

**BOARD : LOCAL PENSIONS BOARD**  
**DATE : 27 October 2020**  
**TIME : 10am**  
**VENUE : Virtual meeting using Microsoft Teams**

**LOCAL PENSION BOARD MEETING**  
**10.00 – 12.30**  
**AGENDA**

**PART A**

**1. PROCEDURAL MATTERS - (Pages 3 - 10)**

The Board will:

- a) Receive the minutes of the meetings on 14 July 2020
- b) Review the Actions Tracker
- c) Consider any Declarations of interest

**2. REVIEW OF PENSION FUND COMMITTEE MINUTES - (Pages 13 -18)**

To receive the minutes from the Pension Fund Committee meeting which took place on the 11 September 2020 and the Investment Sub-Committee minutes from 4 September 2020.

**3. PROGRAMME UPDATE (FORMERLY PROJECT CHRYSALIS) - (Pages 19 - 24)**

The Board will receive a verbal update on progress with the Funds transformation project known as Project Chrysalis.

**4. UPDATE FROM THE SCHEME ADVISORY BOARD - (Pages 25 - 30)**

The Board will receive a verbal update following the Scheme Advisory Board and its sub-committee meetings as outlined below:

<b>Committee</b>	<b>Meeting Dates</b>
Scheme Advisory Board	25 Aug 2020
Cost Management, Benefit Design and Administration Sub-Committee	5 Oct 2020
Investment, Governance and Engagement Sub-Committee	13 Jul 2020

**5. PERFORMANCE MANAGEMENT FRAMEWORK QUARTER 2 – 2020/21 - (Pages 31 - 32)**

The Board will receive the Performance Management Framework covering the period 1 July to 30 September 2020 (along with the quarter 4 comparator – 1 April to 30 June 2020).

**6. THE McCLOUD JUDGEMENT/REMEDY - (Pages 33 - 38)**

The Board will receive a report on the Ministry of Housing, Communities and Local Government consultation on proposed remedies for the LGPS to remove age discrimination.



**7. EXIT CAP £95k - (Pages 39 - 42)**

The Board will receive an update of changes to legislation on exit payments in the public sector and the introduction of the £95k cap.

**8. DATA QUALITY- (Pages 43 - 46)**

The Board will be presented with updated data scores for common and scheme specific data for the Pension Regulators' 2020 Scheme Return along with details of actions the Fund has undertaken to improve the quality of data held.

**9. COMPLIANCE UPDATE - (Pages 47 - 48)**

The paper also provides a summary of the Breaches Log for the period 1 April to 30 June 2020.

**10. FEEDBACK FROM EVENTS - (Verbal)**

Board members/officers will feedback from recent conferences and seminars attended, including:

- Joint Board and Committee Training – 17 July 2020
- CIPFA McCloud Implementation Workshop – 19 August 2020
- Institute of Business Ethics Supporter Forum – 7 October 2020
- CIPFA/Barnett Waddingham LPB Seminar – 1 October 2020

**11. REVIEW AND DEVELOP THE WORK PLAN FOR 2020/21 - (Pages 49 - 50)**

The Board will review the plan for 2020/21.

**12. AOB**

To note the next Board meeting will take place on 2 February 2021.

Dates for future meetings are:

- 4 May 2021
- 1 June 2021 – to review the draft Statement of Accounts and Annual Report
- 13 July 2021
- 6 October 2021



## **MINUTES OF LOCAL PENSION BOARD - 14 JULY 2020**

### **PRESENT**

**Board Members:** Peter Raynes (Chair),  
Cllr Robert Bisset (Employer representative, CW&C),  
Geoff Wright (Member representative, Unison),  
Neil Harvey (Member representative, GMB)  
Adrienne Laing (Employer representative, The Challenge  
Academy Trust)

**CW&C Officers:** Heidi Catherall, Aaron Austin and Dan Harte

**Apologies:** Maggie Sheppard, CW&C Officer

### **1. PROCEDURAL MATTERS**

- 1.1 This Local Pension Board meeting was again held virtually due to the coronavirus pandemic.
- 1.2 The Board reviewed the minutes from the last meeting on 5 May having previously approved them by email.
- 1.3 The Board also reviewed the minutes from the meeting on 2 June, where the board reviewed the production of the Annual Report and Statement of Accounts for 2019/20, having previously approved them by email.
- 1.4 The action tracker was reviewed and it was noted that one Board member has not yet completed the Pensions Regulators Trustee Toolkit and one other member has two modules to complete. Both Board members will complete the toolkit ahead of the next meeting.
- 1.5 Board members noted the re-appointment of Neil Harvey as the Member Representative for three years commencing from 27 June 2020.
- 1.6 No declarations of interest were received.

### **2. REVIEW OF PENSION FUND AND INVESTMENT SUB COMMITTEE MINUTES**

- 2.1 The Board reviewed the minutes from the Pension Fund Committee meeting held on 5 June 2020.
- 2.2 The Board also reviewed the minutes from the Investment Sub Committee held on 15 May 2020.



**RESOLVED that the Board:** Noted the minutes of the Pension Fund Committee and Investment Sub Committee meetings.

### 3. PROJECT CHRYSALIS

- 3.1 The Board received an update on the pensions' transformation project known as Project Chrysalis.
- 3.2 The Fund is focussing on four key areas of work for the 2020-21 year and has set out a series of actions within the Business Plan in order to progress with these areas of work.
- 3.3 The four areas are Monthly Interfacing (MI), Multi Skilling, Backlogs and Data Quality.
- 3.4 The Fund has 79 employers live on MI and is in the process of uploading the first file for the Transactional Service Centre (TSC). TSC process the payroll for Cheshire West and Chester and Cheshire East Council, along with their owned companies and a number of academies.
- 3.5 In total TSC represent 51 employers and over 17,000 members and account for over 40% of membership of the Fund. The Fund is also liaising with all other employers to complete their transition to MI.
- 3.6 Multi skilling plans have been developed to allow the Fund to train staff across a variety of skills thereby providing additional capacity to manage the resource effectively. Training will take place over the next 18 months in order to deliver the multi skilling plans.
- 3.7 The Fund is managing backlogs of casework of processes which do not require an immediate payment to a member. These are typically related to the processing of deferred and aggregation casework. The Fund has already reduced the deferred backlogs by 50% and is working through a triage of the aggregation casework in order to develop a plan to reduce that backlog too.
- 3.8 A considerable amount of work has been completed to improve data quality in the Fund over the past two years. The Fund will continue with this work until all data issues are resolved.
- 3.9 In order to resource the team to progress the workstreams, and to ensure that the Fund has additional capacity to deal with any regulatory changes, the Fund is about to undertake a recruitment process to increase the team by four additional posts overall.
- 3.10 Board members recognised the fact that the Fund has continued to make progress with these workstreams despite also dealing with the pandemic and having to adjust to working remotely and requested that their thanks be conveyed to staff members.



#### **4. UPDATE FROM THE SCHEME ADVISORY BOARD**

- 4.1 The Board reviewed the minutes of the SAB meeting on the 5 May and the Cost Management, Benefit Design and Administration (CMBD&A) Sub-Committee meeting of 8 June.
- 4.2 Board members were advised that a consultation is awaited on the proposed remedy and regulatory changes resulting from the McCloud case. This will result in considerable additional work for officers in communicating the changes to benefits, requesting any missing information on member's records (for instance changes in hours) and recalculating benefits.
- 4.3 Once the consultation is received the Fund will be able to scope the work required to meet the project and can then determine the full extent of resources required to meet it.
- 4.4 The Board discussed the Good Governance project which the Scheme Advisory Board has commissioned. The outcomes from the project have been delayed due to the pandemic.
- 4.5 Board members requested that officers contact SAB to determine when the outcomes from the project would be known.

**RESOLVED that the Board:** Officers will contact the Scheme Advisory Board to request confirmation of when the outputs from the Good Governance project will be presented.

