AGENDA

PENSION BOARD

Thursday, 15th October, 2020, at 2.30 pm		Ask for:	**Theresa Grayell**
online		Telephone	**03000 416172**

Membership

Scheme Employer Representatives (4)

Kent County Council (2)	Mrs M Crabtree (Chairman) and Mrs R Binks
District/Medway Council (1)	Councillor D Monk
Police/Fire & Rescue (1)	Ms A Kilpatrick

Scheme Employee Representatives (4)

KCC (1)	Ms L Shah
Medway/Districts (1)	Mr J Parsons (Vice-Chairman)
Trade Unions (1)	Vacancy
Kent Active Retirement Fellowship (1)	Mr D Coupland

UNRESTRICTED ITEMS
(During these items the meeting is likely to be open to the public)

1. Apologies and Substitutes

2. Declarations of Interest by board members on items on the agenda for this meeting

3. Minutes of the meeting held on 26 February 2020 (Pages 1 - 12)

These are the minutes of the most recent formal meeting. Notes of the board's briefing held on 12 June 2020 will be circulated to board members separately.

4. Pension Fund Business Plan (Pages 13 - 20)

5. Fund Employer and Governance Matters (Pages 21 - 118)

6. Superannuation Fund Report and Accounts and External Audit (Pages 119 - 216)

7. Internal Audit Review update (verbal)

8. Board Member Training (Pages 217 - 238)

9. ACCESS update (Pages 239 - 252)

10. Date of next meeting

The next scheduled meeting of the board is currently Tuesday 26 January 2021, commencing at 10.00 am, however, the timing of meetings is being reviewed to allow a written report of each Pension Board meeting to be prepared in time for the next meeting of the Superannuation Fund Committee.

Motion to exclude the press and public for exempt business

That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

11. Superannuation Fund Committee update (Pages 253 - 262)

12. Pension Fund Risk Register (Pages 263 - 268)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 7 October 2020

KENT COUNTY COUNCIL

PENSION BOARD

MINUTES of a meeting of the Pension Board held in the Wantsum Room, Sessions House, County Hall, Maidstone on Wednesday, 26 February 2020.

PRESENT: Mrs M E Crabtree (Chairman), Mr J Parsons (Vice-Chairman), Mrs R Binks, Mr D Coupland, Ms A Kilpatrick and Ms L Shah

ALSO PRESENT: Mr C Simkins

IN ATTENDANCE: Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mrs B Cheatle (Pensions Manager), Mr S Tagg (Senior Accountant - Pension Fund) and Miss T A Grayell (Democratic Services Officer)

UNRESTRICTED ITEMS

14. Apologies and Substitutes
(Item 1)

There were no apologies for absence and no substitutes.

The Chairman welcomed Charlie Simkins, Chairman of the Superannuation Fund Committee, who was present to update the Board on the work of the Committee, as agreed at the Board's previous meeting.

15. Declarations of Interest by Board members on items on the agenda for this meeting
(Item 2)

The Chairman, Mrs M Crabtree, declared a disclosable pecuniary interest as part of her pension fund was invested with Woodford and said she would leave the meeting room before discussion of the Woodford update item.

16. Minutes of the meeting held on 11 November 2019
(Item 3)

It was RESOLVED that the minutes of the meeting held on 11 November 2019 are correctly recorded and that they be signed by the Chairman. There were no matters arising.

17. Dates of future meetings
(Item 4)

The Board NOTED that the following dates had been reserved for its meetings in 2020 and the first part of 2021:

Friday 12 June 2020 – *this subsequently became a briefing session*
Thursday 27 August 2020 – *subsequently cancelled*

Friday 23 October 2020 – *subsequently moved to Thursday 15 October*
Tuesday 26 January 2021
Tuesday 2 March 2021
Friday 11 June 2021,

All meetings would commence at 10.00 am.

The Chairman advised the Board that these dates had been set to precede meetings of the Superannuation Fund Committee, and that she would attend future meetings of the Committee to report on the work of the Board.

In a reciprocal arrangement, Charlie Simkins would attend future meetings of the Board to update on the work of the Committee.

18. Update from Barnett Waddingham on the actuarial valuation and other actuarial matters, including the McCloud judgement
(Item 5)

Graeme Muir, Partner, and Roisin McGuire, Associate, from Barnett Waddingham were present for this and the following item at the invitation of the Board.

1. The Chairman thanked Mr Muir and Ms McGuire for attending and Mrs Mings explained that they had been invited to advise the Board of the actuarial valuation results and other actuarial issues.

2. Mr Muir presented a series of slides *(tabled)* which set out the purpose of the valuation, its key outcomes, the assumptions made, the prudent discount rate, which this time included an extra 0.2% to allow for the McCloud judgement in 2018 and other uncertainties, and the background to the McCloud judgement. He highlighted changes to the rules which had been made since the previous valuation: in 2016, the Government had introduced a section13 valuation stage, which followed funds' valuations and checked that contributions had been set at an appropriate level. Mr Muir then responded to comments and questions from the Board, including the following:-

a) asked about the average recovery period, Mr Muir advised that the average period for large authorities was 9 – 10 years, for Kent it was 8 years and for smaller authorities it was between 8 and 12 years. It was best to keep contributions at a stable level; if they were reduced, they might need to be increased again at a later stage, requiring funding to be found from elsewhere in an authority's budget;

b) asked to comment on a number of recent consultations, including changes to the valuation cycle, exit credits and deemed employers; Mr Muir commented that larger local authorities would manage a 4-year valuation cycle better than smaller employers, who would need a more frequent valuation to check that they were on track. Mr Muir also commented that court cases were currently testing the idea of returning a surplus when an employer were to leave the scheme. Responsibility for the pension liability of a deemed employer would remain with the letting authority rather than be transferred to the new contractor. Mrs Mings commented that, currently, the admission process was the same, irrespective of the size of the employer, so costs and time could be saved if the new employer were to be given deemed employer status. Mr Tagg advised that the pension arrangements for the company's employees would need to be set out in the commercial contract; and

c) concern was expressed about the options open to academies which, unlike local authority schools, could be declared bankrupt. Mr Muir advised that, in respect of those schools in Multi-Academy Trusts (MATs), the MAT would take over liability for staff pensions. Otherwise pensions would be guaranteed by the Department for Education employer covenant. Mr Tagg added that the number of academies in the Kent Fund had grown from 6 in 2010 to 200 in 2019. They all paid the same employer contribution rate and all had to declare their pension accounting liability annually, as at 31 August.

3. It was RESOLVED that the information in the presentation and given in response to comments and questions be noted, with thanks.

19. Fund Employer Matters
(Item 6)

1. Mrs Mings introduced the report which set out information on employers in the Fund. Officers monitored the receipt of contributions from employers and assured the Board that, in the few instances in which an employer had paid late, the issues had been dealt with without referring the matter to the Pensions Regulator.

2. Mr Tagg then advised the Board on progress relating to Hadlow and West Kent and Ashford Colleges, on which Ms McGuire had also been advising the Council. Of the options available for the Hadlow College Mottingham campus staff, Ms McGuire had recommended that the more straightforward in terms of actuarial issues would be for the Mottingham campus staff to join the Kent Pension Fund. Ms McGuire advised the Board that the assets and liabilities of Hadlow College would not change, with each of its three campuses taking a share of the deferred and pensioner liabilities. Mrs Mings added that the remainder of Hadlow college staff would transfer to other colleges in the Fund.

3. Asked about the status of other colleges in the fund, Mr Tagg advised that, with the exception of two colleges who were admitted bodies, they had scheduled body status, so all existing staff would be automatically enrolled in the Local Government Pension Fund (LGPS). A recent government consultation proposed that new staff would have the option not to join the LGPS, and the outcome of the consultation was currently awaited.

4. It was RESOLVED that the information in the report and given in response to comments and questions be noted, with thanks.

The Chairman thanked Mr Muir and Ms McGuire for their attendance.

20. Pensions Administration
(Item 7)

1. Mrs Cheatle introduced the report and highlighted the following:

- The number of enquiries from scheme members had reduced, partly due to the new format of pensions illustrations to include a 'notes' section and partly to more scheme members being encouraged to use the online calculation facility.

- The number of scheme members with deferred benefits had increased.

- The number of benefits calculations completed tended to fall below target at the end of the financial year as workloads hit a 'bottleneck', when 50% of staff were diverted to other work. The rollout of i-Connect would help by generating data monthly rather than annually. As part of a four-year rollout, 60 employers had so far adopted i-Connect and, as the rollout continued, the performance was expected to improve.

- The redesign of the Pensions team included entry-level posts now being at KR5 rather than KR4 and included Apprentice posts. Appointments to upper levels would be made first, with lower Apprentice appointments following later. Response to advertised KR5 posts had been good, and it was hoped that five good candidates could be found.

- Help was still needed to continue clearing the backlog of unprocessed cases, which had been a challenge since 2014. The two companies engaged had cleared 7,000 cases and the data submitted to the Actuary, Barnett Waddingham, at the time of the valuation had been as full as possible. It was estimated that it would take a further 18 months - 2 years to clear the backlog completely.

2. Mrs Cheatle then responded to comments and questions from the Board, including the following:-

   a) asked about the age profile of applicants for the KR5 posts, Mrs Cheatle explained that this had been broad. Some were retired people seeking an administrative job. She hoped that the next 6-monthly update would be able to report full staffing;

   b) asked whether the responses recorded in the key performance indicators included 'holding' replies or full responses to queries, Mrs Cheatle advised that they were full responses;

   c) asked about the performance of the companies engaged to clear the backlog, Mrs Cheatle advised that one had performed well and one not so well. Future contracts would build in a penalty clause for performance below a set target; and

   d) asked about the average number of scheme members who requested deferral of their pension each year, Mrs Cheatle advised that, once the current backlog of cases had been cleared, 'usual' patterns would be easier to identify.

3. It was RESOLVED that the information set out in the report and given in response to comments and questions be noted, with thanks.

21. Training on the governance and administration requirements of the LGPS
(Item 8)

1. Mrs Mings introduced the report and advised that members, having agreed the training strategy, were now being asked to complete a questionnaire in confidence by the end of March 2020 so a training programme could be formulated to cover any training needs identified. All Board members were also asked to complete, by June, the TPR online toolkit, which was included in the strategy. This consisted of 7 modules, each taking approximately 30 minutes to complete. Board members who had previously completed the toolkit said how helpful it was, that it had not been onerous to complete and had been most helpful in refreshing their knowledge of pensions governance. It was noted that the toolkit included a glossary of terms and definitions.

2. Mr Simkins commented that, although the training was mandatory for the Pension Board, it could be helpful for Superannuation Fund Committee members to also complete it. The Chairman added that it would be useful to review skills regularly, perhaps annually. Mrs Mings pointed out that the toolkit covered basic training and there would be opportunities for further training in the future. Training offered by Barnet Waddingham had been attended by some Board members and had been found most useful.

3. The questionnaire would be emailed to all Board members after the meeting. After receipt of their responses, those members who had not yet completed the toolkit would be sent a link to the online version and Mr Tagg would look into the possibility of supplying the slides from the online toolkit as hard copies. Mr Tagg would be available if Board members required help with completing the questionnaire and the toolkit.

4. It was RESOLVED that:-

a) the training questionnaire be sent electronically to all Board members, for completion by 31 March 2020; and

b) the training toolkit be sent electronically to all Board members, to be completed by June 2020 and, if possible, as a hard copy to any who request it, and members liaise with Mr Tagg about completing it.

