensions Advisory Panel Meeting Papers – 6 March 2023	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Note the key items covered at the 6 March 2023 Pensions Advisory Panel meeting.

Summary

The papers can be accessed via the following link:

https://southwarkpensions.co.uk/documents-library/pensions-advisory-panel-reports

1. **Carbon Footprint Update – Agenda Item 7**

   - Reduction in the Fund's carbon footprint between September 2017 and December 2022 was 59%.

2. **Investment Adviser Performance Updates – Agenda Item 8**

   - Fund value decreased by £31m during the quarter to December 2022, from £1,994.0m to £1,962.9m.
   - Fund return quarter to December 2022: -1.1% (benchmark 1.3%)
   - Fund return year to December 2022: -8.6% (benchmark -4.9%)
   - Fund return 3 years to December 2022: 4.7% (benchmark 5.9%)
   - No funding updates are provided by the actuaries during 2022-23. These are suspended until completion of the 2022 actuarial valuation.

3. **Revised Investment Strategy Statement – Agenda Item 9**

   - The ISS was updated to include the changes to the investment strategy and the framework for new illiquid investments agreed at the December 2022 PAP meeting.

4. **Pension Fund Cash Flow Management Policy – Item 11**

- PAP agreed to a formal cash flow management policy to be implemented for the Fund.
- A policy is required to allow officers to react more efficiently to ongoing liquidity requirements and minimise cash balances held in order to maximise potential investment returns.
- As the Fund moves further with its net zero carbon targets, there has been an increase in illiquid investments. The Fund commits capital to these investments which is drawn down as cash over time.
- The policy splits assets into a 5-tier structure identifying which assets should be used in order to meet obligations as they fall due.
    - Tier 1: primary cash vehicle – bank account and money market funds.
    - Tier 2: secondary cash vehicle – liquidity fund.
    - Tier 3: main source of liquidity to fund new investments – passive equities redeemed to top up tiers 1 and 2.
    - Tier 4: other sources of liquidity – low liquidity characteristics but can be redeemed if tier 3 assets require topping up.
    - Tier 5: illiquid investments – should not be considered where the Fund requires liquid resources to meet obligations.

Community, Equalities (including socio-economic) and Health Impacts

5. **Community Impact Statement**

No immediate implications arising.

6. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising

7. **Health Impact Statement**

No immediate implications arising

8. **Climate Change Implications**

No immediate implications arising

9. **Resource Implications**

   No immediate implications arising

10. **Legal Implications**

    No immediate implications arising

11. **Financial Implications**

    No immediate implications arising

12. **Consultation**

    No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Caroline Watson, Senior Finance Manager, Treasury and Pensions
Version	Final version
Dated	31 March 2023
Key Decision?	N/A

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A