#### **5. PERFORMANCE MANAGEMENT FRAMEWORK Qtr 1 – 2020/21**

- 5.1 The Board were presented with the Performance Management Framework (PMF) for quarter 1 (April to June 2020), which contained updates on key areas of performance and comparator information from previous quarters.
- 5.2 The Board noted the red rating on administration casework with backlogs exceeding 10% of membership. As previously explained, this is likely to continue in the medium term whilst the pension team implement the developments outlined in Project Chrysalis and whilst we respond to the impact of Covid-19.
- 5.3 The Board received two direct submissions from members during the quarter via the link on the Board section of the website, covering Investments and ESG principles and fund policy consultations. The Board responded to both enquiries.
- 5.4 The Board also noted the red rating on aged debt. This relates to early retirement strain payments from employers. There are no concerns about the ability to recover outstanding debt to the pension fund.



**RESOLVED that the Board:** Received the Performance Management Framework for quarter one 2020/21.

## 6. RISK REGISTER

- 6.1 The Board undertook a review of the risk register to determine whether it still contained the right risks, had been scored appropriately and whether any additional actions were required to further mitigate the risks.
- 6.2 A couple of members had not completed the TPR Toolkit which was a specific action in order to ensure that board members had the requisite knowledge and skills. All Board members will complete the toolkit.
- 6.3 The Board had previously discussed the issue of succession planning due to having a small number of board members which could lead to an unfilled vacancy if someone was to leave mid-term.
- 6.4 Board members debated whether there was an opportunity to invite interested parties to observe future meetings with a view to joining when a vacancy arises. The size of the Board was raised in the external governance review which was carried out in 2019.
- 6.5 The Board has not implemented any recommendations from this review until the national Good Governance outcomes are available. The national 'review has been delayed due to the pandemic and Board members requested that officers contact SAB to confirm when the outcome from the review will be available. If there is to be a considerable delay in the national review the Board may look to implement the local recommendations sooner.
- 6.6 Board members will identify any interested parties that they are aware of and officers will consider whether they can be invited to attend a meeting in 2021.
- 6.7 The Board did not consider that a specific risk was required as a result of the pandemic but did want the register to acknowledge the effectiveness of the board when having to hold meetings remotely. Board members requested that this be added into one of the existing risks.

**RESOLVED that:** Board members undertook a review of the risk register and determined that there were no material changes required. Some amendments to risk actions will be made in line with the comments identified above.

## 7. DATA QUALITY

- 7.1 The Board received the updated TPR Data Scores for July 2020, which showed continued high levels of compliance on the common data scores. Scheme specific data scores had seen a temporary reduction which results from the fact that the latest period covers the peak activity of reconciling annual returns from employers through



the annual LGS50 process – which will be largely complete when the annual return for September is extracted.

- 7.2 The Board were reminded that the Fund has been working with their database provider in order to move to the new measurement report. The report has been updated to remove any anomalies that were causing it to deliver incorrect scores in some areas. These anomalies largely related to the fact that the report was using the same data validations for different types of member, active, deferred and pensioner.
- 7.3 The Fund will receive the updated version of the report in the next software update at the end of July.
- 7.4 Board members received an update on the 2019 Annual Benefit Statements position and noted that a further 669 members had now received their statement. The Fund is continuing to resolve the remaining outstanding data queries to ensure that those members will receive their ABS in 2020.
- 7.5 Work has commenced on the 2020 process of obtaining ‘per member’ data from employers which will be used to update the member’s record. The Fund has received the majority of responses from employers and to date, has identified around 2,500 data queries.
- 7.6 This compares favourably to the c8,900 queries that the Fund had to resolve for the 2019 ABS process and is testament to the data cleansing work which has been carried out over the past couple of years. This means that the Fund is on track to meet its target of sending ABS to 90% of eligible members, an increase of 5% from 2019.
- 7.7 Board members again recognised the hard work undertaken by staff in clearing large numbers of data queries over the past year and noted that it demonstrates to the Pensions Regulator that the Fund is making progress in improving the quality of data held by the Fund.

**RESOLVED that the Board:**

- Noted the Fund’s data scores for July 2020 and the work undertaken by the Fund to clear data queries.
- Noted that the Fund will be switching to a new report for measuring data scores for the autumn TPR Scheme Return.
- Noted the position on preparing Annual Benefit Statements for 2020.

**8. COMPLIANCE UPDATE**

- 8.1 The Board were presented with a summary of the breaches log for the period 1 April 2019 to 31 March 2020, noting that 99 breaches had been logged over the period.
- 8.2 Board members noted the actions the Fund is taking in dealing with employers who have failed to pay their contributions on time.



**RESOLVED that:** Board members noted the summary breaches log covering the period 1 April 2019 to 31 March 2020.

## **9. FEEDBACK FROM EVENTS**

9.1 Members of the Board and officers provided feedback from the various events they had attended.

- Pension Fund Committee – 5 June 2020
- CIPFA/Barnett Waddingham – LPB Annual Conference – 24 June
- LGPS Central – Responsible Investing Day – 3 July 2020

9.2 PR attended the Pension Fund Committee meeting to observe the Committee discussions around the draft statement of accounts.

9.3 Four Board members had attended the virtual LPB conference on 24 June and provided positive feedback on the event which was well run and included breakout groups which members found particularly useful.

9.4 One of the topics discussed was cyber security and Board members requested that officers facilitate some training to help them understand how this is managed.

9.5 Two Board members also attended the two virtual training sessions on responsible investment which were hosted by LGPS Central on the 3 July.

### **RESOLVED that:**

- Board members will circulate copies of event slides to share knowledge.
- Officers will explore the opportunities to provide training to the Board on cyber security.

## **10. REVIEW OF THE WORK PLAN for 2019/20**

10.1 The Board reviewed the work plan for 2020-21 and noted that a number of actions which were due to be discussed at this meeting had been moved forward on the plan.

10.2 The SAB has not yet issued any conclusions from the Good Governance review so these will be presented to the Board, along with a programme of work that the Fund will undertake to meet any requirements, once the outcomes are available.

10.3 Board members will review their terms of reference and conflict of interest policies at the same time as the outcomes from the Good Governance review so that any required changes can be made together.

10.4 Cyber security. The Board specifically requested that cyber security be added to the plan so that they could more clearly understand how this risk is managed.



## **11. AOB**

- 11.1 Board members noted that a review of their Terms and Condition and Conflict of Interest policy will be undertaken once the outcome of the national Good Governance review is known.
- 11.2 Officers sought feedback from Board members on the use of virtual meetings. Whilst the social distancing measures remain in place meetings will continue to be held virtually. Board members would like to continue with face to face meetings when it is possible to resume them, although would continue with some meetings being held virtually. For instance, where a meeting relates to one specific topic, such as the meetings to review the production of the accounts and the annual report, this can continue as a virtual meeting.
- 11.3 Officers reminded Board members to confirm details of any training they attend so that their training record can be updated. Officers will issue the latest version of Board members training records once they have been updated to capture the planned training on 17 July.
- 11.4 The next Board meeting will take place on: 27 October 2020
- 11.5 Dates were proposed for future meetings as follows:
- 2 February 2021
  - 4 May 2021
  - 1 June 2021 – to review the draft Statement of Accounts and Annual Report
  - 13 July 2021
  - 6 October 2021



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**Cheshire Local Pension Board – Actions Tracker**
**October 2020**

Date	Item Raised Under	Topic	Action	Update from 14 July 2020
27/10/20	Minutes – 14 July 2020	TPR Trustee Toolkit	<p>A summary of the TPR 21<sup>st</sup> Century Trustee Guidance, including the toolkit has been produced. Officers have summarised the results of modules completed by Board members to date.</p> <p>One Board member has completed all but two of the modules and one has not yet commenced the training.</p> <p>Board members will complete the Toolkit as soon as possible and send the results to the Fund so that a central record can be held.</p>	
27/10/20	Minutes – 14 July 2020	Cyber Security	Board members requested training on the topic of cyber security. Officers will explore how and when such training can be delivered.	A presentation will be delivered to the Board and Committee at their joint training event on 30 October.
27/10/20	Minutes – 14 July 2020	Risk Register	The Board requested that the Risk Register acknowledge the risk of the effectiveness of the Board whilst working remotely.	A planned risk action has been added to Risk number 5 for the Board to keep effectiveness under review whilst working remotely.