22. ACCESS Pooling Update
(Item 9)

1. Mrs Mings introduced the report and reminded the Board of the history and context of the ACCESS pooling arrangements. She advised the Board that:-

- Kevin McDonald and two other full-time staff had been appointed to run the ACCESS Support Unit, including the management of the LINK contract. The unit was being hosted by Essex County Council and was based in Chelmsford.

- Kent funds were currently invested in four ACS sub-funds, with another sub-fund planned to be added in summer 2020.

- Approximately 30% of the Kent Fund was currently in the pool. Kent needed to consider carefully how it wished to pool the outstanding investments.

- The ACCESS joint committee had considered a request for a representative from unions to join the committee but had resolved at its December meeting to keep the membership just to the current 11 chairmen of the member funds.

2. Mr Simkins, Chairman of the Superannuation Fund Committee, represented Kent on the ACCESS joint committee. He advised the Board that the joint committee provided a good forum for dialogue and sought to demonstrate to the Government that ACCESS was a good model of the pooling structure. The existence of pooling arrangements across the country had raised public awareness nationally of pensions issues. The benefits of pooling were that its members were charged lower fees and were able to share administrative costs.

3. Mrs Mings and Mr Simkins responded to comments and questions from the Board, including the following:-

a) asked what other benefits there were to Kent in being part of ACCESS, Mrs Mings explained that Kent had the option of being able to consider opportunities for investment presented within the pool and compare them to other opportunities. Concern was expressed that any shared or grouping arrangement could lead to differences of opinion and compromised options;

b) Mr Simkins advised that the County Council had chosen not to place its directly-owned property, which made up approximately 13% of its portfolio, into the pool. Mrs Mings added that the Government had agreed that the County Council could keep this separate; and

c) asked if the Government had set a target for the level of investment included in pooling, Mr Simkins advised that the Government encouraged member authorities to pool as much as possible but had not specified any target figure. As a large fund, Kent County Council had approximately 30% of its funds pooled, more that many other local authority. Pools were obliged to report to the Government the extent of funds pooled.

4. It was RESOLVED that the information set out in the report and given in response to comments and questions be noted, with thanks.

23. Pension Fund Business Plan
(Item 10)

1. Mrs Mings introduced the report and advised the Board that the plan and indicative budget was an updated version of what had previously been presented to it. She responded to comments and questions from the Board, including the following:-

a) asked if the ongoing cost of engaging companies to tackle the backlog of pensions cases had been included in the budget, Mrs Cheatle advised that this was not currently included. Mrs Mings and Mrs Cheatle advised that they would clarify what the additional administration costs would be and how these were to be covered in the budget and advise the Board at a future meeting; and

b) asked about the forecast figure for 2020/21 for the actuarial fee, Mrs Mings advised that the cost would be less next year as the cost of the valuation had arisen mostly within the 2019/20 financial year.

2. It was RESOLVED that the updated Business Plan and the related budget for 2019-20 and 2020-21 be noted, with thanks.

24. Motion to exclude the press and public for exempt business

It was RESOLVED that, under Section 100A of the Local Government Act 1972, the public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(Open access to minutes 25 and 26. Summary of minute 27, where access to that minute remains restricted)

25. Pension Fund Risk Register

(Item 11)

1. Mrs Mings introduced the report and advised that the register had been updated since it was last presented to the Board. Mr Simkins added that the Committee was reviewing the equity protection options open to it and was taking advice from Mercer Ltd on the options available. An equity protection working group had recently been established to consider the way forward, including costs and benefits, and select a provider of the equity options programme. He hoped to be able to report more progress to the Board's next meeting.

2. Asked about the risk of loss of assets and reputation associated with any delay in implementing the actions arising from the internal audit review, Mrs Mings said that work on much of the action plan had started and would be progressed during the coming months. Mr Simkins added that a deadline of June 2020 had been set for all actions to be completed.

3. It was RESOLVED that the information set out in the report and given in response to comments and questions be noted, with thanks.

26. Internal Audit action plan

(Item 13)

1. Mrs Mings gave a verbal update on behalf of the Corporate Director of Finance, Ms Z Cooke. Sixteen action points had been identified and the action plan agreed with the General Counsel, Ben Watts.

2. The action plan had a series of sections covering governance, terms of reference, fund policies, resources and structure, members' skills and knowledge and training. It would also take account the Good Governance review published by the Scheme Advisory Board. The work of addressing the action plan would be supported

by Catrina Arbuckle from Mercer Ltd, the fund's investment advisors. Ms Arbuckle would attend every meeting of the Superannuation Fund Committee.

3. The relationship between the Committee and the Pension Board was already good and links between the two would be further strengthened by the reciprocal arrangement for the Chairman of each to attend the other's meetings, which had been agreed at the most recent meetings of the Board and the Committee. The role of the Board would be as 'critical friend' to the Committee.

4. It was RESOLVED that the information given in the update be noted, with thanks, and an updated report on the implementation of the action plan be made to every meeting of the Board.

27. Woodford investment update
(Item 12)

The Chairman, Mrs M Crabtree, left the meeting room before discussion of this item as she had previously declared a disclosable pecuniary interest.

The Vice-Chairman, Mr J Parsons, presided over this item.

1. Mrs Mings advised the Board that £138.935m had been refunded to the Pension Fund on 30 January 2020 and had been used to invest in a multi-asset credit fund, as planned. The Woodford Equity Income Fund had been renamed the LF Equity Income Fund and was now being managed by BlackRock and PJT Partners. Officers had received further information from Link Asset Services which would be shared with the Board at its next meeting.

2. Mr Simkins advised that the £138.935m represented 75% of the current value of Kent's investment. BlackRock had liquidated all the quoted investment and had distributed funds accordingly. PJT were managing the illiquid stock.

3. Mrs Mings and Mr Simkins responded to comments and questions of detail from the Board, including the following:-

a) asked what proportion Kent's investment represented of the total Woodford fund, Mr Simkins advised that Kent's investment was approximately 7% of the total, so its exposure had been relatively small, compared to other investors;

b) asked how statements to the press would deal with the issue of reputational damage to the County Council, Mr Simkins advised that the series of press statements released by the Council in recent months had always highlighted that the investment in the Woodford fund represented only a small percentage of the total Fund investments, that the Fund's overall performance had been good and that pension payments to scheme members would not be affected, but the press had ignored these positive messages in favour of sensationalist headlines. Mrs Mings added that statements on the County Council's website were being kept up-to-date and that the positive messages outlined above would be sent to pensioners. Mrs Cheatle and Mr Coupland confirmed that the 'Open Lines' magazine would be used to inform pensioners. Mr Tagg commented that up-to-date Fund information could also be included with benefits statements for active and deferred scheme members.

5. It was RESOLVED that the information set out in the report and given in response to comments and questions be noted, with thanks.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Pension Board – 15 October 2020

Subject: Pension Fund Business Plan

Classification: Unrestricted

Summary:

To advise the Board of the progress made to date on the 2020-21 business plan and related forecast outturn for 2020-21

Recommendation:

The Board is recommended to note the updated Business Plan and the related budget for 2020-21.

FOR INFORMATION

1. Introduction

1.1 The Board is asked to note the updated business plan and forecast costs required to deliver the plan in 2020-21.

1.2 This is a copy of the report noted to the Superannuation Fund Committee on 4 September updated for recent developments.

2. 2020-21 business plan

2.1 The Fund's business plan has been updated to reflect progress made to date, see attached at appendix 1.

2.2 Members are asked to particularly note the following:

i) work completed on the implementation of the investment strategy in particular in relation to an equity protection programme
ii) the Fund's annual accounts have been completed though final sign off has been deferred to October
iii) the governance consultancy procurement has been launched
iv) despite delays caused by Covid-19 members' ABIs were issued by 31 August

2.3 In addition two new scheme administration activities have commenced:

i) MHCLG have launched a consultation on the changes to the LGPS following the McCloud judgement with a deadline of 8 October and a project will be established to implement the changes necessary

ii) In July MHCLG launched a consultation on the changes to the Regulations to incorporate the £95k exit payments cap with a deadline of 9 November. The separate legislation regarding the restriction of exit payments for public sector employees was passed by Parliament at the end of September and will be law 21 days after being signed by the Minister for HM Treasury. The impact of this legislation will need to be managed.

3. 2020-21 forecast

3.1 At its March meeting the Committee approved a budget of £4.693m to support the 2020-21 business plan. Details are included in the table below.

3.2 At the current time it is anticipated that additional costs will be incurred in relation to investment consultancy provided by Mercer in particular for the establishment of an equity protection programme. We are also forecasting higher audit costs due to the additional work requiring to be undertaken in relation to the annual audit of the Fund.

3.3 Total forecast costs are now £4.809m.

Pension Fund Management Costs

	Agreed Budget 2020-21	Forecast costs 2020-21	(Overspend) / underspend
	£	£	£
Pensions Administration	3,411,900	3,411,900	-
Pension Payroll Services	225,973	225,973	-
Payment services	17,340	17,340	-
Financial Services	68,340	68,340	-
Administration Expenses	**3,723,553**	**3,723,553**	**-**
Actuarial Fee including cost of valuation	260,000	260,000	-
Legal Fees	125,000	125,000	-
Direct recovery of actuary, legal fees and admin costs	(225,000)	(225,000)	-
Subscriptions	46,000	46,000	-
ACCESS pooling costs	100,000	100,000	-
Investment Accounting and Oversight costs	400,000	400,000	-
Performance Measurement Fees	10,000	10,000	-
Investment Consultancy	160,000	160,000	
Equity Protection consultancy		100,000	(100,000)
Governance consultancy	50,000	50,000	-
Other professional advice	20,000	20,000	-
Governance and Oversight Expenses	**946,000**	**1,046,000**	**(100,000)**
Audit fee	24,000	40,000	(16,000)
Total	**4,693,553**	**4,809,553**	**(116,000)**

Alison Mings, Acting Business Partner – Kent Pension Fund

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October 2020

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Kent Pension Fund Business Plan 2020 - 21

Action No.	Description	Accountable Officer(s)	Plan	Update October 2020

1. Investment Strategy

1.1	Implement the revised asset allocation agreed by Superannuation Fund Committee on 9 February 2018.	Zena Cooke / Alison Mings	Implementation of the equity downside protection programme Funding of private equity / infrastructure investments	Committee agreed at its June meeting to recommence the establishment of the equity downside protection programme. The working group appointed a manager in August and this was reported to the 4 September meeting. Work is in hand on contract arrangements and proposed strategy. Further funding anticipated in 2020 – 21 of £66m
1.2	Manage the transition of investments including to the ACCESS pooled funds	Alison Mings / Sangeeta Surana	Global Value Equity fund transition planned June 2020	Timing of GAV sub-fund launch likely November 2020. Discussions ongoing re set up of M&G Fixed Income sub-fund
1.3	Report to the Superannuation Fund Committee on new investment options.	Zena Cooke / Alison Mings	Ongoing.	Ongoing Mercer's proposals for an allocation framework agreed at September meeting
1.4	Monitoring the performance of investment managers and funds.	Zena Cooke / Alison Mings / Sangeeta Surana	Mercer attending every committee meeting. Providing quarterly manager reviews Quarterly performance reporting to Committee undertaken by officers	Mercer quarterly report for September meeting covered all managers
1.5	Develop enhanced RI / ESG policy / reporting	Alison Mings / Sangeeta Surana / Katherine Gray	Agreement of revised policy and implementation of reporting required	Draft policy agreed by the committee at its March meeting now available on the Fund website and comments requested from stakeholders as well as investment managers. Results of the consultation to be reported to the November committee meeting ahead of the agreement of the final policy
1.6	Investment Consultant procurement	Sangeeta Surana	Undertake procurement for long term contract for investment advice to the committee	Procurement to be undertaken after the completion of the governance review – likely to be late Q4 2020
1.7	Review of asset allocation taking account of results of the 2019 valuation	Zena Cooke / Alison Mings / Sangeeta Surana	Engage investment consultant	Timing revised, see point 1.6
1.8	Update investment strategy statement reflecting CIPFA guidance and best practice	Alison Mings /Sangeeta Surana	ISS to be updated with assistance from the investment consultant	See point 1.6
1.9	Custody contract	Sangeeta Surana / Katherine Gray	Current contract expires 1/11/20, procurement using LGPS frameworks	Timeframe to be discussed with procurement team

