

EMPLOYER CHANGES

1. This reports updates the Committee on bodies that have joined or exited the Fund during the period 1 September 2019 to 29 February 2020 (inclusive).

Recommendation:

2. The Committee is asked to note and comment on the update on employers that have entered or exited the Cheshire Pension Fund in the reporting period.

Background

3. The Committee will be aware, from previous updates discussing the changes to the membership profile of the Fund and the wider public sector (for example a significant increase in the number of outsourcings and the conversion of maintained schools to Academy status); that the number of new bodies admitted to the Fund has increased markedly over the last couple of years.
4. Likewise, the Committee will be aware that the impact of the different characteristics of newly admitted bodies to the Fund's risk profile was identified as a key driver in developing the employer monitoring work stream.
5. Changes in the characteristics of new admitted bodies and differences in key risk metrics such as covenant, cash flows, maturity of membership profile, lifespan in the LGPS etc. have been identified as a key strategic risk to the Fund and its investment and contribution strategies.
6. In recognising the increased volume and potential impact of these drivers, it was resolved that a report on new admitted bodies and employers who have left be a standing item on the Committee's agenda.

Summary of Changes

7. Appendix A to this Report provides the following details for employers who joined the Cheshire Pension Fund during the period 1 September 2019 to 29 February 2020 (inclusive):
 - The nature of the organisations access to the LGPS e.g. as a Community Admitted Body or Transferor Admitted Body
 - A brief summary of the services provided by the new body (joiners only)
 - The ceding authority or employer (both joiners and leavers)
 - Date joined/left the scheme
 - The number of members who have transferred to the new body (joiners only)
 - The value of the pension indemnification bond (joiners only)
 - Contract length (joiners only)
 - Open or closed to new members (joiners only)

- Cessation basis (ongoing or gilts)
 - Payment due (leavers only)
 - Reason for leaving (leavers only)
8. Should the Committee consider that they need more or less information than the proposed standing item provides, officers will revise the report accordingly.
9. The main issues and themes of the changes experienced are summarised below:
- In total 333 members were transferred to new employers over the period 1st September 2019 to 29 February 2020.
 - 331 members transferred to 10 new Academies who remain open to new LGPS membership
 - 1 member transferred to private sector contractor providing a service on behalf of the local authority.
 - 1 member was designated by a Parish Council as eligible to join.
 - No employers exited the Cheshire Pension Fund during this period.

New Admitted Body	Date of Entry	Type of Entry	Letting / Ceding Employer / Guarantor	Service	Bond Details	Contract Length	Members at point of entry	Open / Closed
Croft Primary School	01/09/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	37	Open
Gorse Covert Primary School	01/09/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	19	Open
Oakwood Avenue Community Primary School	01/09/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	87	Open

Woolston Community Primary School	01/09/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	23	Open
Cuddington Primary School	01/10/2019	Academy	Cheshire West and Chester	Conversion of LEA School to an Academy	N/A	N/A	24	Open
Little Leigh Primary School	01/10/2019	Academy	Cheshire West and Chester	Conversion of LEA School to an Academy	N/A	N/A	16	Open
Sandiway Primary School	01/10/2019	Academy	Cheshire West and Chester	Conversion of LEA School to an Academy	N/A	N/A	27	Open

Acresfield Primary School	01/10/2019	Academy	Cheshire West and Chester	Conversion of LEA School to an Academy	N/A	N/A	25	Open
Reed Wellbeing Limited	01/11/2019	TAB	Cheshire East	Wellbeing Services	tbc	3 years	1	Closed
Kingsley Parish Council	01/11/2019	Town/Parish Council	N/A	Parish Council	N/A	N/A	1	Open
Broomfields Junior School	01/12/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	34	Open
Meadowside Community Primary and Nursery School	01/12/2019	Academy	Warrington	Conversion of LEA School to an Academy	N/A	N/A	39	Open

TOTAL							333	
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COMPLIANCE UPDATE

Introduction

1. This report provides the Committee with a summary of the Breaches Log for the period 1 April 2019 to 31 January 2020.

Recommendation

2. The Committee are requested to note and comment on the summary of the Breaches Log for 1 April 2019 to 31 January 2020.