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## MINUTES OF PENSION FUND COMMITTEE HELD ON 11 SEPTEMBER 2020

### Present

Cheshire West and Chester: Cllrs Hogg (Chair), Gould, Lewis and Tonge  
Cheshire East: Cllrs Bulman, Corcoran, Findlow and Stott  
Halton: Cllr Wharton  
Warrington: Cllr Mitchell  
Member Representative: Paul Matthews, GMB

### In Attendance

Actuary: Hymans Robertson - Gemma Sefton, Robert Bilton  
Investment Advisor: Mercer – Joanne Holden, Chris West  
External Auditor: Grant Thornton - Stuart Basnett  
CW&C Officers: Mark Wynn, Maggie Sheppard, Heidi Catherall, Nick Jones, Steve Wilcock, Debbie Darlington

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## **PART A:**

### **PROCEDURAL MATTERS**

1. Declarations of Interest - There were no declarations of interest.

### **MINUTES OF MEETINGS**

2. The minutes of the Pension Fund Committee held on 5 June and 17 July 2020 were reviewed, having previously been distributed and agreed by email. The Minutes of the Local Pension Board held on 14 July 2020 were also reviewed.

### **STANDING ITEMS**

3. The Committee received a report detailing employers who had joined or exited the Fund over the period 1 June to 31 August 2020 (inclusive).

**The Committee** noted the changes to employers during the reporting period

4. The Committee received the Compliance Update including a summary of the breaches log 1 April to 30 June 2020, noting that 45 breaches had been logged over the period.

**The Committee** noted the cumulative Breaches Log for 1 April to 30 June 2020 and actions taken.

5. The Committee were presented with the Action Plan performance dashboard summarising progress in meeting actions due in quarters one and two. Members noted that of the three actions identified as amber from quarter one, two have been moved forward to quarter three and will be considered as part of a review of



resources. The third action is now green after the Fund was able to onboard the Transactional Service Centre onto the Monthly Interfacing system.

6. Members noted that of the twenty-three actions identified for completion in quarter two, four were amber and the rest were green.
7. Members received an update on the forecast outturn. The Committee noted that the Fund was recruiting additional staff in response to increase casework volumes including that required to implement the McCloud remedy. Committee requested that the staffing establishment be detailed in future budget reports.

**The Committee** noted progress in delivering the Action Plan and the forecast outturn position.

8. The Committee received a Regulatory Update on recent changes to the LGPS Regulations. The provide greater flexibility to respond to changes in employer circumstances between triennial valuations and clarify regulations on managed exits (which endorse the Fund's existing approach). The Funding Strategy statement will need to be updated to reflect the new regulations
9. The Committee also received a briefing on the Government's proposal to introduce a cap of £95,000 on Exit Payments in the public sector and the recently launched MHCLG consultation on changes to the LGPS to implement the exit payments cap. More information was being received on the impact of the proposals and further reports will be presented in due course.

**The Committee:**

- a) Noted the greater flexibility to review contribution rates between valuations
- b) Noted the greater flexibility on exit payments through spreading exit payments or entering Deferred Debt Agreements
- c) Noted that the Funding Strategy Statement will have to be reviewed to capture the Fund's policy to reviewing contribution rates, spreading exit payments and entering Deferred Debt Agreements
- d) Noted the update on the Government's proposal to introduce a £95K cap on exit payments in the public sector

## **CONSULTATION ON THE MCCLOUD JUDGEMENT**

10. The Committee received a report on MHCLG's consultation on implementing the McCloud judgement remedy which has a closing date of 8 October 2020.
11. Officers explained the proposed regulatory changes and an initial assessment of the number of Fund members in scope of the proposed remedy. The report highlighted the significant impact upon workload across all areas of the Fund, particularly administration and communication. The Fund is developing a project plan to manage this complex, multi-faceted project.



12. Officers are preparing the Fund's response to the consultation, liaising with advisers and the wider LGPS community. The Committee will receive the Fund's proposed consultation response by Electronic Decision Notice towards the end of September.
13. The Local Pension Board will monitor the Fund's progress in meeting the McCloud project plan and the Committee will receive regular updates on progress.

**The Committee** noted the content of the consultation on McCloud and that the Committee would be invited to endorse the Fund's response to the consultation via an Electronic Decision Notice.

### **EXIT CREDIT POLICY**

14. The Committee received an update on the responses to the formal employer consultation of the Fund's draft exit credit policy, along with the Administering Authority's proposed replies to those employers who had submitted a response.

**The Committee noted:-**

- a) Considered and endorsed the administering authority's proposed responses to the feedback to the exit credit policy consultation.
- b) Endorsed that the administering authority implement with immediate effect the exit credit policy as consulted with employers, with no amendments.

### **LGPS CENTRAL POOLING – PROGRESS UPDATE**

15. The Committee received a further report on progress towards delivering investment pooling. The report summarised the current regulatory framework surrounding pooling and that may be the subject of further consultation in the coming months.
16. Appended to the report was a copy of a briefing pooling update provided for Joint Committee which provided more detail on pooling delivery and performance.
17. The report summarised the Fund's pooling progress to date, and planned asset transitions reflecting the Fund's strategic asset allocation (subject to Committee decision).

**The Committee noted** the position as set out in the report

### **ADMINISTRATION DATABASE RETENDER**

18. The report set out the proposed approach to the re-tender of the benefits administration software system. The tender would be managed using the LGPS framework for pensions administration software. This framework includes three suppliers who would be invited to participate.
19. The report set out the proposed procurement timelines and the intention to have entered into a new contract by 31 March 2021. The Committee noted the indicative



evaluation and weightings and that these were subject to further refinement in discussion with legal, procurement and ICT colleagues.

**The Committee endorsed:**

- a) the proposed procurement approach set out in the report, including the indicative timeline, and
- b) the delegation to officers to complete the selection process.

**AUDITED ANNUAL REPORT INCLUDING STATEMENT OF ACCOUNTS 2019-20**

20. The Committee received a copy of the Fund's 2019-20 Annual Report, which includes the Statement of Accounts. Both the Annual Report and the Statement of Accounts have now been audited by Grant Thornton.
21. The Committee were advised that there had been no amendments to the primary statements of the draft accounts previously presented at the June Committee meeting. Disclosure notes has been updated for the following:
  - Increased disclosure on the impact of Covid-19 on the accounts
  - Removal of disclosure of non-critical accounting judgements
  - Removal of immaterial items from the key sources of estimation uncertainty disclosure
  - Minor presentational amendments
22. Grant Thornton presented their Audit Findings Report (AFR), which includes the findings from the external audit of the Fund for the financial year 2019-20. Grant Thornton's testing was substantially complete, and they expected to issue an unqualified report.
23. Councillor Hogg thanked the pensions finance team and the audit team for their hard work in completing the accounts and audit to such a high standard and to deadlines especially given the impact of COVID-19.

**The Committee:**

- a) Received the audit findings report from Grant Thornton;
- b) Endorsed the updated Governance Policy included within the Annual Report;
- c) Received the Cheshire Pension Fund Annual Report including the Statement of Accounts for the year ending 31 March 2020 and the Local Pension Board Annual Report;
- d) Requested that the Cheshire West and Chester Audit and Governance Committee approve the Cheshire Pension Fund Statement of Accounts for 2019-20 and sign the Letter of Representation.

**INVESTMENT PORTFOLIO – CLIMATE RISK REPORT**

24. The Committee received a report which outlined the next steps for the Fund in publicising the findings from its Climate Risk Report and implementing the recommendations within it. It was proposed that the Fund now move to immediately



publish a Climate Risk Report which complied with the requirements of the Taskforce on Climate Related Financial Disclosures (TCFD) and to issue a summary document and a media release.