2. ACCESS Pool

2.1	Support the Chairman in his role on the Joint Committee.	Alison Mings	Ongoing	Next JC meeting 9 November
2.2	Membership of the Officer working group (OWG) Participate in working groups to set up ACCESS ACS sub-funds and other CIVs as required for pooling alternative assets	Alison Mings / Sangeeta Surana	Selection of fund managers, set up and launch of ACS sub-funds Finalisation of arrangements for alternative assets platform Finalisation of reporting framework	Timetable for launch of agreed sub-funds delayed, tranche 5a planned November 2020 Work in hand with bfinance on set up of pooling solution Work on Reporting framework including cost transparency in progress Work on the IAA review close to completion

Kent Pension Fund Business Plan 2020 - 21

Action No.	Description	Accountable Officer(s)	Plan	Update October 2020
				Ongoing review of Link and fund managers
2.3	Support the role of host authority and ASU - business planning - budget - ASU technical lead	Alison Mings / Sangeeta Surana	Transfer of clerking role to Essex CC	Kent democratic services continuing to provide clerking services and transfer to Essex deferred to 2021.
2.4	Ensure the Superannuation Fund Committee is kept fully informed on ACCESS issues.	Alison Mings	Ongoing	ongoing

3. Governance and employer matters

3.1	Support the Superannuation Fund Committee and the Pension Board members to effectively undertake their roles and ensure that appropriate training is available.	Zena Cooke / Alison Mings	Implementation of revised committee work programme Planned procurement of external governance training provider	Role of business partner being covered by Alison Mings. Procurement process in hand. Plan to include a review of Fund governance, KCC finance support, and resources and organisation of the Treasury and Investments team. Also include requirement for provision of training to members and advice as required.
3.2	Prepare the Fund's 2020 accounts and report including compliance with cost transparency requirements and with revised reporting guidelines	Sangeeta Surana / Katherine Gray	Accounts completion planned for July 2020	Accounts completed end June but audit deferred to July and sign off by G&A delayed to October meeting. Committee will be asked to approve the publication of the Report and Accounts at its November meeting.
3.3	Implement changes proposed in recent MHCLG consultations including Fair Deal	Alison Mings / Barbara Cheatle	Changes to be implemented as required	Awaiting update on LGPS investment guidance following outcome of the Supreme Court judgement. Consultation responses regarding Regulation changes to incorporate the Exit payments cap due by 9 November. Restrictions on Public Sector payments legislation passed by Parliament 30 September awaiting sign off by Treasury Minister then implementation after 21 days. McCloud consultation responses due by 8 October.
3.4	Complete the March 2019 LGPS triennial valuation and communicate revised employer contribution rates	Barnett Waddingham Alison Mings / Steve Tagg / Barbara Cheatle	Revised employer rates to be implemented 1 April 2020	Employers paying contributions based on new rates – action completed
3.5	Update Funding strategy statement	Alison Mings / Stave Tagg	Update FSS with assistance from Barnett Waddingham taking account of the valuation results	Drafting of revised FSS in hand, to be reviewed by governance consultant
3.6	Fund actuary contract	Alison Mings / Steve Tagg	Procurement of the fund actuary using the LGPS framework	Procurement deferred to Q4 2020
3.7	Review governance arrangements considering internal audit recommendations, SAB good governance recommendation and TPR guidance	Zena Cooke / Alison Mings	Procure governance advice using LGPS framework. Consultant to review fund policies, current role of the board and provide training to board and committee members	See point 3.1 re scope of governance consultancy procurement Procurement launched end July. Responses due end August for evaluation September.
3.8	Undertake review of finance resources considering internal audit recommendations, tPR guidance and good governance review recommendations	Zena Cooke / Alison Mings	Complete review and create new team / structure / recruitment	Include in governance review, see above point 3.1
3.9	Review and update finance	Treasury and	Complete review and update	Update in hand, due for completion

Kent Pension Fund Business Plan 2020 - 21

Action No.	Description	Accountable Officer(s)	Plan	Update October 2020
	procedures and documentation considering internal audit recommendations	Investments team		end August 2020

4. Administration

Action No.	Description	Accountable Officer(s)	Plan	Update October 2020
4.1	Roll out i-Connect employer self service	Barbara Cheatle	Further roll out to large payrolls, including KCC and Medway. Presentation to other large employers, such as district councils, colleges etc in preparation for extension of roll out	Progress delayed due to COVID-19 – will look to introduce employers to i-connect via webinars rather than presentations. Looking to progress with the data cleansing part of project and possible use of dedicated resource
4.2	Preparation of annual benefit illustrations for despatch to members by the statutory deadline	Barbara Cheatle	Ongoing	Although year end process delayed due to COVID-19 ABIs issued by the statutory deadline 31 August
4.3	Reduce the backlog of unprocessed leaver cases	Barbara Cheatle	Procurement of a company using the LGPS framework in order to further reduce backlog cases.	Contract signed with ITM 04/08/20 and work has commenced
4.4	Follow up GMP reconciliation exercise	Barbara Cheatle	Stage 2 of reconciliation to be completed. Stage 3 of project will require Procurement of a company using the LGPS framework	HMRC have confirmed errors in previous information supplied for GMP reconciliation and so rework required by external company
4.5	Develop plan for introducing member Self Service (MSS)	Barbara Cheatle	MSS available and communicated to various categories of scheme members throughout the year	Work is progressing well. Instruction webinars provided and MSS now in UAT environment
4.6	Development of workflow system	Barbara Cheatle	Review	Revision of workflow introduced to staff via webinars from Heywood and internal staff. Internal processes changed and auto allocation of tasks introduced at beginning of June.
4.7	McCloud project - changes to LGPS following the McCloud judgement	Barbara Cheatle	see action 3.3 above Set up project for requesting data from employers and recalculation of benefits where necessary, changes to processes, communications etc	
4.8	Exit payments £95k cap	Barbara Cheatle	see action 3.3 above. Will require a significant communication exercise and changes to processes etc Effective date to be advised but we can expect an influx of retirements involving employer costs before this date	

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From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Pension Board – 15 October 2020

Subject: Fund Employer and Governance Matters

Classification: Unrestricted

Summary:

This report provides information on Fund employers, legislation changes and consultations as well as an update on changes to colleges and admission matters.

Recommendation:

The Board is recommended to note the report

FOR INFORMATION

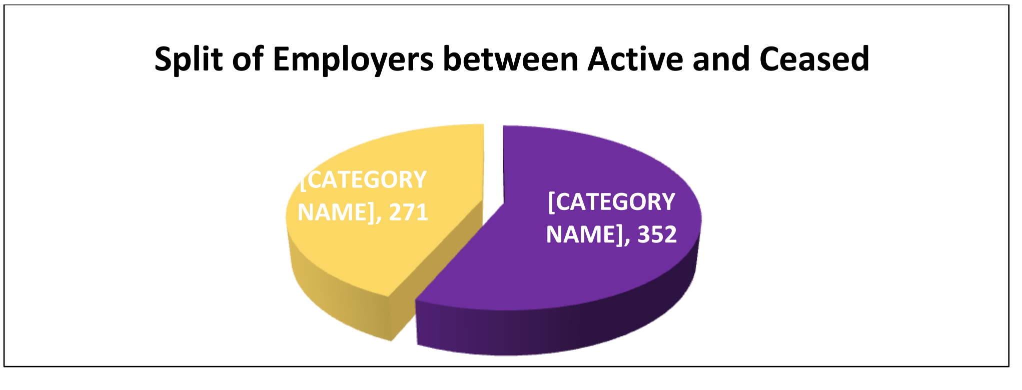
1. Introduction

1.1 This report provides information on employers for the 3 months April to June 2020 as well as the consultation on the impact of the McCloud judgement and the £95k exit cap.

1.2 It also provides an update on progress made with the educational administration of Hadlow College, West Kent and Ashford College and employer admission matters.

2. Employer update

2.1 There was a total of 623 employers in the Kent Pension Fund on 30 June 2020, no change from 31 March 2020.

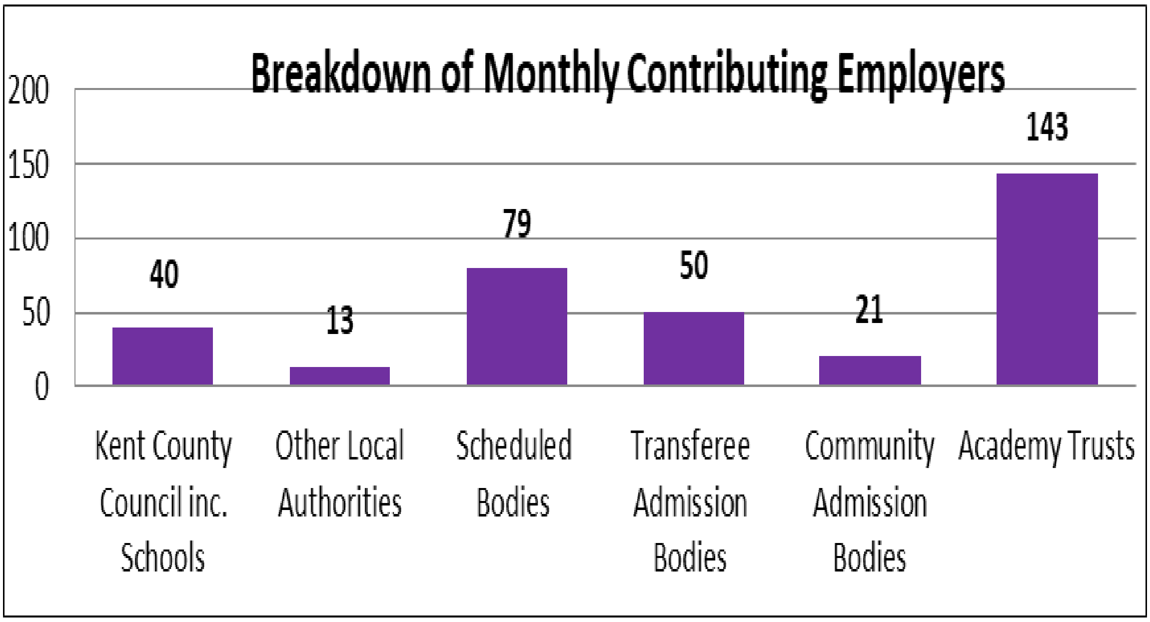


2.2 The number of active employers regularly paying contributions decreased by 4 in the 3 months from the end of March, 3 employers ceased to have active members in the Local Government Pension Scheme (LGPS) and 1 changed their payroll from in house to KCC schools.The ceased employers no longer have active contributing members in the LGPS and the Fund has an existing or future liability to pay any pensions.

2.3 The following table lists employers who ceased to have active members in the Fund during the first 3 months of 20-21.