Breaches Log

3. In accordance with the Breaches Policy, both the Committee and the Local Pension Board 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 2019 and 31 January 2020 are listed below in Table 1 categorised by Red, Amber and Green. For comparison purposes the total number of breaches for the prior year have also been included.
5. Red breaches are those which require reporting to the Pensions Regulator. Amber breaches are where the Fund has highlighted an issue with the Employer which requires further monitoring. Green breaches are those where following investigation, no further action is deemed necessary.

Table 1 – Summary of the Breaches Log

	Total 2018/19	Total 2019/20	Status 2019/20		
			Red	Amber	Green
Contributions	64	60	1	22	37
ABS	1	1	1	0	0
Disclosure	0	1	0	0	1
Administration	20	12	0	0	12
Sub-totals	85	74	2	22	50

Contribution breaches

6. During the period there were 37 Green breaches (i.e. those not considered a major risk). The majority of these relate to employers who joined the Fund in year and are in the process of setting up their payment systems, and/or employers who have small numbers of staff and so are easily affected by unexpected staff absences.

7. The twenty two amber and 1 red breach between 1 April 2019 and 31 January 2020 relate to just three employers.

Employer 1- Admitted Body

- This employer has had five amber breaches in the period and was reported to the Pensions Regulator in 2017/18 as they had failed to pay contributions since April 2017 and had not implemented an indemnity bond.
- This employer has now paid all contributions up to date and has now set up a standing order for the monthly contribution amount and all payments have been on time for September 2019 contributions onwards.

Employer 2- Admitted Body

- This employer has had eight amber breaches in the period and has repeatedly made late payments to the Fund. No payments have been made by this employer since October 2019.
- The Fund has raised invoices totalling circa £8k for outstanding contributions due to 31 January 2020 which will be subject to the Council's debt collection procedures. The Fund is continuing to try and liaise with this employer with regard to these outstanding contributions.

Employer 3- Admitted Body

- This employer has had nine amber breaches in the period and a red breach for this employer was reported to the Pensions Regulator in October 2019.
- The employer has not signed the Admission Agreement however the employer made a payment to the Fund in April 2018 for outstanding pension contributions up to February 2018. Legal advice is that by making this payment the employer has acknowledged their responsibility to the Fund.
- The Council's legal team has written to the employer to remind them of their responsibilities. However the employer has failed to respond and has been reported to the Regulator.
- The service contract with this employer is due to end in July 2020.
- An invoice has been raised for circa £8k for estimated contributions due to the Fund for March 2018 to January 2020. This invoice will be subject to the Council's debt collection procedures. Further invoices will be raised for estimated contributions up to cessation of the contract.

Annual Benefit Statement (ABS) breach

8. Members of the Committee were briefed in full on the ABS breach in September 2018. In summary accordance with LGPS Regulations the Fund is required to send an ABS to all active and deferred members by the 31 August each year. Due to a combination of data issues on the member's records that the Fund was not able to resolve in time, plus a high number of lost contact addresses, particularly of deferred members, the Fund was not able to send 100% of ABS's on time.

9. The Fund delivered 85% of ABS's to active members on time (compared to c77% in 2018). For deferred members 88.97% (compared to 88.60% in 2018) received their ABS on time.
10. The Fund has undertaken a series of actions in order to improve the quality of data held. This has resulted in an improvement in the number of ABS's that the Fund has been able to issue by the 31 August deadline compared to 2018.
11. The Fund is also phasing in monthly reporting, and so will receive monthly 'per member' information from employers rather than annually. This will allow the Fund to identify and resolve and data issues throughout the year and ultimately will result in an increase in the number of active member ABS's which can be issued on time.

Disclosure breach

12. Members of the Committee were briefed in full at the September 2019 Committee meeting of the disclosure breach.
13. The disclosure breach was a technical breach due to a 'late' communication of two amendments to the regulations that were issued on 10 January 2019. Funds are required to communicate material changes to its entire membership within 3 months (i.e. by 10 April 2019) and on this specific amendment the Fund did not technically meet the deadline.
14. Due to the small amount of members impacted officers concluded that it did not merit a specific communication to all members and communicated directly with all the affected members and within the newsletter accompanying ABS statements delivered in June and August.