25. The Committee also considered the recommendations contained in its Climate Risk Report and endorsed the following decisions to facilitate their implementation:
- Agree that at least twice a year, agenda time at Pension Fund Committee meetings is dedicated to the discussion of progress on climate strategy;
  - Agree at least one training session per year is dedicated to climate specific issues;
  - Agree to produce a Climate Strategy document which will include a Climate Stewardship plan, setting out how the Fund will manage and monitor its identified climate risks. Progress will be reported to the Investment Sub-Committee;
  - When the Fund's Investment Strategy Statement and Responsible Investment policy is updated in April 2021, include a formal statement of support for the Paris Climate Agreement;
  - Conduct a Climate Risk Report once a year with a six month update in between;
  - Publish a TCFD compliant report once a year from this point on.
26. The Committee acknowledged there were a small number of recommendations which could not be delivered in house due to lack of expertise/knowledge or lack of resources. These were centred around detailed monitoring of the Fund's equity and bond managers to assess their activity regarding shareholder engagement and voting. It was agreed that officers explore options to access the appropriate level of external support and expertise. This might involve procuring the services of a stewardship, engagement and voting provider or buying additional support from an existing partner.
27. The Committee considered options for setting climate related targets for the Fund. It was agreed that officers would produce a report setting out the options for further, more detailed, consideration by the Investment Sub Committee.

**The Committee endorsed:**

- a) the publication of the Fund's first Climate Risk report (as set out in Appendix A) on its website, formatted to comply with industry best practice as set out by the TCFD.
- b) the publication on the Fund's website of a short 'Climate Risk Report – key findings' document as set out in Appendix B.
- c) the issuing of a media release to all major employers and media outlets as set out in Appendix C.
- d) the Fund's Climate Risk Resource Plan, as set out in Appendix D, which sets out how the Fund will respond to the recommendations included in its full Climate Risk Report.
- e) The policy decisions set out in para. 9 which will underpin the Fund's approach to managing climate risk.



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# New Pensions Programme

# Replacing Chrysalis – A New Pensions Programme

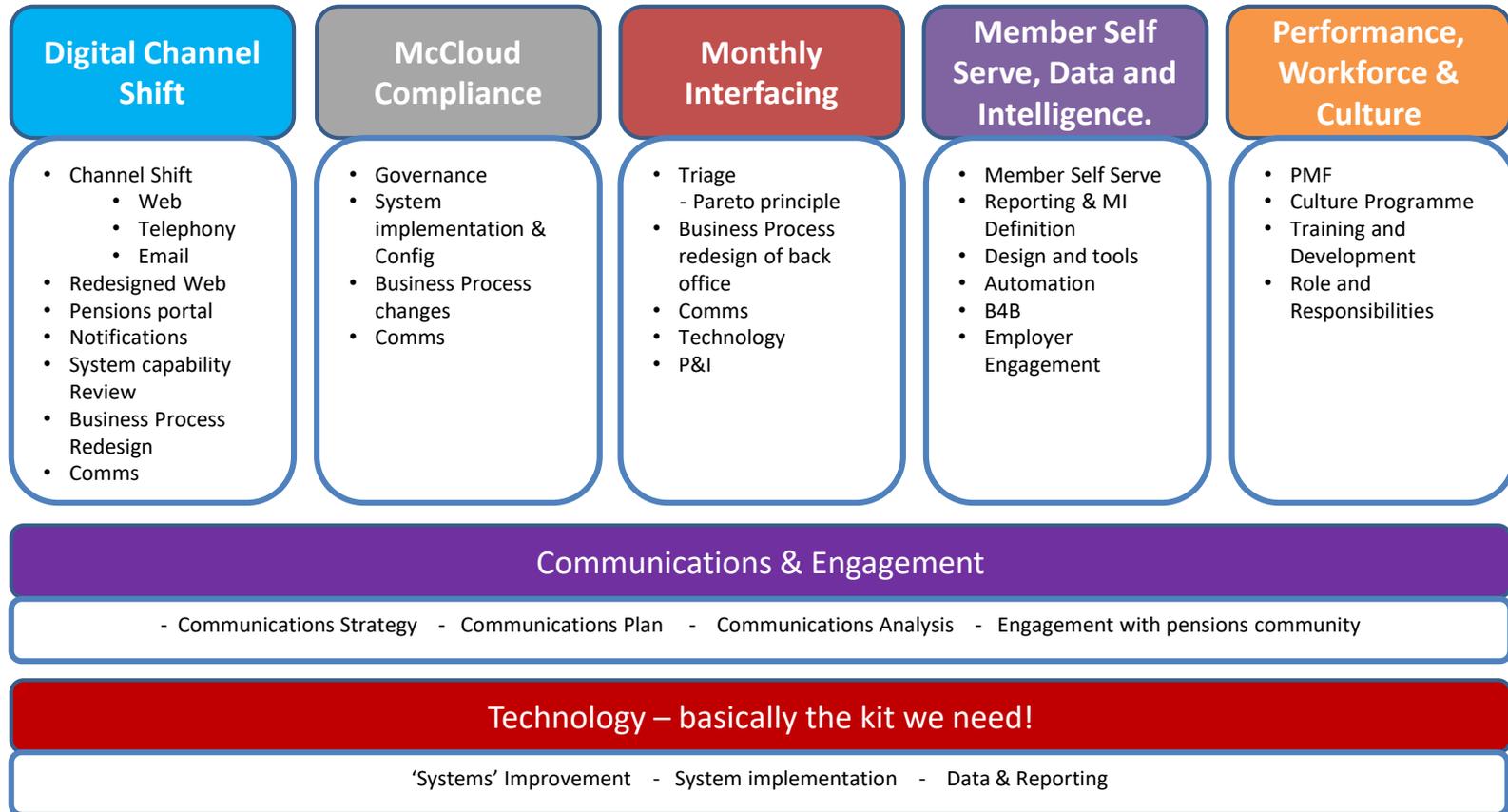
## Key Drivers for change

- **Legislation**
  - Must adapt to new and emerging legislation, e.g. McCloud
- **Demand Management**
  - Need to increase capacity / reduce demand
- **Efficiency**
  - Need to make best use of technology & tools we have and could have
- **Customer Experience**
  - Should aim to improve the experience for customers
- **Self Awareness**
  - Must improve reporting and information
- **Risk**
  - Must reduce risk and complexity in our operations
- **Succession Planning**
  - Must support & develop the Pensions team

## Key Benefits of change

- ✓ We know we are compliant with new legislation
- ✓ We have reduced demand on frontline officers and reinvested this capacity in improving the quality of data we hold and reducing our backlogs
- ✓ We are improving the range of services to customers which are available online 24/7
- ✓ We understand and manage our key risks
- ✓ We understand how our customers view the service and are able to make improvements to their experience
- ✓ We understand how our service is performing using real time relevant data/information that enables us to evidence effective decision making.
- ✓ Our team are engaged, informed and enthusiastic about their role.

# Pensions Programme themes



# TOP FIVE GOALS



**Fully Implement  
McCloud**



**Fully Implement  
Member Self  
Serve**



**Establish a culture  
of continuous  
improvement  
through effective:**

PMF and reporting  
Ongoing engagement  
with staff and  
customers  
Ongoing  
communications with  
key stakeholders



**Implement a  
functional  
Monthly  
Interfacing  
solution**



**Implementation  
of Workforce  
development Plan**

“Each project will need to demonstrate with specific tangible outputs how it will enable these goals to be achieved and evidence the change made ”



# Questions

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# Scheme Advisory Board

## Agenda

11.00am – 12.30pm, Tuesday 25<sup>th</sup> August 2020

<b>Item</b>		<b>Timings</b>
1	Welcome, apologies and introductions	11.00
2	Declarations of conflicts of interest	11.05
3	Actions and agreements from meeting of 5 <sup>th</sup> May 2020 – <b>Paper A</b>	11.10
4	McCloud Consultation – <b>Paper B</b>	11.15
5	95K Cap Consultation – <b>Paper C</b>	11.30
6	Responsible Investment A to Z Guidance – <b>Paper D</b>	11.45
7	Good Governance Project – Update from Hymans	11.55
8	MHCLG Update	12.00
9	Cost Management Committee Report – <b>Paper E</b>	12.05
10.	Investment Committee Report – <b>Paper F</b>	12.15
11.	AOB and date of next meeting	12.25