Ceased	Effective date
Admission Bodies	
Sopra Steria Limited	31 March 2020
Scheduled Bodies	
Gen2 Property Limited	02 April 2020
Eythorne Parish Council	20 April 2020

2.4 The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the council's and schools' relationships with several payroll providers.

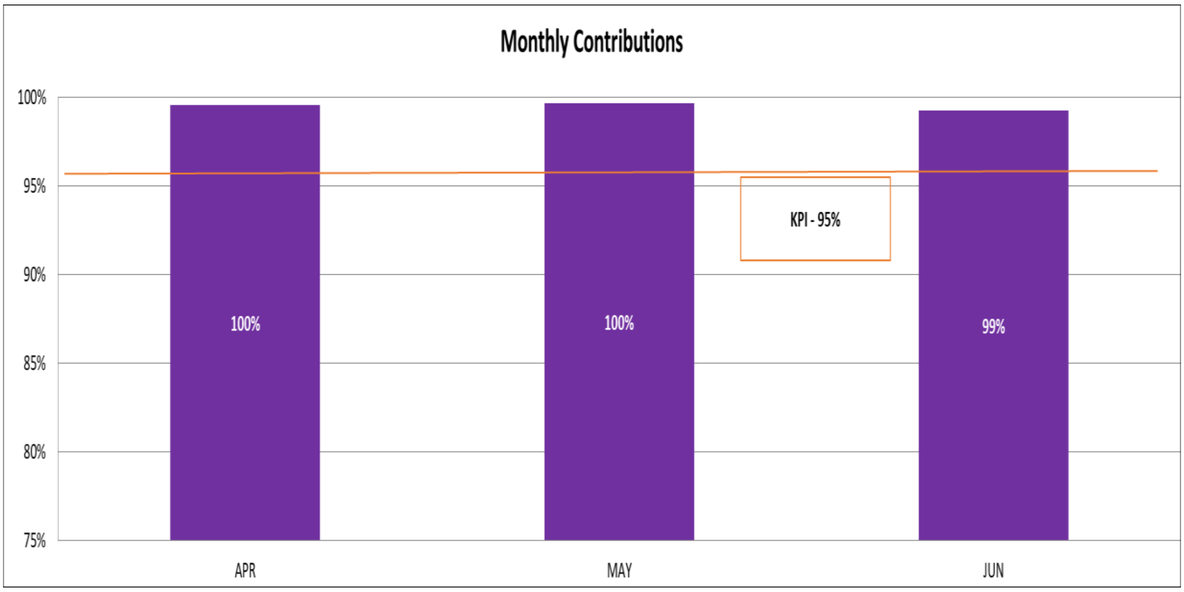


3. Contributions from employers

3.1 In the first 3 months of 2020-21 the Fund received £62.7m from employers in respect of their monthly contributions (employer and employee) as follows:

	Received Early	Cash on 19th	Received Late	Total
	£	£	£	£
April	14,994,163	6,003,509	92,977	21,090,649
May	12,089,398	8,523,449	64,359	20,677,206
June	10,733,126	10,084,330	152,719	20,970,175
Total	**37,816,687**	**24,611,288**	**310,055**	**62,738,030**

3.2 KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The following chart shows that the KPI was exceeded in all 3 months.



4. McCloud judgement update - proposed remedy

4.1 On 16 July 2020 the Government issued the anticipated consultation on the remedy of age discrimination cases, known as McCloud and Sargeant, which came about as a result of the transitional protections adopted as part of the public service pension scheme reforms in 2014 and 2015.

4.2 The deadline for responses to the consultation was 8 October 2020.

4.3 The remedy proposes that the transitional underpin protections will extend to all members active on 31 March 2012 and who have accrued benefits since 1 April 2014 in the career average (CARE) scheme and amends how the underpin works.

4.4 Members will get the higher amount of pension accrued under either the 2014 Scheme (CARE) or that would have been accrued under the 2008 Scheme (final salary) in the underpin period while retaining the final salary link into the future.

4.5 From 1 April 2022, all members will accrue benefits in the 2014 Scheme and there will be no underpin applied to membership from that date.

4.6 Administration of the extension of the underpin is going to be onerous for Kent as the administering authority, requiring exercises in communications, data collection and options to amalgamate memberships. It will also require the review of records going back to 1 April 2014 and for many members the underpin will need to be calculated twice.

4.7 There will be an impact on funding and contributions. At whole fund level this should be relatively small, although there could be a larger impact on some (generally smaller and/or less mature) employers.

4.8 The Government also announced the unpausing of the 2016 cost cap process, which will now take into account McCloud, although this could lead to even further benefit changes.

4.9 Barnett Waddingham have produced the briefing note at appendix 1. As they allowed for the cost of McCloud in the valuation, they do not intend to revisit the 2019 valuation results and any employer contributions. However, there may be some employers that they will want to look at more closely.

4.10 They do not believe that accounting reports need to be revised either as their approach, based on analysis by the Government Actuary's Department (GAD), closely replicates the proposed remedy.

4.11 We have responded to the consultation and a copy of the consultation and our response is attached at appendix 2.

4.12 This issue has been added to the Pension Fund Risk Register given the potential impact on the administration.

5. £95,000 cap on exit payments in the public sector including early retirement payments

5.1 The government published a consultation on 10 April 2019 seeking views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed on 3 July 2019 having received around 600 responses including from the Council.

5.2 The Government published its response to the consultation on 21 July 2020 and The Restriction of Public Sector Exit Payments Regulations 2020 have been approved by Parliament although not yet signed. It is understood the regulations will be effective 21 days after signature.

5.3 In their response to the consultation the government expressed its view that the cap of £95,000 will apply to the aggregate sum of payments related to exit including employer-funded early retirement payments as these are ultimately funded by the taxpayer.

5.6 The intention is to implement the cap in one stage across the public sector as soon as possible, with few exceptions, and pension schemes will be expected to be amended to reflect the introduction of the cap.

5.7 For the Kent LGPS it is expected this change will require more administrative resource and give employers new challenges as they seek to manage their workforce, particularly as the effective date becomes clear.

5.8 On 7 September 2020 the government issued another consultation which seeks views on proposed changes to the LGPS, and compensation regulations in England and Wales to introduce the exit payment cap and further reform of exit payments.

5.9 Employers are being encouraged to respond to this consultation which closes on the 9 November 2020.

5.10 The £95,000 exit cap has been added to the Pension Fund Risk Register.

5.11 A further update will be given to Committee and the Pension Board when more information is available.

6. Deferred employers

6.1 The Local Government Pension Scheme Regulations 2013 have been amended from 23 September 2020 to include reference to deferred employers.

6.2 Regulation 64 has been amended to enable an administering authority and a Scheme employer to agree to defer exit payments in return for an ongoing commitment to meet their existing liabilities in a deferred debt agreement.

6.3 A new regulation 64A has been added to enable an administering authority to obtain a revised rates and adjustments certificate to show changes to Scheme employer contributions.

6.4 Regulation 64B has been inserted to enable administering authorities to offer employers exiting the LGPS the option of spread exit payments by obtaining a revised rates and adjustments certificate setting out the proportion of the exit payments that is to be paid in each year after exit, over a period to be determined by the administering authority with agreement from Barnett Waddingham.

6.5 Such an employer will be known as a deferred employer.

7. Hadlow College

7.1 Since the last report we have responded to the consultation on Capel Manor College (CMC) joining the Kent Pension Fund as well as remaining in the London Borough of Enfield, and the Secretary of State Direction Order was issued on 24 July 2020.This now allows CMC to participate in the Kent Pension

Fund from 1 January 2020, taking an agreed share of the active, deferred and pensioner liabilities of Hadlow College, as calculated by Barnett Waddingham.

7.2 As previously reported, some LGPS members transferred to East Kent College on 1 April 2020 and since then, on 15 August, some of the active LGPS members transferred to North Kent College. Both colleges have taken a share of deferred and pensioner member liabilities.

8. West Kent and Ashford College

8.1 As previously reported, on 1 April 2020 some of the active LGPS members transferred to East Kent College and on 15 August some of the active LGPS members transferred to North Kent College. Both colleges have taken a share of deferred and pensioner member liabilities.

9. Employer admission matters

9.1 At their meeting on 4 September 2020 the Committee agreed to the admission of Churchill Contract Services (re Lordswood School).

9.2 The Committee also agreed re the following exiting employers that officers may return a surplus, if any, having regard to any relevant considerations and the LGPS (Amendment) Regulations 2020, to Ashford Leisure Trust, Sopra Steria Ltd, East Kent Housing (EKH) and GEN2 Property Ltd.

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October 2020

BARNETT WADDINGHAM
beyond the expected

Briefing

The LGPS McCloud consultation

RISK | PENSIONS | INVESTMENT | INSURANCE

The Government has issued the eagerly anticipated consultations to remedy the age discrimination cases, known as McCloud and Sargeant, which came about as a result of the transitional protections adopted as part of the public service pension scheme reforms in 2014 and 2015.

This briefing note summarises the LGPS (England and Wales) consultation only and considers the impact on funding, administration, accounting and other related issues. The full consultation is here. Scotland and Northern Ireland are to be dealt with separately. The consultation runs until 8 October 2020 and we will be responding to the consultation. We would be happy to share our more detailed response with you ahead of the deadline.

A quick summary

- The remedy proposes that the transitional underpin protections will extend to all members active on 31 March 2012 and who have accrued benefits since 1 April 2014 in the career average (CARE) scheme and also amends how the underpin works
- The underpin period will apply from 1 April 2014 to 31 March 2022 and ceases on reaching the 2008 Scheme normal pension age, retirement, leaving or death in service, if earlier
- Members will get the higher amount of pension accrued under either the 2014 Scheme (CARE) or that would have been accrued under the 2008 Scheme (final salary) in the underpin period while retaining the final salary link into the future (but of course it's more complicated than that!)
- From 1 April 2022, all members will accrue benefits in the 2014 Scheme and there will be no underpin applied to membership from that date
- Administration of the extension of the underpin is going to be onerous for administering authorities, requiring, for example, exercises in communications, data collection, option to amalgamate memberships and review of records back to 1 April 2014, and for many members the underpin will need to be calculated twice
- There will be an impact on funding and contributions. At whole fund level this should be relatively small, although there could be a larger impact on some (generally smaller and/or less mature) employers

BARRY MCKAY
Partner and Actuary

- We do not intend to revisit the 2019 valuation results and any employer contributions as we allowed for the cost of McCloud in the valuation process, but there may be some employers that funds will want to look at more closely
- We do not believe that accounting reports produced by us need to be revised as our approach, based on analysis by the Government Actuary's Department (GAD), closely replicates the proposed remedy
- The Government also announced the unpausing of the 2016 cost cap process, which will now take into account McCloud, but could lead to even further benefit changes

The consultation

As a reminder the current underpin was originally provided to protect members within ten years of normal retirement age when reform to the Scheme was announced. The proposed remedy is to extend this underpin to all active members as described in the summary. Other key elements are as follows.

The proposed remedy is a two-stage process with the underpin being calculated at the underpin date and recalculated and applied at the underpin crystallisation date. The underpin date is the earliest date at which the member leaves active service with an immediate or deferred pension, reaches their 2008 Scheme normal pension age (NPA), or dies. The crystallisation date is the date the member starts to receive benefits. The underpin date will be used to inform and communicate benefits to members but there will be no change in accrued benefits at this stage. This only applies at the crystallisation date.