Administration breaches

15. The Fund has identified twelve breaches relating to administration casework during the year.
16. These breaches relate to historic issues which have been identified as casework is completed. The breaches relate to cases where a member was not notified of their options within the requisite two months of the relevant trigger event, as set out in regulations. Fund processes were changed in 2016 to ensure that the Fund complies with Regulations.

BUSINESS PLAN 2019/2020

Introduction

1. This paper updates the Committee on progress in meeting the specific delivery milestones outlined in the 2019/20 Action Plan Tracker for the final quarter of the year and an update on the 2019/20 forecast outturn.

Recommendation

2. The Committee is requested to note:
 - a) performance as at Quarter 4 against the Action Plan for 2019/20 and
 - b) the outturn position is an underspend of £525k

Business Plan process

3. The Fund's Business Plan covers the four year period 2019/2023 in order to align it to the Council's medium term planning horizon. In order to achieve the outcomes in the Business Plan, there are key action delivery targets which must be achieved in each of the 4 years. The Fund keeps track of these by way of an annual Action Plan.
4. The 2019/20 Action Plan Tracker is attached in Appendix A. The action plan details delivery targets for each quarter. Progress to deliver actions is reported by way of colour coding actions using the traffic light system so that Members can easily identify progress.
5. In terms of the colour coding GREEN indicates completion or satisfactory progress, AMBER denotes minor delay or marginal under achievement and RED denotes significant delay or material under-achievement. Actions to be completed in later periods are included in black.
6. In addition there are a number of actions which are coloured in blue. This denotes actions which have been rescheduled to a later, or earlier target date to reflect changing priorities, resource availability or other practical constraints. Actions flagged at quarter 4 to move to 2020-21 will be included in the Action Plan tracker for that year.
7. As Members will see from the tracker, the Fund has achieved a number of important actions during the last quarter, for instance;
 - Input to the national framework to evaluate tender responses for
 - administration database provider
 - Preparation for the tender for actuarial services
 - Launch of the re-designed Pension Fund website

8. Developed new Investment Strategy Statement and Responsible Investment Policy and launched consultation
 - Finalise triennial valuation and Funding Strategy Statement of consultation (subject to Committee approval).
9. There are a number of tasks rated AMBER, as explained in Table 1 below.

Table 1 – Summary of Amber Action – 2019/20 Quarter 4		
Ref.	Action	Explanation for amber status
AP3	<p>Fund to achieve full compliance with The Pensions Regulator Code of Practice / update the internal control framework (Qtr 3)</p> <p>Reduce the percentage of retirees waiting more than 60 days for their first pension payment.</p>	<p>Work is continuing to meet full compliance with data requirements which are linked to the full roll out of Monthly Interfacing</p> <p>The team has sustained performance at previous levels but has struggled to make improvements, due to casework volumes and some delays in receiving data from employers, and sometimes scheme members themselves.</p>

10. A number of actions scheduled for Quarter 4 are to be moved forward into the 2020-21 action plan as denoted by the blue colouring. Table 2 below summarises the actions which have been moved along with explanations for the movement.

Table 2 – Summary of Actions moved forward – 2019/20 Quarter 4

Ref.	Action	Explanation for movement
AP1	Implement recommendations from national LGPS Good Governance review Review Governance improvement action plan in the light of LGPS Good Governance Review final report.	The SAB has not published its final report on implementing the Good Governance Review
AP2	Implement the transition of Sustainable Equities (Qtr 2) Implement transition to pooled Infrastructure Sub-Fund (Qtr 3) Present business case for pooled Multi Asset Credit Sub-Fund (Qtr 3) Post implementation review of Low Carbon and Sustainable Equity transitions (Qtr 3) Implement transition to pooled Multi Asset Credit Sub-Fund Develop business case for pooled Infrastructure Sub-Fund, for Committee decision	The development of these transitions and business cases is dependent on the LGPS Central pool product development pipeline which has these products listed for development and launch in 2020-21
AP4	Implement employer admin performance reporting 'dashboard' Commence roll out of client relationship model to small / medium sized employers	Work has not yet commenced on the employer dashboard due to other casework priorities. Engagement is ongoing through the pension Consultative Forum as to how best to develop the CRM roll for smaller employers/employer groups
AP5	Commence production of further competition documentation for administration database retender	The Framework has not yet been awarded so this task cannot commence in 2019-20. It will roll forward to 2020-21 to align with the framework timeline
AP6	Develop plan for introduction of Member Self-Serve functionality Develop plan to design modeller/calculator to allow members to complete their own estimates. Contact members to sign up to online services in preparation for the 2020 Annual Benefit Statements being online	All three actions are dependent on member self-service system functionality being tested and launched. This development has had to be re-prioritised to run after implementation of Monthly Interfacing and will move into 2020-21