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# Cost Management, Benefit Design and Administration Committee

DATE:	05 October 2020
VENUE:	Virtual meeting via MS Teams
TIME:	1.00PM – 3.00PM

## AGENDA

Item		Paper	Timings
1	Welcome, introductions, apologies and declaration of interests		1:00
2	Meeting protocol		1:05
3	Matters Arising from 8 <sup>th</sup> June meeting	<b>Paper A</b>	1:10
4	SAB work on Covid-19 Update		1.20
5	Covid-19 Practitioners Group Update	<b>Paper B</b>	1.30
6	McCloud Update		1.40
7	95K Cap Update		2.00
8	SAB Guide to Employer Flexibilities - Update		2.25
9	Good Governance Project Update		2:35
10	Local Pension Board Indemnity Cover	<b>Paper C</b>	2:45
11	MHCLG Regulatory Update		2.50
12	AOB and Date of next meeting		

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# Investment, Governance and Engagement Committee

## Agenda

1.00pm – 3pm on 13<sup>th</sup> July 2020

### Item

1. Introductions, apologies and declaration of interests 1.00 – 1.10
2. Actions and Agreement from previous meeting (**Paper A**) 1.10 – 1.20
3. Supreme Court Judgement – (**Paper B**) 1.20 – 1.40
4. Responsible Investment A to Z Guidance – (**Paper C**) 1.40 – 2.00
5. Cost transparency/Compliance - (**Paper D**) 2.00 – 2.15
6. Good Governance – Update 2.15 – 2.25
7. MHCLG Update 2.25 – 2.40
8. Committee membership – 2.40 – 2.50
9. AOB – PLSA voting template– 2.50 – 3.00
10. Date of next meeting – 12<sup>th</sup> October 2020

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<p>This is the quarterly pack of Pension Fund performance information which is based on the period 1 July 30 September 2020 and includes a comparison to the previous quarter - 1 April to 30 June 2020.</p> <p>The overall assessment for Quarter 2 is Red.</p> <p>A summary of performance for each area is shown below including a RAG status. There is also a detailed worksheet for each of the subjects which contains more detailed information.</p>	<b>Qtr 2 (Jul-Sep 2020)</b>
	<b>Summary position:</b>
	<b>This Quarter - 1 Jul to 30 Sep 2020</b>
	<b>RED</b>
	<b>Previous Quarter - 1 Apr to 30 Jun 2020</b>
	<b>RED</b>

Subject	Comment	RAG Status
<b>Administration Casework</b>	<p>Overall administrators have completed 14,617 cases during the 3 month period to 30 September 2020, compared to 14,948 in quarter 1 of 2020/21.</p> <p>Pensions staff members have been able to maintain service levels in quarter 2 despite working from home as a result of the Coronavirus.</p> <p>The status is RED because the number of pieces of casework outstanding exceeds more than 10% of the membership.</p>	<b>RED</b>
<b>Breaches</b>	<p>There were 10 new breaches in quarter 2 of 2020/21, which covered breaches that related to July and August (compared to 16 in quarter 1 of 2020/21).</p> <p>During quarter 2, 10 breaches were recorded as Green.</p> <p>There were instances of repeat breaches during the quarter for employers who again failed to pay their contributions on time. The Fund has a Contributions Policy which includes penalties for repeat offenders due to the administrative burden that this places upon the Fund.</p> <p>The Fund is continuing the process of developing the automated identification of administration breaches within the database and the reporting of such will evolve over the coming months.</p>	<b>GREEN</b>
<b>Compliance</b>	The Fund did not identify any material compliance issues in Quarter 2.	<b>GREEN</b>
<b>Contributions Monitoring</b>	<p>In accordance with regulations contributions should be received by the Fund by the 22nd of the month (if paid electronically) after they have been deducted from pay.</p> <p>The Fund also has an internal KPI to receive at least 98% of contributions income on time each month.</p> <p>Contributions income are monitored against both of these criteria and also whether the income received in aggregate is above the aggregate value of the pensions paid out each month. The Fund has the right to charge interest on late payments and the monetary value of the applicable interest is now included within the tables below. The Fund takes a pragmatic approach to recharge interest.</p> <p>Employers are also required to provide a contribution form to accompany each amount paid so that the Fund can correctly allocate the income. A high number of forms were late for the August contributions due to the Coronavirus pandemic as employers were still adapting to the new ways of working from home, increased staff absences and the large amount of work involved with re-opening schools</p>	<b>GREEN</b>
<b>Financial Performance</b>	The Pension Fund is currently forecasting an underspend of £337k. Much of the underspend is due to the £250k contingency being unused thus far. This forecast is likely to change as the Fund will be reviewing the staffing structure in light of the workload associated with regulatory changes and internal transformational development. The RAG status is green to reflect the fact that the fund is currently forecasting an underspend.	<b>GREEN</b>
<b>HR (absence)</b>	<p>The service lost 63 days through sickness during quarter 2 of 2020/21 which equates to an annual average of 3%. This compares to 27 days lost in quarter 1 which is an annual average of 1%.</p> <p>There were no sickness days lost in the 2nd quarter relating to work related stress.</p>	<b>GREEN</b>
<b>Debt Recovery</b>	<p>The Pension Fund has £261k of debt outstanding at the end of Quarter 2 of 2020/21, some of which relates to prior years (which typically relates to overpayments which are being repaid by instalments).</p> <p>A large proportion of the debt (£145k) relates to invoices that are in the 31-90 day category. The majority of this debt relates to an Ill Health Retirement invoice which we have received approval for prior to raising the invoices.</p> <p>The RAG status is Red to reflect the fact that the value of debt outstanding which is over 30 days old is over 50%.</p>	<b>RED</b>
<b>Business Plan Progress</b>	There were 23 actions in quarter 2, 4 of which were classed as amber (denoting a minor delay). The remainder were green. Amber actions will be taken forward into the next quarter.	<b>GREEN</b>
<b>Feedback from External Sources</b>	Board members receive feedback from external sources. This includes submissions to the Board which are received via the website.	<b>GREEN</b>
<b>Investment Manager Qualitative and Quantitative Performance</b>	The Fund monitors its overall investment performance over periods of at least 3 years. It believes that this is a reasonable period of time over which it can begin to meaningfully assess performance. Performance is monitored against the Fund's tailored benchmark, CPI and asset performance assumptions from the most recent valuation. This allows the Fund to monitor its investment performance both on a standalone basis, and relative to the long term funding plan. As shown by the accompanying chart, rolling 3 year investment performance is ahead of benchmark, CPI and the valuation assumption.	<b>GREEN</b>

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## CONSULTATION ON THE MCCLOUD JUDGEMENT

### Introduction

1. This report updates the Board on the Ministry for Housing Communities and Local Government (MHCLG) consultation on the proposed remedies resulting from the 2019 McCloud Judgement.
2. The McCloud Judgement refers to the case in which the Supreme Court found that transitional protections introduced in the firefighters and judges' pensions schemes in 2015 amounted to age discrimination for younger workers.
3. Similar transitional protections were introduced into other public sector schemes, including the LGPS in 2014, and so the ruling applies to those schemes as well.

### Recommendation

4. The Board is asked to note the changes proposed by the consultation on McCloud and the work that the Fund will need to undertake. The Board are also asked to note that they will receive regular updates on progress with meeting the project plan for McCloud.

### Background

5. Changes introduced in the Public Service Pensions Act in 2013 meant that public sector pensions moved to a career average revalued earnings (CARE) basis from the former final salary benefits scheme. For the LGPS these changes were introduced in April 2014, with changes to the other public sector schemes coming into effect in April 2015.
6. When the CARE scheme was introduced, transitional protections were given to members who were within 10 years of their normal retirement age at 1 April 2012.
7. Two legal cases challenged the protections on the grounds of age discrimination. The first case, McCloud, related to the judicial pension scheme and the second, Sargeant, related to the firefighters' scheme. Both cases concern the same issue and the outcomes have come to be known as the McCloud Judgement (McCloud).
8. On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. On 27 June 2019 the Supreme Court denied the Government permission to appeal.
9. In a statement by the Chief Secretary to the Treasury on 15 July 2019, Government confirmed that the judgement would be accepted as applying to all public sector schemes where protections for older members were introduced.
10. As the protections have been found to be unlawful then those members who have been discriminated against must be placed in an equivalent position to the protected members. Any remedies need to be 'upwards', i.e. the benefits of unprotected members will be raised rather than the benefits of protected members being reduced.