Qualifying members will receive the higher of CARE and final salary pension in respect of the underpin period. Importantly, the final salary link has been retained and so the underpin test will be based on the member's final salary at date of leaving service or the 2008 Scheme NPA. Note that the NPAs of the 2008 Scheme and the 2014 Scheme may be different and so the underpin will also take this into account. This could mean that the benefit accrued under CARE is higher but if a member was to retire at say, age 65, and an early retirement reduction was applied to the CARE pension, then the final salary benefit may then be higher. Where a member remains in active service after their 2008 Scheme NPA, late retirement factors will be applied to the final salary benefit prior to comparison. Where there is a gap between the two underpin calculation dates, cost of living increases will also be applied to both prior to comparison.

> If the 2008 Scheme benefits are higher at the underpin crystallisation date, the additional amount will be added to the CARE annual pension.

Impact on members

This is quite complicated so a couple of examples of how the CARE and final salary benefits compare and work in practice on early, normal and late retirement are given below. The calculated accrued pension under each scheme has been revalued to the appropriate retirement age and then early or late retirement reduction or increase factors applied as appropriate. The tables consider a member aged 50 and aged 30 at 1 April 2020 respectively (so aged 52 and 32 at 1 April 2022 respectively).

For the 50-year-old member, the CARE pension is higher at each retirement age as there is not sufficient time for the higher salary growth under the 2008 Scheme (compared to CPI on CARE) to catch up with the higher accrual rate of the 2014 Scheme (49ths accrual versus 60ths accrual). However, for the 30-year-old member this result is reversed. The 2008 Scheme pension is higher at each retirement age as the higher salary growth outweighs the higher 2014 Scheme accrual rate, as there are over 30 years before the member reaches retirement. Therefore, we could be seeing the effects of McCloud for many years to come!

	Accrued pension 31 March 2022	Pension revalued to age 63	Early retirement pension at age 63	Pension revalued to age 65	"Normal" retirement pension at age 65	"Late" retirement pension at age 68
CARE pension	£5,676	£5,676 x 1.025^11 = £7,447	£7,447 x 0.778 = £5,794	£5,676 x 1.025^13 = £7,824	£7,824 x 0.857 = £6,706	£5,676 x 1.025^16 = £8,426
Final salary pension	£4,241	£4,241 x 1.035^11 = £6,192	£6,192 x 0.901 = £5,579	£4,241 x 1.035^13 = £6,633	£6,633	£4,241 x 1.035^13 x 1.025^3 x 1.12 = £8,003

Based on salary of £25,000 at 1/4/2014, full time service from 1/4/2014 to 31/3/2022 and NRD of 1/4/2035
Assumes CPI of 2.5% p.a., salary growth of CPI+1%, GAD early retirement reduction factors, 2008 Scheme NPA of 65 and 2014 Scheme NPA of 68

	Accrued pension 31 March 2022	Pension revalued to age 63	Early retirement pension at age 63	Pension revalued to age 65	"Normal" retirement pension at age 65	"Late" retirement pension at age 68
CARE pension	£5,676	£5,676 x 1.025^31 = £12,203	£12,204 x 0.778 = £9,494	£5,676 x 1.025^33 = £12,821	£12,821 x 0.857 = £10,988	£5,676 x 1.025^36 = £13,807
Final salary pension	£4,241	£4,241 x 1.035^31 = £12,320	£12,320 x 0.901 = £11,101	£4,241 x 1.035^33 = £13,198	£13,198	£4,241 x 1.035^33 x 1.025^3 x 1.12 = £15,924

Based on salary of £25,000 at 1/4/2014, full time service from 1/4/2014 to 31/3/2022 and NRD of 1/4/2055
Assumes CPI of 2.5% p.a., salary growth of CPI+1%, GAD early retirement reduction factors, 2008 Scheme NPA of 65 and 2014 Scheme NPA of 68

These are, of course, only two examples from a wide range of possibilities and, as ever, the results will be highly dependent on the assumptions and actual experience of each member. For example, increasing salary growth even just a small amount to CPI plus 1.25% results in a range of outcomes for the 50-year-old member – a higher benefit under the 2014 Scheme at age 63 and age 68 but a higher benefit under the 2008 Scheme at age 65. For the 30-year-old member, the 2008 Scheme will always be higher.

Reducing salary growth to CPI plus 0.5%, means that the 2014 Scheme pension is always higher for the 50 year-old while providing very similar benefits for the 30 year-old at all retirement ages. While it is complicated the consultation provides for the underpin to apply to members without the need for any action by them.

Impact on funding and contributions

More work is needed, but across the whole Scheme we estimate that the impact of the remedy might be to increase the liabilities by around 0.3% or around £0.9bn. This will depend on several factors; in particular, assumed salary growth relative to CPI and the level of withdrawals. This is significantly less that the £2.5bn estimated by GAD. This is largely because the salary growth assumption made by GAD is CPI plus 2.2% which is materially higher than our assumption for the 2019 E&W valuations which was typically CPI plus 1% p.a.

The impact of the remedy might be to increase average primary contributions by around 0.2% - 0.3% p.a. of pay and secondary contributions by around the same (with more variability at individual employer level). However, as we have already allowed for McCloud in our 2019 valuation calculations through various mechanisms, such as increased prudence in the discount rate or an explicit asset reserve, we do not intend to revisit the 2019 valuation results (but see below on variability by employer) as our certified contributions will have already anticipated these increases. Any further differences will be captured at the 2022 valuation and of course subsequent valuations, where experience differs from what has been assumed. Details of each fund's McCloud allowance can be found in their Funding Strategy Statement.

Variability by employer

Although the impact is likely to be small at whole fund level it could be significant at individual employer level. The member examples shown above illustrate how the impact on funding and cost could be very variable at member level and therefore at employer level.

For many employers in the LGPS with a mature workforce, like the councils, there is likely to be minimal impact. Although promotional increases could result in a material cost for certain members as the 2008 Scheme pension could exceed the 2014 Scheme pension as where salary increases are higher, the underpin is more likely to bite.

> For employers with a young workforce (e.g. academies and leisure centres) there could be a material impact on costs – the 2008 Scheme pension for the member above is between 15% and 20% higher than the 2014 Scheme pension at retirement ages 63 and 65.

Smaller employers may also be more affected. The change in an individual member's benefits may make up a significant proportion of their current liabilities and therefore the impact on smaller employers is likely to be more volatile.

Where there has been a material change in liabilities, the LGPS Regulations allow for a valuation to be carried out between valuation dates, and the contributions in the rates and adjustment certificate to be revised. Given the examples above, you may want to consider if you have any employers that could fall into this category and request a revised valuation.

Impact on administration

We always knew that, whatever the remedy, there would be a lot for funds to do, particularly in relation to administration. It's important, given the scale of the task, that funds start to plan ahead and think what they can be doing now to get ready for implementation. While the consultation plans for the Scheme Advisory Board (SAB) to continue to produce some centralised guidance and materials to assist and provide consistency across the various funds, administration system providers have estimated that it may take up to twelve months to update their systems to be able to deal with the administrative complexities. It is clear that project planning and additional resources will be required.

Communication to employers and members is a key current area of focus.

- Qualifying members not only need to know that the underpin will be applied to them without the need for any action on their behalf, but to have their expectations managed of when their benefits will be reviewed if necessary.
- Employers need to understand the requirement to provide historic and ongoing data to enable the 2008 Scheme benefits to be calculated. The SAB implementation group have been working on materials to assist with this.

The consultation proposes that the underpin applies only to those who have amalgamated their service and, to avoid members losing out as a result, provides for a reopening of the aggregation window for twelve months for certain members. It also proposes the inclusion of underpin date results on annual benefit statements. Communications will, therefore, continue to be an area of focus.

Ensuring that the data to calculate 2008 benefits is obtained and uploaded onto records will be a huge task ahead of an exercise to review or carry out calculations for the qualifying members since 1 April 2014. With the underpin changing in its operation, this will include not only the additional members covered by the underpin, but those who were previously covered as well.

Where members have retired and their benefits have been put into payment, arrears may be payable, and in general the proposals bring a number of pension tax complications to consider and to respond on.

> Looking forward, staff and employers will need to understand these requirements for some time to come as administering authorities will need to hold final pay data for around 50 years to calculate the final salary when you consider a member who joined in 2012 at age 20, could be retiring at age 68!

Given the scale of the overall task, now is a good time for administering authorities to move forward their planning processes, and to ensure that their pension committees and local pension boards are fully aware of the task ahead.

Impact on the cost cap mechanism

For the avoidance of doubt, this section is talking about the cost cap mechanism relating to the 2016 Scheme valuation carried out by GAD! This, along with the SAB cost cap, had been paused because of the uncertainty surrounding the McCloud costs and their impact on the cost cap calculations.

To recap, initial calculations carried out on behalf of the SAB indicated that the cost of the Scheme had fallen by around 0.9% of pay, due to lower life expectancy at 2016 relative to the assumptions adopted for the 2014 Scheme costings.

Several benefit improvements had been proposed including removal of the Tier 3 ill-health retirement benefit, possible employee contribution reductions at the lower pay bands and a minimum death in service grant.

The Government has now confirmed that the cost of the McCloud remedy will be included in the cost cap calculations and so will impact on any benefit improvements that were previously anticipated. The process is that the SAB carry out their calculations first and suggest changes to HMT. HMT then carry out slightly different calculations and make the required changes to the Regulations to allow for any required benefit changes. We understand that the intention is to have the cost cap calculations concluded by the start of 2021 with any changes applying retrospectively with effect from 1 April 2019 in England and Wales. Although it's possible that the cost of McCloud will mean that there are no other benefit improvements required.

At the same time, the 2020 Scheme valuation in E&W will proceed alongside a review of the cost cap mechanism, with the review taking place before the results of the valuation are finalised.

Impact on accounting disclosures

The SAB, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities).

We used the analysis provided by GAD to estimate the possible impact of the McCloud remedy. However, as pension fund accounting is a best estimate, we adjusted GAD's analysis to allow for the estimated cost in respect of members that were active as at 31 March 2012 (in line with that proposed in the Government's consultation) and to reflect the employer's salary increase assumption. This adjustment is an estimate of the potential impact on the employer's defined benefit obligations.

An allowance has already been made for McCloud for all employers, unless an employer has specifically requested no allowance to be made. Fortunately for our funds, our approach replicates the proposed remedy.

> So although auditors are being more pedantic in their review, we believe our estimate remains appropriate and avoids the need to revisit accounting reports, saving our funds and their employers the hassle and cost of revisiting reports.

Next steps

There are a number of areas which funds can now be getting on with and others where funds can start to plan for the volume of work that will be required for this project. At Barnett Waddingham we can help funds at each step of the way to prepare for and to deal with the various issues as efficiently as possible.

As noted above, exercises in communications, data collection, the option to amalgamate memberships and a review of records back to 1 April 2014 will be among the work required.

In addition, consider any employers that may be impacted materially as a result of their membership profile and request an updated valuation and contribution rate calculation in advance of the 2022 valuation if necessary.

Project management

There is no doubt that this is a significant project which will require project management. Considerations will therefore need to be made around fund resource as well as the other issues raised in this briefing note. At Barnett Waddingham we have the knowledge and experience to help you with preparing for this project and in managing and delivering it. Please get in touch with Annemarie Allen for more information.