Table 2 – Summary of Actions moved forward – 2019/20 Quarter 4

Ref.	Action	Explanation for movement
AP8	Introduce automation of bulk processes with the administration database (Qtr 2) Develop a plan to clear casework backlogs (link to capacity building tasks) Develop an implementation plan to commence straight through processing (automation) of casework processing.	Work has commenced on automation but will require some redesigning of processes Managing casework is a perennial problem within current resources. Recruitment of 3 additional staff is underway and if successful should provide some additional capacity to enable effective planning As with member self-serve process automatization has had to be re-prioritised to accommodate monthly interfacing

2019/20 Forecast Outturn

11. The 2019/20 budget was set at £4.661m and forecast outturn for the year is an underspend of £525k.
12. The reasons for the underspend are summarised in the table below:

Budget Area	Explanation	Saving £000
LGPS Central Costs	<ul style="list-style-type: none"> In line with the shareholder agreement, the Fund received a refund from LGPS Central as the company underspent in 2018/19. LGPS Central Ltd are forecasting an underspend for 2019/20 which is also contributing to the underspend. 	154
Staffing costs	<ul style="list-style-type: none"> Vacant positions within the team were not filled until part way through the year and maternity cover contingency was not required. Employee training costs were lower than expected as some training was successfully funded through the apprenticeship levy. 	175
Supplies & Services	<ul style="list-style-type: none"> Support with casework backlogs have been met through staff overtime instead of external fees. Investment advice and support for transitioning assets into LGPS Central has been lower than forecast as wherever possible costs have been absorbed within existing budgets. Cost savings have been achieved within printing postage and stationery. Following advice from the Council's Technology Business Relationship team planned ICT investment has been re-profiled into 2020-21 to align with other scheduled corporate ICT upgrades. 	196
Sub-total		525

13. Work is continuing to finalise costs relating to 2019/20 and so the outturn position may change from that outlined above, albeit it is not expected to vary materially.

CHESHIRE PENSION FUND - 2019-20 ACTION PLAN TRACKER

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP1	G1 Strong and effective decision making supported by appropriate skills, knowledge, advice and expertise at officer and member level.	<ul style="list-style-type: none"> Implement 'quick win' recommendations from Barnett Waddingham review of CPF Governance 	<ul style="list-style-type: none"> Induction of new Committee Members following May 2019 elections. Develop training plans to support key governance/decision making roles based on CIPFA Skills & Knowledge Framework and MiFID2 requirements. 		<ul style="list-style-type: none"> Implement recommendations from national LGPS Good Governance review/ Barnett Waddingham CPF Review. Review Governance improvement action plan in the light of LGPS Good Governance Review final report. Move to 2020-21 to align with SAB timetable