11. In the LGPS, transitional protections were applied in the form of a ‘statutory underpin’ which means that additional checks are undertaken by administering authorities for protected members to ensure that the pension payable under the reformed scheme is at least as high as it would have been under the final salary scheme.

### Consultation

12. On 16 July two consultations were issued, as set out below:

Issued By	Consultation Detail	Closing date
HM Treasury	A consultation on changes to transitional arrangements to the 2015 schemes for the unfunded public sector schemes	11 October
MHCLG	A consultation on amendments to the statutory underpin for the LGPS (England and Wales).	8 October

13. The remainder of this report will relate to the consultation on the amendment to the statutory underpin for the LGPS.
14. The LGPS consultation aims to address age discrimination by removing the requirement for a member to have been within 10 years of their normal retirement age at April 2012 in order to qualify for the underpin.
15. The ‘revised underpin’ as it is to be known, will apply to all members providing they meet the following qualifying criteria:
- They were in service on 31 March 2012 and accrued benefits under the 2014 scheme; and
  - Have not had a disqualifying break in service (five years or more).
16. The revised underpin will apply to membership from 1 April 2014 and 31 March 2022 i.e. administering authorities must check whether a qualifying member is better off under the CARE or final salary provisions when calculating their benefits for this period.
17. The Government proposes that the final salary underpin will cease for all LGPS members from April 2022.
18. The regulatory changes are expected to come into effect from 1 April 2022. However, the regulations enabling administering authorities to prepare for the changes may be brought in sooner.
19. The consultation also seeks to remove the existing requirement that a member must leave active service with an ‘immediate entitlement to pension’ in order to qualify for the underpin. The consultation proposes that underpin protection would apply where a member leaves with either a deferred or immediate entitlement to a pension. As the



underpin is extended to younger workers it is more likely that they will leave the scheme before having an immediate entitlement to benefits, which would mean that they would not benefit from underpin protection.

20. The consultation also seeks to amend aspects of the original regulations in several other technical areas to ensure the changes work effectively and consistently for all members.
21. The consultation poses 29 questions to which MHCLG is seeking responses. Committee and Board members were sent links to the full consultation documents, the link to the LGPS consultation document is included below; [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/901173/Condoc - amendments to LGPS underpin - FOR PUBLICATION.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf)
22. The LGPS consultation closed on 8 October. The Fund engaged with advisors and other administering authorities to ensure its consultation response was as fully informed as possible. The Funds consultation response was approved by the Pension Fund Committee and submitted to MHCLG by the deadline.
23. There were a number of key points outlined in the Funds response, these include:
  - **Implementation timescale.**
    - i. MHCLG has not set out the date by when it expects funds to have completed the recalculation of affected members' benefits. It is assumed to be 31 March 2022.
    - ii. Work on the recalculation of benefits cannot commence until the regulations are laid and we would urge MHCLG to formalise the regulations as soon as possible.
  - **Administering authority resourcing:** The remedy proposed is complex and will require considerable resource from the Fund to recalculate benefits for a high number of members. MHCLG need to consider this when determining the timetable for when they expect the work to be completed and to avoid any impact upon business as usual activity.
  - **Employer data:** Employers will be required to provide six years' worth of backdated information for their members, for the Fund to be able to carry out the recalculations. Enough time should be provided to allow employers to supply this information.
  - **Missing data:** There will be employers who cannot provide the data required in order to recalculate benefits, due to changing payroll providers or ceasing membership of the LGPS. National guidance on dealing with such cases is required.
  - **Member communications:** Communicating the changes with members is key, and they must receive clear guidance to explain that any changes to benefits will happen automatically and that they do not need to take any action.
  - **System changes:** Pension administration software will need to be amended to apply the regulatory changes. Software providers will require the final regulations to be in place as soon as possible.



- **Cost:** There is a significant resource impact on LGPS funds due to the McCloud judgement. The consultation is silent on what contribution Government will make to the cost of implementing the remedy

### Local impact

24. Implementing the McCloud remedy has been described as the biggest challenge to face the LGPS since the introduction of the CARE scheme in 2014. It is a multi-faceted project that will require considerable resource from across the pension fund community.
25. The remedy will require the identification of all qualifying members, including those who have left since April 2014, and who did not qualify for the previous underpin, to recalculate their benefits. The Fund will also need to include their estimate benefit entitlement in their Annual Benefit Statement (ABS).
26. The Fund has undertaken an initial estimate of the number of qualifying members and has identified around 19,300 members where a recalculation will be required either immediately or as these members come to leave the scheme. Two thirds of the qualifying members who require a recalculation are active members but a significant number have already left the scheme, as summarised in the table below:

Type of Member	No. of Members
Active	12,732
Deferred	4,044
Pensioner	1,837
Transfer Out	504
Deceased	150
Refund/Commutation	41
<b>Total</b>	<b>19,308</b>

27. To be able to calculate revised benefits for qualifying members, the Fund will need to obtain additional information from employers dating back to 1 April 2014, which it had ceased to collect due to the change to the CARE scheme (under CARE, benefits are wholly based on earnings not membership).
28. This data will include information such as part time hours worked and service breaks. All employers will be required to provide this information for all eligible employees, including those who have left, dating back to 1 April 2014. This will be a considerable resource impact for some employers, and it will be a challenge to communicate clearly why the information is required, what should be provided, the format and by when data must be supplied.
29. Whilst this will be an administrative burden for employers it is hoped that the majority will be able to provide the information required. However, some employers will have changed payroll providers within the last six years and may no longer have access to the data. In addition, there will be employers who have left the Fund entirely, and the Fund may not be able to obtain any information from them.



30. It is understood that the Scheme Advisory Board (SAB) is working on guidance to assist funds when there is an absence of employer data. However, there will need to be some pragmatic solutions to enable reasonable assumptions in the absence of any other information.
31. The changes to the scheme will apply automatically for qualifying members and they do not need to make a claim. It is important that the Fund conveys this message clearly to its members to avoid them falling victim to claims companies who may promise to claim their pension entitlement in return for a fee.
32. The Fund is working with its administration database provider to understand what support they can provide. However, there will inevitably be a resource implication that the Fund will need to manage in order to avoid any detrimental impact upon business as usual activity.
33. In setting the 2020-21 budget, the Fund identified that McCloud and other major changes would require additional resource. Recruitment is already underway to increase the capacity of the administration team to manage growing casework volumes. The number of posts needed was determined prior to receiving the consultation and now that the impact of the remedy is becoming clearer the resource requirement will need to be revisited.