Consultation response

We will be replying to the consultation and would be happy sharing this with you in case it helps to inform your response. In the meantime, if you have any queries please get in touch with your usual Barnett Waddingham contact or via the details below.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

info@barnett-waddingham.co.uk   0333 11 11 222

www.barnett-waddingham.co.uk

Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme (England and Wales)

Amendments to the statutory underpin

July 2020
Ministry of Housing, Communities and Local Government

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

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

Ministry of Housing, Communities and Local Government
Fry Building
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London
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July 2020

Contents

Scope of the consultation

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

	firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences. 1) **Qualification for the underpin -** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming. 2) **Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that: • this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and • this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases). These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local

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

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

Basic Information

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

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

Introduction

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

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

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

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

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

5. In the ‘McCloud’ and ‘Sargeant’ court cases (which related to the judicial and firefighters’ pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts’ findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.

Background

Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes[1].

10. In their final report[2], the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)[3], as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

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[1] Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf
[2] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton
[3] In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer[4].

Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013[5] (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service[6], but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.

- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.

- a move from a 1/60th accrual rate to a 1/49th accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.

- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.

- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions

[5] http://www.legislation.gov.uk/uksi/2013/2356/contents, as amended

[6] Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes[7] where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014[8] (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

[7] With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.
[8] http://www.legislation.gov.uk/uksi/2014/525/contents/made, as amended

applicable to the member under the 2008 Scheme (usually 65[9])[10] (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
    - in active membership in the 2014 Scheme the day before their 'underpin date' (see below),
    - do not have a disqualifying break in service after 31st March 2012, and
    - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual's 'underpin date' which is the earlier of:
    - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
    - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the 'assumed benefits' (i.e. the career average benefits the protected member has accrued) against the 'underpin amount' (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member's pension account is to be increased by the difference (regulation 4(4)).

The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters' pension schemes ('McCloud' and 'Sargeant', respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

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[9] By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.

[10] By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018[11] that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019[12], the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants[13]. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

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[11] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf
[12] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/
[13] The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

Addressing the discrimination

Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation[14] seeking views on this matter as it applies to most of the other main public service pension schemes[15]. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

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[14] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[15] The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went to on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

Question 2 – Do you agree that the underpin period should end in March 2022?

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay[16].

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

[16] Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Question 6 – Do you have other comments on technical matters related to the draft regulations?

The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require[17] that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

[17] Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection[18].

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitled to a pension[19] would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Question 8 – Are there any other comments regarding the proposed underpin qualifiying criteria you would like to make?

Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together[20]. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic[21] - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

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[18] For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.
[19] This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.
[20] This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.
[21] Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations.

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply[22].

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link[23] on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

a) active in the LGPS on 31st March 2012,

b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and

c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
    - Membership one – active from 2011 to 2016, and
    - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

[22] By virtue of regulation 22(8) of the 2013 Regulations.
[23] By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare[24].

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection[25]. Good communications with members

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[24] Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.
[25] However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority[26] proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))[27]. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

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[26] Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.
[27] Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women[28] or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

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[28] http://www.parliament.uk/briefing-papers/sn06838.pdf

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

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

    - leaves active service in a relevant scheme membership,
    - reaches their 2008 Scheme NPA, or
    - dies.

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

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.

- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.

- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.

- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

Question 13 – Do you agree with the two-stage underpin process proposed?

Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.

- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,

- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.[29]

At date of leaving (without taking scheme benefits)

70. Where an active qualifting member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account[30], they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

Age retirement

73. When a qualifying member takes voluntary payment[31] of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving[32]. The underpin crystallisation date will take place upon their pension coming into payment.

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[29] Under regulations 22(6) or (7) of the 2013 Regulations
[30] Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.
[31] Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.
[32] As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date[33]. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'[34] or 'tier 2'[35] benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'[36] benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

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[33] With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

[34] Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[35] Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[36] Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club[37]. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting[38] on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

[37] https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/
[38] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations[39] that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a ‘Club’ transfer[40], a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:

    a) the member’s accrued rights,

    b) the member’s ‘provisional assumed benefits’ (see **annex C**), and

    c) the member’s ‘provisional underpin amount’ (see **annex C**).

[39] Regulation 9(1) and (2) of the 2014 Regulations
[40] Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**[41] – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**[42] – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

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[41] This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.
[42] This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations[43]. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate the trivial commutation sum due of the following:

a) the member's total accrued rights,

b) the member's 'provisional assumed benefits' (see **annex C**), and

c) the member's 'provisional underpin amount' (see **annex C**).

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.

3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Supplementary matters

Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

[43] Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds thoughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year[44] was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.

- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

- For deferred and deferred pensioner members[45], their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance[46] to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

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[44] Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.
[45] Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[46] However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual[47]. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)[48], LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.

- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period[49].

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

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[47] https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual
[48] 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), http://lgpsregs.org/resources/guidesetc.php
[49] Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
2) advance equality of opportunity between people who share a protected characteristic and those who do not
3) foster good relations between people who share a protected characteristic and those who do not.

Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.

- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.

- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.

- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an "average" member at each particular age. Allowing for variations in individual members' future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)[50] and the Annual Population Survey (APS) (2019)[51] in looking at the potential impacts of the following characteristics.

Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

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

116. **Qualification for the underpin –** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government's view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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50 https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

51 https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

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

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and

- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Sex

120. In relation to sex, GAD's analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male

- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male

- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also incudes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforfce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?

Question 20 – Do you agree with our equalities impact assessment?

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation[52] on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

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[52] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Priorisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Question 25 – What principles should be adopted in determining how to prioritise cases?

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022[53]. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the peformance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressureon liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

[53] Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary[54], the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions[55] the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism[56]. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board[57] which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

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[54] As appointed under regulation 114 of the 2013 Regulations
[55] Based on directions issued by HM Treasury and LGPS experience
[56] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[57] Regulation 116 of the 2013 Regulations

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
Section 21(1) of the Public Service Pension Act 2013 states:

'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

Annex B – Draft regulations

STATUTORY INSTRUMENTS

2020 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2020

Made - - - -	***
Laid before Parliament	***
Coming into force - -	***

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.

(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.

(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013([58]) are amended in accordance with regulations 3 and 4.

3. In regulation 89 (annual benefit statement) after paragraph (4) insert—

"(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

which would apply if the member's underpin date was the closing date of the Scheme year to which the statement relates.

([58]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493,S.I.2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

4.—(1) In Schedule 1 (interpretation) after the definition of "registered pension scheme" insert—

"relevant scheme membership" has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;"

Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

5. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014([59]) are amended in accordance with regulation 6.

6. In regulation 4 (statutory underpin)—

(a) in paragraph (1)(a) omit the words from "and who on 1st April 2012" to the end;

(b) for paragraph (1)(b) substitute—

"(b) is or has been an active member of the 2014 Scheme; and"

(c) in paragraph (1)(c) substitute "; and" with ".";

(d) omit paragraph (1)(d);

(e) at the end insert—

"(1A) For the purpose of this regulation a member's relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member's scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

([59]) S.I. 2014/525.

(a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),

(b) regulations 10(5) or (6) of these Regulations, or

(c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

(a) an active or deferred member would otherwise have relevant Scheme membership;

(b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

(f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

(g) for paragraph (2)(b) substitute—

"(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";

(h) after paragraph 2(b) insert—

"(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."

(i) after paragraph 2 insert—

"(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

(a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

(b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."

(j) for paragraph (3) substitute—

"(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."

(k) for paragraph (4) substitute—

"(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."

(l) after paragraph (4) insert—

"(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."

(m) for paragraph (5) substitute—

"(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

(n) in paragraph (5)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(o) in paragraph (5)(b) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(p) after paragraph (5) insert—

"(5A) Where the member's pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022.

(5B) Where a member's underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

(q) for paragraph (6) substitute—

"(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if–"

(r) in paragraph (6)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(s) in paragraph (6)(b)(iii)—

(i) substitute "the member's assumed benefits" with "the member's provisional assumed benefits";

(ii) at the end add "but limited to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022"

(t) after paragraph (6) insert—

"(6A) Where a member's underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

"(7) Subject to paragraph (8) a member's underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—

(a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;

(b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;

(c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;

(d) the date the member receives payment under regulation 34 of the 2013 Regulations;

(e) the date the member transfers their benefits out of the 2013 Regulations following;

(i) an application made under regulation 96 of the 2013 Regulations; or

(ii) by virtue of regulation 98 of the 2013 Regulations.

(f) the date a member dies.

(8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

(9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.

(10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.

(11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.

(12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.

(13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971([60]) between a member's underpin date and their underpin crystallisation date; and

(b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or

(b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

([60]) 1971 c. 56.

(18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000([61]) is not to be treated as a member's underpin date or underpin crystallisation date.

(19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.

(20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.

(21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

2013 Regulation	*Rate*
41(4)	49/160
42(4)	49/320
42(5)	49/160
42(9)	49/240
42(10)	49/120
44(4)	49/160
45(4)	49/320
45(5)	49/160
45(9)	49/240
45(10)	49/120
47(4)	49/160
48(4)	49/320
48(5)	49/160
48(9)	49/240
48(10)	49/120

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

Names
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Ministry of Housing, Communities and Local Government

([61]) S.I. 2000/1052.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations"). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

The underpin date – proposed approach

- A qualifying member's underpin date would be the earlier of:
    - the date they leave active service with an immediate or deferred entitlement to a pension,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
    - was active in the LGPS on 31st March 2012,
    - had membership of the 2014 Scheme, and
    - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
    - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly[62], the career average benefits they have accrued in the 2014 Scheme over the underpin period[63], and
    - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period[64].

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[62] For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.
[63] The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.
[64] If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.

- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount[65]. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.

- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:

    - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

    - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:

        - the date they leave active service,
        - the date they reach their 2008 Scheme NPA, or
        - the date they die.

- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

[65] Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

The underpin crystallisation date – proposed approach

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.

- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general[66], a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:

    - the date a member takes voluntary payment of their pension, at any age between 55 and 75,
    - the date a member takes flexible retirement,
    - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,
    - the date a member retires on ill-health grounds,
    - the date a member transfers out or trivially commutes their benefits, or
    - the date a member dies.

- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

Circumstance giving rise to a member's underpin crystallisation date	**How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date**

[66] An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

Voluntary age retirement or flexible retirement	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes.
Redundancy[67] and ill-health pension being paid (from active or deferred status)	• To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and • To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme.

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.

- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:

    - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
    - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
    - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

[67] Including termination on grounds of business efficiency

Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age ('SPa')
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

Example 1 (retirement at age 65)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,060 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

2014 Scheme (age 65): £6,100 pa	2008 Scheme (age 65): £6,670 pa

The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required**.** The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

Example 2 (retirement at SPa)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	**2008 Scheme**
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,770 pa	£6,060 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,040 pa	£6,770 pa

For this member **no underpin addition** would be required**.**

Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

2014 Scheme (age 65):	2008 Scheme (age 65):
£6,770 pa	£6,670 pa

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be untaken when the member takes their pension at their underpin crystalisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

2014 Scheme (SPa): £7,040 pa	2008 Scheme (SPa): £7,440 pa

Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,070 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required.

Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

2014 Scheme (age 60): £4,350 pa	2008 Scheme (age 60): £4,460 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required**.** The 2014 Scheme benefit would be increased by £110 pa.

Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	2008 Scheme
1/49th of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58,** the pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£5,890 pa	£4,930 pa

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,040 pa	£6,320 pa

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

2014 Scheme:	2008 Scheme:
£6,040 pa	£5,670 pa

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,220 pa	£7,270 pa

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

Example 5 (retirement from deferment #2)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

2014 Scheme	**2008 Scheme**
1/49h of revalued salary each year Payable unreduced from State Pension age	1/60th of final salary each year Payable unreduced from age 65

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, **an additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63,** the relative pensions over the underpin period would be as follows:

2014 Scheme:	2008 Scheme:
£6,830 pa	£6,870 pa

In this example there is a **'provisional guarantee amount'** of £40 pa**.**

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

2014 Scheme (SPa):	2008 Scheme (SPa):
£7,390 pa	£7,980 pa

This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

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Dear Sirs

Local Government Pension Scheme (LGPS) - Response to consultation: Amendments to the Statutory Underpin

Name	Barbara Cheatle
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I write in response to the Department's consultation on amendments to the statutory underpin which commenced in July 2020.