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP2	G2 Effective implementation of asset pooling, including realisation of target savings and benefits.	<ul style="list-style-type: none"> Transition plan for Low Carbon and Sustainable Equities. Appoint Transition Manager (Low Carbon) Deliver consolidated performance reports to ISC covering directly managed and LGPS Central managed assets. Publish 2018/19 Annual Report, including new pooling reporting requirements. 	<ul style="list-style-type: none"> Implement transition of Low Carbon. Input to design of pooled Multi Asset Credit offering Assess wider collaboration opportunities with LGPS Central Partners. Implement the transition of Sustainable Equities. Move to 2020/21 to align with launch of framework 	<ul style="list-style-type: none"> Implement transition to pooled Infrastructure Sub-Fund (subject to Cttee decision) Present business case for pooled Multi Asset Credit Sub-Fund, for Committee decision. Post implementation review of Low Carbon and Sustainable Equity transitions. Move to 2020/21 - align with product development pipeline 	<ul style="list-style-type: none"> Implement transition to pooled Multi Asset Credit Sub-Fund (subject to Cttee decision) Develop business case for pooled Infrastructure Sub-Fund, for Committee decision Move both to 2020/21 align with product development pipeline
AP3	G3 High levels of compliance with regulatory and best practice standards, evidenced by comprehensive and transparent reporting on all aspects of Fund performance and decision making.	<ul style="list-style-type: none"> Introduce administration performance disclosures into 2018/19 Annual Report in line with national guidance Introduce a suite of reports to demonstrate performance against casework KPIs 	<ul style="list-style-type: none"> Issue 100% of ABS statements on time Report non-compliance to TPR with details of the rectification plan 	<ul style="list-style-type: none"> Fund to achieve full compliance with The Pensions Regulator Code of Practice / update the internal control framework 	<ul style="list-style-type: none"> Reduce the percentage of retirees waiting more than 60 days for their first pension payment. Continue cleanse of historic data held by the Fund to meet full compliance with Data Protection legislation.

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP4	G3 Supported, empowered and enabled scheme employers, able to fulfil their obligations under the Scheme rules, and meet their performance obligations set out in the Administration Strategy	<ul style="list-style-type: none"> Publish the Administration Strategy w.e.f 1 April and agree monitoring framework with Pensions Consultative Forum. Commence programme of regular client relationship meetings with major employers to address priority improvement actions Commence the development of a suite of performance reporting measures aligned with requirements set out in Admin Strategy 			<ul style="list-style-type: none"> Implement employer admin performance reporting 'dashboard' Commence roll out of client relationship model to small / medium sized employers <p>Move both to 2020-21</p>

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP5	G4 Strong and effective client and contract management arrangements for all third party contracts and supply agreements demonstrating effective partnership and value for money.	<ul style="list-style-type: none"> Embed effective client and contract management procedures for new investment contract and revised actuarial arrangements Draft specification for new Actuarial contract and ancillary services. Provide support to the national framework to draft tender documents for the - administration database framework 			<ul style="list-style-type: none"> Provide support to the national framework to evaluate tender responses for admin database provider. Commence production of further competition documentation for administration database retender. Move to 2020-21 to align with framework timeline Invite tenders for actuarial services contract and Implement new actuarial services contract

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP6	A1 Digitally enabled interaction and communication with employers and members, delivered on a self-serve basis, and in a timely and customer-focussed manner; to enable effective member and employer decision making.	<ul style="list-style-type: none"> Re-design Pension Fund website 			<ul style="list-style-type: none"> Launch re-designed Pension Fund website. Develop plan for introduction of Member Self-Serve functionality Develop plan to design modeller/calculator to allow members to complete their own estimates. Contact members to sign up to online services in preparation for the 2020 Annual Benefit Statements being online. <p>Member self-serve and dependencies Move to 2020-21</p>

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP7	A2 Agile customer focussed, operating model, based on multi-skilled roles with strong supporting specialisms; able to respond to changing workloads and customer demands	<ul style="list-style-type: none"> Undertake customer service training for all staff within pensions. Develop a Pension Customer Charter Individual team members to develop personal training plan based on specific requirements 	<ul style="list-style-type: none"> Develop Learning and Development plan for the team based on skills audit and competency framework. Implement career grade posts linked to Apprenticeships programme. 		<ul style="list-style-type: none"> Re-run the skills matrix exercise to assess improvements in personal development plans
AP8	A3 Optimal use of technology and automation to support secure and efficient transmission of high quality data and intelligence – led business operations	<ul style="list-style-type: none"> Continue to assess data scores in line with TPR guidelines and introduce measures to resolve queries identified Introduce a suite of exception reports to identify data issues along with measures to resolve queries identified Commence the development of a Data Management Strategy to determine how data is received, stored and used within the Fund 	<ul style="list-style-type: none"> Complete the initial data cleanse exercise for all employers ahead of the move to MI Introduce automation of bulk processes with the administration database. Move to 2020-21 		<ul style="list-style-type: none"> Develop a plan to clear casework backlogs (link to capacity building tasks) Develop an implementation plan to commence straight through processing (automation) of casework processing. Move to 2020-21