### **Funding and accounting issues**

34. As well as the impact on administration workload, the remedy will have an impact on valuations and accounting disclosures, and these will also have to be worked through and communicated to employers.
35. The consultation estimates the cost of the proposals to remedy the discrimination across the whole of the LGPS will be £2.5bn over the coming decades. This estimate is based on assumptions including future long term pay growth of CPI + 2.2%. If future pay growth is less than the ultimate cost will be lower (and vice versa).
36. SAB issued advice to LGPS funds in May 2019 on the treatment of the McCloud case in valuations in the event there was no finalised outcome by 31 August 2019. The Fund actuary acted in line with the boards advice that for the 2019 valuation all member benefits were calculated in line with the LGPS Regulations in force as at 31 August 2019.
37. The Fund, in line with SAB's advice note, considered how to allow for the McCloud risk in the setting of employer contribution rates and took the following approach:
  - increased the prudence in the funding strategy via a higher likelihood of meeting funding target for the Councils who make up the majority of the Fund, and
  - made no allowance for the smaller employers until the actual McCloud rectification is known except where there is a cessation valuation



38. As the majority of employers in the Fund are long term participants, the Fund will have time to make future adjustments as more detail on the McCloud remedy emerges and the impact on individual employers becomes clearer.
39. It is not proposed to adjust employer contribution rates until the 2022 formal valuation unless an employer exits the Fund before the next valuation.
40. There will also be the impact of restarting the HMT employer cost cap process, which was paused due to the uncertainty caused by the McCloud case. This will now be brought to a conclusion as the government has confirmed that the cost of the remedy will be fully reflected in the employer cost cap mechanism.
41. The cost cap mechanism aims to ensure the cost to employers (and the tax payer) of public sector pension schemes remain affordable and sustainable in the long term. Where the cost of the scheme moves beyond a 2% margin on either side of the employer cost cap, pension benefits or member contributions must be adjusted to bring costs back to the target (the employer cost cap).
42. As part of the annual IAS19/FRS102 accounting report exercise, employers were given an option of including an estimate of the McCloud impact in their reports. This estimate has now been revised by the Fund actuary following release of the consultation.
43. The revised McCloud estimate for the accounting reports is an increase of 0.3% of active liabilities, from an earlier estimate of an increase of 0.9% of active liabilities. All employers who had a year end of 31 March 2020 have been contacted to advise of the change of estimate and given options to revise their accounting report if they wish.
44. The lower estimate for McCloud will be used for the accounting reports issued for July and August year end employers.

### **Project management**

45. The Fund can not commence work to amend systems, recalculate benefits etc. until the regulations have been formally laid. The focus in the short term will be on communicating with stakeholders, obtaining data from employers and internal project planning.
46. The Fund is developing a detailed plan to manage all aspects of this project. A Project Manager has been assigned to the Fund to assist with this and other key change projects. The Fund is also likely to need additional external support to inform project planning and implementation.
47. It is proposed that the Local Pension Board receive regular updates on the Fund's progress with the project and in turn keep the Committee informed and make any necessary recommendations.



## **EXIT CAP £95k and FURTHER REFORM**

### **Introduction**

1. This report updates the Board on the introduction of HM Treasury regulations known as the Restriction of Public Sector Exit Payment Regulations 2020, which limit public sector exit packages to a maximum of £95k.
2. The report also provides an update on a consultation from the Ministry for Housing, Communities and Local Government on Reforming Local Government Exit Pay.

### **Restriction of Exit Payments - £95k cap**

3. In 2015, Government announced they intended to prohibit six figure exit packages in the public sector. Regulatory changes were delayed due to Brexit but in September 2020 HM Treasury issued a consultation to implement the Government's policy.
4. The Regulations have now been laid and come into effect from 4 November 2020 and will apply to all employees who exit the public sector after that date.
5. The Regulations cap the total exit payments that public sector employers can incur when employees leave due to redundancy or efficiency of the service to a maximum of £95k. The exit payments which count towards the cap are summarised below:
  - Redundancy payments
  - Payments to reduce or eliminate an actuarial reduction to a pension on early retirement (known as pension strain costs)
  - Compensation under the ACAS arbitration scheme (other than those made in respect of discrimination and whistleblowing claims)
  - Severance payments
  - Payments in the form of shares or share options on loss of employment
  - Payments in lieu of notice under a contract of employment that exceed one quarter of the payee's annual salary
  - Any other payment made as a consequence of loss of employment, whether under a contract of employment or otherwise
6. Currently any LGPS member who leaves on redundancy or efficiency grounds, and who is aged 55 years or over, must receive their accrued pension unreduced. This incurs a pension strain cost to the employer in recognition that pension is brought into payment before normal pension age. Pension strain cost is often the most significant element of the exit cost for employers and it is very likely that scheme members with long service will be affected by the exit cap, not just high earners.
7. For the LGPS, the exit cap regulations apply to Councils (including maintained schools), Police and fire civilians and Academies, but not FE and HE colleges, or admission bodies.



## Reforming Local Government Exit Pay

8. Public sector pension regulations must be amended to implement the Exit Payment Cap and a consultation to this effect had been expected across the public sector schemes, with the Ministry for Housing, Communities and Local Government (MHCLG) leading for local government.
9. The consultation launched by MHCLG is more far reaching. It includes proposals to amend both the LGPS Regulations and the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006.
10. The MHCLG consultation on Exit Pay Reform has a closing date of 9 November 2020. Board members can view the consultation using the following link: <https://www.gov.uk/government/consultations/reforming-local-government-exit-pay>
11. The MHCLG proposals significantly alter the benefit package employers can make available to members leaving on redundancy or efficiency grounds.
12. Public sector redundancy packages will be limited as follows:
  - A maximum of three weeks' pay per year of service;
  - A maximum of 15 months of pay on the amount of a redundancy payment;
  - A maximum salary of £80,000 on which an exit payment can be based;
  - A £95k cap on the total of all exit payments.
13. Scheme members will no longer be able to receive both an unreduced pension and a redundancy payment (statutory or discretionary). Scheme members will face several options as set out in the table below.

Unreduced pension	<ul style="list-style-type: none"> <li>• Statutory redundancy paid</li> <li>• Employee contributes equivalent of Statutory Redundancy Pay towards pension strain.</li> <li>• No discretionary redundancy payable</li> </ul>
Pension paid with some reduction	<ul style="list-style-type: none"> <li>• Statutory redundancy paid</li> <li>• Employee does not contribute equivalent of Statutory Redundancy Pay toward pension strain</li> <li>• No discretionary redundancy payable</li> </ul>
Deferred pension	<ul style="list-style-type: none"> <li>• No pension strain cost as pension not brought into immediate payment</li> <li>• Employee receives statutory and discretionary redundancy up to Exit Cap</li> </ul>
Fully reduced pension	<ul style="list-style-type: none"> <li>• No pension strain cost as pension not brought into immediate payment</li> <li>• Employee receives statutory and discretionary redundancy up to Exit Cap</li> </ul>



14. MHCLG also propose that pension strain costs will be calculated using a standard calculation factors applicable across the whole scheme, rather than the current practice of using locally determined factors. This has the benefit of consistency but it is yet to be determined whether national factors reflect the true local cost of pension strain. Any under or over recovery will be assessed at future triennial valuations.

## Impact

15. As Board members will note, the consultation on further exit pay reform does not close until 9 November, with changes expected to come into effect by end of December 2020.
16. However, the £95k exit cap regulations will be in force from 4 November. MHCLG and Scheme Advisory Board (SAB) are working urgently to produce guidance on the impact on exits agreed before 4 November where the leaving date is after.
17. The SAB is also obtaining legal advice as to the risk of challenge to LGPS authorities during this period, and this advice will be available prior to 4 November 2020.
18. SAB has advised that, in the period between 4 November and the date the LGPS regulations are amended:
  - only exits where the cost exceeds the £95k cap will be impacted
  - the statutory guidance on standard strain cost will not be effective i.e. Funds will continue to calculate strain cost on a local basis
  - the proposals in the MHCLG consultation around limiting cash severance payments and the strain cost being reduced by the value of any statutory redundancy pay will not apply.
19. The proposals represent a major policy change to the compensation package which can be offered to Local Government workers leaving on redundancy or efficiency of the service.
20. Employers will need to amend their local redundancy/early retirement policies and consult on and communicate these policy changes with employees and trade unions.
21. The changes will lead to more complexity in and increasing volume of retirement estimates requested from administering authorities. Employers may wish to give thought to how scheme members are advised on which option is best for them to take.
22. Given the current uncertainty, the Fund has placed a temporary pause on providing redundancy estimates or strain calculations and is working with the affected employers in the Fund both to make them aware of and prepare for the changes.
23. The Board will be kept up to date with progress on the changes proposed in the MHGCL consultation on further reform.



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## DATA QUALITY

### Introduction

1. This report provides the Board with the quarterly update on the Pensions Regulators (TPR) data quality scores for common and scheme specific data which will be used to update the 2020 TPR Scheme Return.
2. The report also provides an update on the Annual Benefit Statement process for 2020 where the Fund has been able to meet its target of sending an ABS to 90% of the active membership.