As agreed by the Scheme Advisory Board we have referenced some of their responses to the consultation in answer to some of the questions.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

Yes. To avoid discrimination all scheme members need to be treated equally and therefore the fairest way is to extend the underpin to younger scheme members.

Question 2 – Do you agree that the underpin period should end in March 2022?

Yes. In order to obtain the benefits of changing the LGPS to a Career Average Revalued Earnings (CARE) scheme.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

Yes. This does seem the obvious date as this was the date of the introduction of the CARE scheme however by making the regulations retrospective to 1 April 2014 it needs to be acknowledged that this will lead to administrative complexities and heavy additional workloads for both employers and administrators as outlined in the consultation paragraphs 134-136.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Partially. There are outstanding issues requiring further clarification such as the impact on pension sharing orders, scheme pays debits and the default regarding missing data. Also technical issues detailed in Annex A.

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Yes. The draft regulations provide a framework however the changes are so complex that clear communications will be needed in respect of all parties. To implement the changes by April 2022 will involve huge amounts of extra work for administrators, employers and pension administration system providers in order to collect the data required and that correct calculations can be made.

Question 6 – Do you have other comments on technical matters related to the draft regulations?

Our comments on technical matters related to the draft regulations concur with those highlighted by the Scheme Advisory Board and are at Annex A.

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Yes. A requirement for members to have an immediate entitlement to a pension to receive the underpin protection would not remove discrimination.

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

It is possible that members who joined the scheme between 1 April 2012 and 31 March 2014, and therefore have membership based on final salary may challenge why they are not included in the remedy.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Yes. If this were to be extended to multiple periods of unaggregated membership it would be inconsistent with other aspects of the scheme and would add to the complexity.

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Yes. With the understanding that communicating this option to scheme members who have previously decided not to aggregate periods of membership will be problematical and as with all option exercises may lead to appeals in the future.

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

We consider that the proposals would not have a 'significant adverse effects' however may affect scheme members that are unable to aggregate, e.g. concurrent members leaving membership on same day, members who opted out on or after 11 April 2015 etc

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

No comments

Question 13 – Do you agree with the two-stage underpin process proposed?

Yes. Although we believe that the 2 stage underpin process is necessary in order that a true comparison of final salary and CARE benefits takes place member communication at the underpin date of the provisional assessment with no adjustment to the member's benefits at that time will be complex.

Question 14 – Do you have any comments regarding the proposed approaches outlined? and
Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Technical issues regarding the proposed approaches are included in Annex A.
Regarding paragraphs 65-102:

Para 66 Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.
As the Pensions Regulator asks for annual benefit illustrations to be more succinct and easily understandable is this necessary as will be complex to provide and very difficult to explain the provisional assessment.

Para 67 This implies that for those qualifying members that remain in the scheme beyond their 2008 scheme NPA date that at the underpin date a comparison of their benefits will be triggered and the member will be informed of the results of the comparison with the information that a further check will be undertaken when they reach their underpin crystallisation date. This will incur additional work in obtaining their pay details from their employer at their 2008 scheme NPA date, carrying out calculations and explaining the reason for the comparison at that date when the final comparison will not be undertaken until they leave.

Para 71 As for response to Para 66 question as to whether this information really is necessary on deferred benefit annual illustrations**.**

Annex A

Question 6 – Do you have other comments on technical matters related to the draft regulations?

Amended regulation 89 of the LGPS 2013 Regulations

*See also comments on ABS in answer to questions 16 and 17.
1) Inserted regulations 89(5) and 89(7) refer to ‘a 2008 Scheme normal retirement age’, which is not defined in the 2013 regulations. Therefore, it might be helpful to include a definition of the term in the 2013 Regulations.

2) Inserted regulation 89(5) to (10) will come into force on the same date that the Amendment regulations take effect. The Amendment regulations do not specify the first scheme year that the annual benefit statements (ABS) will need to include the additional information. For example, if the regulations come into force on 30 June 2021, will the requirements apply to the ABS for active members in relation to Scheme year 2021/22 or 2020/21? It would be helpful to set this out in the regulations.

3) An active member who has taken benefits in relation to the relevant scheme membership on flexible retirement does not have any further underpin/crystallisation dates. However, the wording of inserted regulations 89(5) and 89(7) would still capture these cases and thus administering authorities would need to provide the additional information on the benefit statements following the flexible retirement. This outcome does not appear intended. We would suggest that an amendment is made to inserted regulations 89(5) and 89(7) explicitly excluding active members who have drawn their benefits in relation to the relevant scheme membership on flexible retirement. Consideration will need to be given as to what to show on an ABS for a member who has taken partial flexible retirement.

4) Regulation 89 of the 2013 Regulations assumes that each statement relates to a Scheme year. The statement relating to a Scheme year must then be issued no later than five months after the end of the Scheme year. The wording does not bar the statement being issued before the end of the relevant scheme year. When it comes to statements for deferred members, most administering authorities will issue the statement including the latest pensions increase (PI) Order. This means that the statement includes up-to-date figures at the point of issue. However, it is not always clear whether the statement ‘relates’ to the previous Scheme year or the Scheme year in which the statement is given. Currently, as long as the statement is issued before the end of 31 August following the end of the previous Scheme year, it doesn’t matter. However, inserted regulation 89(6) says that the underpin figures shown on the statement must include the index adjustment to the end of the Scheme year to which the statement relates. If this becomes law, administering authorities will need to understand what scheme year the deferred statement relates to. For example –

- If the ABS relates to the previous Scheme year, the underpin figures would need to be revalued to the end of the previous Scheme year (so, will not include the PI applying in the April between the end of the Scheme year and the date of issuing the statement). If the administering authority includes the latest PI in the other figures, the underpin figures will be a year behind the main figures.
- If the ABS relates to the Scheme year in which the statement is issued, the underpin figures will need to be adjusted to the end of the Scheme year (so, will include the latest PI). In this case, the deadline for the statement would be the following August.

5) Inserted regulation 89(6) says that the provisional underpin amount and provisional assumed benefits, calculated at the underpin date, must be adjusted by the appropriate index rate adjustment to the end of the scheme year to which the statement relates. However, in the year the member leaves the Scheme the provisional assumed benefits should be treated like CARE benefits and will be due a revaluation adjustment (including the tweak to avoid double indexation) for the period from the beginning of the Scheme year to the underpin date – this will be applied on 1 April following the Scheme year in which the member leaves or reaches their 2008 scheme normal pension age. They will also be due part year PI for the period from the underpin date to the end of the Scheme year.

We recommend that the wording is amended to reflect the final part year revaluation adjustment that applies in the year of leaving.

6) The wording in regulation 89(6) also suggests that you revalue the ‘provisional guarantee amount’ from the underpin date to the end of the relevant Scheme year. This assumes that the difference between the provisional assumed benefits and the provisional underpin amounts remains the same over time. But this may not be true. For example, in the year of leaving, the provisional assumed benefits will be due the revaluation adjustment (including the tweak) for the period from the previous 1 April to the date of leaving and then PI thereafter. The provisional underpin amount will be due PI between the underpin date and the end of the relevant Scheme year. Therefore, the gap between the two amounts may change. We recommend that the ‘provisional guarantee amount’ should equal the difference between the provisional underpin amount and provisional assumed benefit amounts as at the end of the relevant Scheme year (or £nil where the assumed benefits are more than the underpin amount).

7) Regulation 89(7) provides that, in relation to active members who have met their 2008 Scheme NPA, the provisional underpin amount and provisional assumed benefits should be revalued to the end of the Scheme year to which the statement relates. It does not set out how this should be done. We assume that the provisional underpin amount is increased by pensions increase; however, it is unclear how the provisional assumed benefits are increased. Do these continue to receive revaluation adjustment after the underpin date while the member is an active member, with part year revaluation adjustment (the tweak) applying on 1 April following the date of leaving and then PI from the date of leaving? Or does the revaluation adjustment apply to the provisional assumed benefits up to the underpin date (with tweak applied on 1 April following the underpin date) and PI thereafter?

8) The wording in regulation 89(7) also suggests that you revalue the ‘provisional guarantee amount’ from the underpin date to the end of the relevant scheme year. This assumes that the difference between the provisional assumed benefits and the provisional underpin amounts remains the same over time. But this may not be true. For example, the provisional assumed benefits will be due further revaluation adjustments, as described above. The provisional underpin amount will be due PI between the underpin date and the end of the relevant scheme year. Therefore, the gap between the two amounts may change. We recommend that the ‘provisional guarantee amount’ should equal the difference between the provisional underpin amount and provisional assumed benefit amounts as at the end of the relevant scheme year (or £nil where the assumed benefits are then more than the underpin amount).

Draft regulation 6
New regulation 4(1B) of the Transitional Regulations 2014

9) Inserted regulation 4(1B) does not appear to cover members who leave and re-join without a break. This could be interpreted as meaning that such a member would meet the requirements of regulation 4(1)(a) to (c) even if they do not aggregate their benefits which would not deliver the policy intent.

10) Inserted regulation 4(1B) says that a member who has had a break in service/concurrent employment ‘only has’ a relevant scheme membership if the benefits containing 31 March 2012 membership are aggregated with the 2014 CARE account. This wording appears to cause problems where the member was active on 31 March 2012, left after 31 March 2014 with a deferred benefit or pension and later re-joins. In this case, at the point of originally leaving, the member had relevant scheme membership. But the member has had a break in service. Which means that the member only has relevant scheme membership if the period including 31 March 2012 has been aggregated to a CARE account as a result of the provisions listed in (a) to (c). In our case, it is true that the benefit including the 31 March 2012 is aggregated to 2014 benefits; however, this was not a result of the provisions listed in (a) to (c). So, if the member does not aggregate (or is not able to aggregate) the original benefit with the new benefit, it would appear that the member can’t have a relevant scheme membership. Where does this leave the original benefit that was considered to be relevant scheme membership?

11) Inserted regulation 4(1B) specifies the regulations under which an aggregation decision must have been made for relevant scheme membership to apply when separate periods are aggregated. We do not think that it is necessary to list the regulations here – it would be enough to say that the period referred to in paragraph 1(a) has been aggregated with their 2014 Scheme pension account. However, we do think these regulations should be listed in relation to 4(1C) and (1D) – see below.

12) If regulation 4(1B) is going to list the regulations under which the aggregation has taken place they will also need to cover the following situations:

- where a member who was active on 31 March 2012 left with a frozen refund, re-joined before 1 April 2014 and then subsequently joined the 2014 scheme by virtue of regulation 5(1) of the Transitional Regulations. This is because the aggregation of the benefits will not be the result of a decision taken under any of the regulations listed.
- a member who was active on 31 March 2012, left with a deferred benefit before 1 April 2014, re-joined on or after that date without a disqualifying break and aggregates under reg 5(5) of the Transitional Regulations.

13) Also, inserted regulation 4(1B) appears to cover a member who was active on 31 March 2012, left with a frozen refund (before 1 April 2014), re-joined on or after that date where the frozen refund was aggregated under regulation 10(5) of the Transitional Regulations. However, it should be noted that ‘no decision’ was required to instigate the aggregation.