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP9	F1 Effective investment allocation, risk management and stewardship delivering positive, sustainable returns in line with long term funding targets.	<ul style="list-style-type: none"> Initiate review of Fund's strategic asset allocation in light of valuation results. Review and update the Fund's Responsible Investment policy in the light of new SAB guidance and updated UK Stewardship Code. 	<ul style="list-style-type: none"> Complete 2018-19 CEM benchmarking return. Draft updated Investment Strategy Statement. 		<ul style="list-style-type: none"> Launch consultation on updated Investment Strategy Statement.

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP11	F2 Flexible and intelligence-led employer contribution strategy and funding solutions, which recognise the disparate objectives and characteristics of the Fund’s growing employer base.	<ul style="list-style-type: none"> Implement improvements to Fund approach to covenant monitoring following baselining Update risk based employer covenant monitoring in advance of 2019 valuation. Start initial communication and fact finding with targeted employers ahead of 2019 valuation. Start review of employer classification framework ahead of 2019 valuation. 	<ul style="list-style-type: none"> Continue review and implement any changes to employer classification framework ahead of 2019 valuation Factoring in findings from initial targeted employer communication 	<ul style="list-style-type: none"> Communicate valuation results to individual employers Continue review and implement any changes to employer classification framework. Consider impact of changes to investment strategy on employer framework and vice versa Consult employers on revised Funding Strategy Statement and implement 2019 valuation. 	<ul style="list-style-type: none"> Finalise Funding Strategy Statement in the light of consultation feedback for Cttee approval. Roll out/train Fund approach to covenant assessment/monitoring to contribute to staff multi-skilling Move to 2020-21

Ref.	Outcome	Quarter 1	Quarter 2	Quarter 3	Quarter 4
GREEN = Completed or on track			AMBER = Risk of minor delay/marginal under-achievement		
RED = Significant delay or material under- achievement			BLACK = Too early/not yet assessed		
AP12	F3 Competitive and sustainable cost base, demonstrating value for money over time and compared against peers	<ul style="list-style-type: none"> Research alternative Pensions Increase solutions and agree future delivery plan. Finalise B4B process design and impact analysis. Finalise Project Chrysalis 2019/20 Programme plan and deliverables. Implement off-site printing/hybrid mail. Implement new telephony solution 	<ul style="list-style-type: none"> Continue with team training and development to achieve multi-skilling 		<ul style="list-style-type: none"> Develop an implementation plan to commence 'To Be' improvements to administration casework processes Move to 2020-21

Regulatory Update – Exit Credits

1. This paper provides the Committee with an update on recent proposed changes to the Local Government Pension Scheme Regulations effecting the exit credit regime.

Recommendation

2. The Committee is asked to:
 - a) Note the changes to the LGPS regulations directly affecting the exit credit regime
 - b) Note that Officers will bring forward a ‘fair and reasonable exit credits policy’ for the Committee’s consideration via further amendments to the Funding Strategy Statement

Background

3. On 8 May 2019 the Secretary of State for Housing, Communities and Local Government opened a consultation which outlined a number of proposals to amend the Local Government Pension Scheme in England and Wales. These proposals comprised:
 - amendment of the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle;
 - a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
 - proposals for greater flexibility for employers making exit payments;
 - proposals for further changes to the rules on exit credits;
 - proposals for changes to the category of employers required to offer local government pension scheme membership.
4. On 27 February 2020, the Government issued a partial response, only to the exit credit regime. A further response will be made in relation to the other proposals in the consultation in due course. The response proposes changes to the LGPS regulations that will come into force 20 March 2020, but they will be retrospective from 18 May 2018 to tie in with the launch of the exit credit regime.