### Recommendation

3. The Board are requested to note:
  - the position on the common and scheme specific data scores for the 2020 TPR Scheme Return.
  - that the Fund met its target of sending an ABS to 90% of its members by 31 August.
  - the position on the Annual Benefit Statements rectification process for 2020.

### Data Scores

4. As Board members are aware, each year the Fund is required to report data quality scores to the Pensions Regulator (TPR) as part of the Scheme Return. The scores for the 2020 TPR return were calculated as at 25 September and are included within the table below, alongside the scores for the previous two years.

	TPR Scheme Return		
	1-Sep-18	1-Sep-19	25-Sep-20
Common Data	98.10%	98.07%	98.73%
Scheme Specific Data	68.80%	74.18%	74.01%

5. The Fund produces the scores from reports which have been developed internally. The scheme specific score is based on a 'foundation approach' to measuring the data, which was previously approved by the Board in the absence of any national guidance.
6. As the Board can see, the scores for both common and scheme specific data are comparable with the previous year.

### New Measurement Report

7. As Board members are aware, the Fund's administration database provider has produced a report which will produce the common and scheme specific data scores directly from the administration database.
8. At the last meeting Board members were advised that the report was being tested as it had identified some anomalies in some of the validation checks that the report utilises which meant that it provided incorrect scores in some areas. This largely related to the fact that the report was using the same data validations for different types of member, active, deferred and pensioner.
9. Many of these validations have now been resolved, however, some of those anomalies remain and so the Fund is working with the database provider to fully understand how those validations are working before switching to this report as the method of measuring our data quality.



10. Further information has been obtained from the database provider to explain the validation checks that are carried out to confirm each data check and the Fund will work through these to ensure that they are correctly reporting the position.
11. The new report will include additional data validation tests for both the common and scheme specific data, over and above what the Fund is currently measuring. Therefore, is it possible that the Fund will see an initial reduction in both scores once the switch to using the new report is made.
12. Board members will be kept informed of progress in moving to the new report.

**Annual Benefit Statements**

13. In accordance with regulations, each year the Fund is required to issue an Annual Benefit Statement (ABS) to each of its members by 31 August. The ABS provide an estimate of the members pension benefits at state pension age.
14. As Board members will recall, the Fund has undertaken considerable data cleansing work over the past couple of years. This directly led to an improvement in the number of ABS the Fund was able to issue, which rose to 85% in 2019, from 77% in 2018.
15. Work has continued over the past twelve months to resolve all remaining data queries. The Fund has also identified further data issues from the year-end submissions received at the end of March 2020 exercise, for those employers who had not yet moved onto Monthly Interfacing.
16. At the start of the year the Fund set itself a target of sending ABS to 90% of the membership. The considerable work that has been undertaken on data cleansing and the introduction of MI have meant that the data is now more up to date. The continuation of data cleansing work over the past year has meant that we have been able to hit this target.
17. The Fund is grateful to all employers who have responded to requests for information which have allowed us to resolve the data queries. Once all employers are on MI the Fund will be able to identify and resolve any such issues in a timely manner meaning all members should receive their ABS on time.
18. The table below shows a comparison of the 2020 position versus the prior year.

	2020	%	2019	%
Active members eligible to receive an ABS	31,420		32,677	
Members who received an ABS on time	(28,398)	90	(27,633)	85
Members who did not receive an ABS on time	3,022		5,044	

19. As outlined in the table above, there are 3,022 members who did not receive an ABS on time. It is likely that at least some of this number are members who had already left prior to 31 March 2020 and so would not be eligible to receive an ABS.
20. For members who have not received an ABS, but we believe should have, have received a letter explaining the position and informing them that the Fund is working to resolve any outstanding queries so that they can receive their ABS.
21. The Fund has also informed employers in the Fund about the position on the ABS and requested that they treat any requests for information over the coming weeks as urgent.



22. The Fund has produced a plan to resolve the data issues with the above members, and identify those that are not due an ABS, and will be issuing a second batch of ABS by the end of November.
23. As the requirement to issue 100% of ABS by 31 August is set out in regulations the Fund has also reported itself to the Pensions Regulator and will keep them informed of progress in meeting the rectification plan for November.
24. The Board will be kept informed of the progress on the 2020 annual benefit statement rectification process.



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## COMPLIANCE UPDATE

### Introduction

1. This report provides the Board with a summary of the Breaches Log for the year to date 1 April 2020 to 30 June 2020.

### Recommendation

2. The Board are requested to note and comment on the summary of the Breaches Log for 1 April 2020 to 30 June 2020.

### Breaches Log

3. In accordance with the Breaches Policy, both the Board and the Pension Fund Committee review the Breaches Log on a quarterly basis, in order to identify any trends that may require further action.
4. A summary of the breaches included on the log between 1 April 2020 and 30 June 2020 are listed below in Table 1 and are categorised by red, amber and green. For comparison purposes the total numbers of breaches for the prior year have also been included.
5. Red breaches are those which require reporting to the Pensions Regulator (TPR). Amber breaches are where the Fund has highlighted an issue with the employer which requires further monitoring but are not material enough to require reporting to the Pensions Regulator. Green breaches are those where following investigation, no further action is deemed necessary.

**Table 1 – Summary of the Breaches Log**

	Total 2019/20	Total 2020/21	Status 2020/21		
			Red	Amber	Green
Contributions	71	9	0	0	9
ABS	1	0	0	0	0
Disclosure	1	0	0	0	0
Administration	26	36	0	0	36
<b>Sub-totals</b>	<b>99</b>	<b>45</b>	<b>0</b>	<b>0</b>	<b>45</b>

6. There have been no red or amber breaches in the period. Below is a summary of the breaches.



### **Contribution breaches**

7. During the quarter there were nine Green breaches. The majority of these relate to employers who have small numbers of staff and so are easily affected by unexpected staff absences or have been impacted by Covid-19.

### **Administration breaches**

8. The Fund has identified thirty six breaches relating to administration casework during the first three month period of 2020/21. This is already an increase compared to 2019/20 where there were twenty six breaches for the whole year.
9. In recent months staff members have been working overtime to increase the number of cases that they have been able to process from the casework backlog. As a result many of the older cases are now being processed which has resulted in an increase in administration breaches.
10. Processes have now been amended to ensure that we do not breach disclosure regulations, however, as the cases which are now being processed pre-date these changes they will flag up as a breach.
11. It is expected that administration breaches will continue to be high in 2020/21 as further such older cases will be identified as the staff work their way through the backlog.



Local Pension Board - Workplan

Standard Meetings			
February	May	July	October
Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes	Review of Pension Fund Committee, Investment Sub Committee and Pensions Consultative Forum Minutes
Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Fund Compliance /Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log	Review Scheme Advisory Board and Sub Committee meetings Review the Performance Management Framework Review the Breaches Log
Draft Annual Report	Sign off Annual Report (June Meeting)		
Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions	Review the TPR Data Scored and associated actions
		Review LPB Terms of Ref/ Conflicts of Interest Policy (once Good Governance outcomes available)	Review of ToR/CoI and outcomes from Good Governance Review still awaited
		Cyber security - a policy will be developed for the Fund	Cyber security policy - waiting to see requirement in Good Governance review and/or updated TPR Code of Practice
		Consider the outcomes from the SAB Good Governance review and any actions the Fund needs to take as a result.	
Review policies are kept up to date and produced in accordance with legislation and guidance		Review policies are kept up to date and produced in accordance with legislation and guidance	LPB Risk Register (reviewed in July)
	Review the progress made by the Fund including the detail of any ongoing actions	LPB Risk Register (moved from May)	Review the progress made by the Fund including the detail of any ongoing actions
Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)		Statutory Policies (FSS, ISS, Comms Policy, Admin Strategy Gov Policy and Breaches Policy)	
		Review the process for IA in assessing internal controls of the fund and external audit process for reviewing the Accounts and Annual Report	
MI Update			TPR Combined CoP
Cyber security			RI Policy or Cyber security? This is where they are up to and when you will see something
Event Planner			
SSD - update			

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