Exit Credits

5. In April 2018, the Government announced a change to the LGPS Regulations 2013 to allow exit credits to be paid for the first time. Where an employer leaves the LGPS, an exit credit is now due if their pension liabilities have been overfunded at their date of exit. Prior to this change, the 2013 Regulations had

provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

6. In the months after the changes were made, concerns were raised about unforeseen consequential impacts from the introduction of exit credits, specifically where scheme employers had outsourced services or functions to service providers.
7. These situations tended to arise where employers and their service providers had entered into side agreements based on the 2013 rules. Under these agreements, the contracting authority may have shared the pensions risk with their contractors in various ways, for example by picking up the risk of contributions increasing beyond a certain amount or by picking up the risk of an exit payment arising at the end of the contract, in exchange for a lower contract price.
8. With the introduction of exit credits from 14 May 2018, it became clear that service providers were becoming entitled to exit credits where this would not have been the intention by the parties involved when the side agreement was made. The May 2019 consultation proposed to change the 2013 Regulations to provide that an LGPS administering authority must take into account the level of risk that an employer has borne in determining the amount of any exit credit.

Government response

9. In response to the representations received, the Government has amended the May 2019 consultation proposal. The 2018 regulations will be amended so that administering authorities **may** determine, at their absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations.
10. The relevant considerations that the administering authority **must** consider are:
 - The extent to which the employer's assets are in excess of its liabilities
 - The proportion of the excess of assets which has arisen because of the value of employer's contributions
 - Any representations made by the exiting employer and its letting authority/guarantor
 - Any other relevant factors.
11. In addition, the period in which an exit credit, where due, has to be paid has been extended from three months to six months.

Commentary

12. The initial regulations have enabled contractors to leave funds with large exit credits due mainly to strong growth on the assets that were transferred from letting authorities. In some cases, exit credits have been large and have even dwarfed any contributions made by the contractor.
13. This amendment now allows administer authorities to consider whether or not to restrict future exit credits to growth only on the money paid by employers. This requirement may mean that actuaries will have to separate out asset growth in the cessation valuation into two elements i.e. that attributable to the initial allocation of assets and that attributable to employer contributions. This may increase the cost of and time taken to carry out the cessation valuation.
14. The intention behind the administering authority having to consider any representations made by the exiting employer and its letting authority/guarantor is to allow any risk-sharing arrangements that sit behind an employer's participation to be taken into account.
15. The Government has said however that there is no onus on the Fund to 'enquire into the precise risk sharing arrangements adopted'.
16. Instead, it will be left to the employer and letting authority/guarantor to explain why the arrangements made by them make payment of an exit credit more or less appropriate.
17. There is a risk that administering authorities get caught up in the middle of arguments between employers over commercial terms that were agreed outside the pension fund, leading to additional costs, and potential delays to the settlement of cessation valuations.
18. Administering authorities should adopt a 'fair and reasonable exit credits policy' which should be set out in their Funding Strategy Statement (FSS). The policy should aim to protect the interests of the members and employers as a whole and look wider than the interests of the single employer in question. Administering authorities should also seek actuarial and legal advice where appropriate and act consistently with the approach set out in their FSS.
19. As the Committee will see under another agenda item, the FSS has just been reviewed and consulted as part of the 2019 actuarial valuation based on the existing exit credit regime. Frustratingly, the administering authority will now need to undertake a further review and communication exercise with employers to reflect these new regulations.

20. In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply. The Pensions Ombudsman also has jurisdiction to hear complaints of maladministration arising between those involved in running a scheme, if the internal dispute resolution process is unsuccessful.
21. The increase of three months to the maximum period by which the exit credit must be paid is welcome. The original period allowed little time to gather cessation data, process the calculation and arrange for payment of any credit. However, given the administering authority's new discretionary power, these extra months may be used up quickly as they consider whether or not to approve a payment.
22. Going forward, as the Committee will be aware, the Cheshire Pension Fund's default approach for new contractors is that all arrangements are 'pass through' and the Fund's standard admission agreement has clauses that remove the risk of paying out exit credits and the letting authority retains the responsibility for the risk of any deficit or surplus arising on the contractor's assets at exit.
23. But a 'fair and reasonable exit credits policy' will have to be set out in the Funding Strategy Statement to cover the pre exit credit admissions that are not pass through and where the letting authority and the contractor have not entered into side agreements.