New regulation 4(1C) of the Transitional Regulations 2014

14) If regulation 5(5) of the Transitional regulations is inserted in regulation 4(1B), it will also need to be included here.

15) Do the words ‘in respect of the active account or the deferred account’ need to be added after ‘relevant scheme membership’ in regulation 4(1C)(a) as the member may have relevant scheme membership for a different account? This would ensure the effect of the aggregation is to qualify the particular deferred or active account as relevant scheme membership.

New regulation 4(1D) of the Transitional Regulations 2014

16) Again, do the words ‘in respect of the active account or the deferred account’ need to be added at the end after ‘relevant scheme membership’, as the member may have relevant scheme membership for a different account. This would ensure the effect of the aggregation is to qualify the particular deferred or active account as relevant scheme membership.

17) We understand that the account to which previous benefits will be added under the extended aggregation window under inserted regulation 4(1D) should be at deferred or active status. This means that the potential receiving account can't be at pensioner status, frozen refund status, deferred pensioner status or at no status as a result of the benefits being transferred out or trivially commuted. However, it is not clear what status of previous scheme membership can be aggregated under the extended window. The wording of regulation 4(1C) and the previous provisions suggest that the previous membership must have been capable of being aggregated with the active record or the deferred record at some point. We understand that the intention is that the previous membership must be at deferred status at the point of the aggregation (to avoid unwinding pensions in payment). If so, the current wording does not explicitly say that benefits that could have been aggregated to the active/deferred account at some point but have since become pensioner benefits cannot now be aggregated.

18) The regulation does not set out how the aggregation is to be given effect. The regulation needs to be clear that the aggregation is to be treated as if it was done under the aggregation provisions that it could have originally been done under. This will then make it clear what benefits are being bought on aggregation eg CARE or final salary and that a transfer payment is due if the benefits are being aggregated with a different fund.

19) The current wording of inserted regulation 4(1D) would allow certain members to take advantage of the extended aggregation window, when we do not believe that it is the intention for them to be able to do so:

- We understand that the intention is not to allow members to use the extended window to aggregate benefits with benefits that are in payment. However, there is a potential case where this could be possible. This applies where the member, in relation to membership that is not relevant scheme membership, has taken flexible retirement and is still an active member on the date the regulations come into force – this member holds a separate period of membership that includes 31 March 2012. In this case, the member could use the extended window to combine the separate period of membership with the new period of membership. The flexible retirement calculation would then need to be recalculated, taking into account both the newly acquired underpin protection and the aggregated period of membership.
- A member on 31 March 2012 who left after that date and re-joined after their 2008 scheme normal pension age (NPA) would be given the opportunity to aggregate their earlier benefits with their ongoing pension account. As the more recent period of membership does not include any benefits built up before 2008 scheme NPA, those benefits would not attract underpin protection.

20) We believe that the intention is for an extended opportunity to aggregate to be offered to those members who would benefit from underpin protection on a pension record if the aggregation were to take place. We believe a change of wording is required to ensure that the extended opportunity to aggregate is not offered to those members to whom this does not apply.

21) What happens where there are multiple records? For example, where the member has one current active/deferred record and multiple records that include 31 March 2012. Can the member use the extended window to aggregate all the records on to the active/deferred record? What about where the member has multiple active/deferred records and a single record that contains 31 March 2012? Can the member aggregate to one of the active/deferred records and then combine that aggregated record onto a further active/deferred record? What about where the member has multiple active/deferred records and multiple records that include 31 March 2012?

Amended regulation 4(2) of the Transitional Regulations

22) We understand that the intention is that the underpin calculation is done at the end of the following, as appropriate:

- last day of active membership
- the day before the member's 2008 NPA
- the day before the member reduces hours/grade for flexible retirement cases
- the date of death.

However, we do not think the wording of the regulation makes this clear. For example, inserted regulation 4(4) says:
'a member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date'.

It is not clear whether the comparison is done at the start of the underpin date (so, not including accrual on the underpin date) or at the end of the underpin date. If it is done at the end of the underpin date, then should the regulations specify that in relation to regulation 4(2)(a) the underpin date is the day before the member attains NRA in the 2008 Scheme? If clarification is provided on the above point, consideration will be needed as to how that then interacts with the notional underpin date of 31 March for the purposes of annual benefit statements.

23) Also, in relation to flexible retirement, it would be more appropriate for the regulations to specify the underpin date is the day before the member reduces their hours /grade, as the date the member elects to receive immediate payment will, in most cases, not be the date the benefits become payable from.

New regulation 4(2A) of the Transitional Regulations 2014

24) This regulation says:

'(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b)'

We think this should be (2)(a), (2)(b) or (2)(c). This is because the current wording causes confusion for a member whose underpin date is their flexible retirement date but then dies in service before attaining their 2008 Scheme normal retirement age. Under regulation 4(2), the member's underpin date is the flexible retirement date. However, regulation 4(2A) says that the underpin date is the date of death as it is earlier than the date of leaving or the date the member attained their 2008 Scheme normal pension age.

Amended regulation 4(5)(a) of the Transitional Regulations 2014

25) It would be helpful if the regulation made it clear that the period is 1 April 2014 to 31 March 2022 inclusive.

Amended regulation 4(5)(b) of the Transitional Regulations 2014

26) The use of ‘between’ before 1 April 2014 suggests that the remedy period does not include 31 March 2022 or the underpin date. Again, it would be helpful if the regulation made it clear the period is inclusive of the start and end dates.

27) This regulation sets out that additional contributions paid by the member are to be disregarded when working out the provisional assumed benefits other than contributions paid to cover a period of absence from work with no pensionable pay. It does not set out that additional contributions paid by the employer should also be disregarded (other than contributions to cover absence/leave).

28) There is an issue where a member pays additional contributions to buy lost pension to cover a period of absence from work with no pensionable pay if the period of leave occurs during the remedy period but some or all of the additional contributions are paid after the remedy ends, or after the member attains their 2008 normal pension age. The lost CARE pension is credited in the Scheme year it is paid for, meaning that the whole period will be counted for the underpin amount but not for the assumed benefits. To ensure a fair comparison the lost pension purchased should be included in the assumed benefits, although this would pose problems in reassigning lost pension acquired after the remedy period into a scheme year during the remedy period.

29) The above will also be an issue where an absence spans the period before and after the remedy period.

30) This regulation sets out that AVCs paid by the member are to be disregarded when working out the provisional assumed benefits. It also needs to set out that AVCs paid by the employer should also be disregarded.

Amended regulation 4(5)(d) of the Transitional Regulations 2014

31) Where a member aggregates previous LGPS final salary benefits and those benefits are converted to CARE benefits on aggregation we understand the resulting CARE benefits should be excluded from the calculation of provisional assumed benefits. We do not think the regulations deliver this. We recommend including a provision that explicitly disregards the transferred in CARE benefits in this circumstance.

Regulation 4(5)(f) of the Transitional Regulations 2014

32) Regulation 4(5)(f) and corresponding 4(6)(f) provide that, for the purpose of calculating the provisional assumed benefits and the provisional underpin amount, the active member’s account at the underpin date, should be adjusted to take account of any pension debit or Scheme pays election the member has made.

- As the debits are deducted equally from both the provisional underpin amount and provisional assumed benefits, we think the same outcome could be achieved by not taking making the adjustment. This would be simpler from an administrative point of view. It would also avoid the potential situation where a member’s calculated provisional assumed and underpin benefits are negative. This could happen where the member has a large transfer in from another pension arrangement and is subsequently subject to a pension sharing order. Because a transfer in is ignored in the calculation of the provisional underpin amount and provisional assumed benefits, but the pension debit is not, the resulting benefits could be negative.

If pension debits are kept in the calculation of the provisional assumed and underpin amounts, MHCLG will need to consider whether the pension debit will need to be recorded separately for the remedy period. This will be necessary if the CARE benefits calculated with reference to the provisional underpin amount and the provisional guarantee amount are awarded an NPA of 65, as is the case under the current regulations.

Amended regulation 4(6) of the Transitional Regulations 2014

33) The draft regulation reads:

‘The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if-‘
The word ‘immediate’ should be removed to deliver policy intent.

Amended regulation 4(6)(a) of the Transitional Regulations 2014

34) Again, it would be helpful if the regulation made it clear the period is inclusive of the start and end dates.

Regulation 4(6)(b)(ii) of the Transitional Regulations 2014

35) The wording of this regulation suggests that where the APC contract is not completed (or deemed to be completed on a tier 1 or tier 2 ill health retirement) none of the absence/leave period would be included. However, the equivalent provision on the provisional assumed benefits for a case where the APC contract was partially completed would include the additional pension acquired. Therefore, for the sake of a fair comparison, does regulation 4(6)(b)(ii) need to include some of the membership where the APC contract is not completed? This will also require an amendment to regulation 8(4) of the Transitional Regulations and potentially Schedule 2(4)(2)(a)(iii) – 85-year rule.

This issue has been raised before by the national technical group.

36) Where an APC contract is incomplete due to death in service, regulation 16 of the 2013 regulations does not provide for the APC contract to be deemed to be completed, in the way that it does for tier 1 or 2 ill health retirements. The reason for this is that the APC does not feed into death-in-service benefits. However, where a member dies in service, should an incomplete APC contract that was taken out to cover a period of absence from work with no pensionable pay be deemed to be complete for the purposes of the underpin?

Amended regulation 4(6)(b)(iii) of the Transitional Regulations 2014

37) Should this regulation clarify that a member who is eligible under regulation 35 of the 2013 regulations for an ill health pension is also deemed to meet the equivalent conditions in the 2007 Benefit Regulations (i.e. the ill health conditions, the tier 1 or 2 conditions, the conditions where reductions in pay/hours are ignored)?

38) An ill-health enhancement is only added if the provisional assumed benefits include an adjustment under regulation 39 of the 2013 regulations. Therefore, if the member, because of a previous ill-health award, is denied any enhancement under regulation 39, no enhancement would be added under regulation 20 of the 2007 Benefit Regulations to the provisional underpin benefits, notwithstanding that, had the 2007 Benefit Regulations applied at the underpin date, the member potentially would have received an enhancement. Is this intended?

New regulation 4(6A) of the Transitional Regulations 2014

39) The regulation requires a comparison of the enhancements that are worked out under regulation 24(2) of the 2007 Benefit Regulations and 41(4)(b) of the 2013 Regulations. The enhancements under these regulations are worked out using 1/160ths; however, for the purpose of this underpin we think the enhancement should be calculated with reference to the member's benefits i.e. 49ths and 60ths, and then proportioned for the relevant survivor benefit(s) as set out in draft regulation 4(21).

New regulation 4(7) of the Transitional Regulations 2014

40) In relation to the payment of pensions, regulation 4(7)(a) to (c) all represent the first date on which the pension becomes payable; however, 4(7)(f) is different because the crystallisation date is the date a member dies and the survivor pension becomes payable the day after the date of death. Is this intended?

41) In relation to flexible retirement, would it not be more appropriate to set out that the crystallisation date is the date of the relevant reduction in hours or grade, rather than saying 'the date from which the member elects to receive payment?

42) Regulation 4(7)(c) refers to 'an ill-health retirement pension' which is not defined in the regulations. Regulations 35 and 38 refer to a 'retirement pension' so we think the words ill-health could be deleted.

43) Regulation 4(7)(c) - should the wording also include 'entitled to receive payment" to align with the other provisions and to make clear that the crystallisation date is the same as the date from which the pension becomes payable.

44) Regulation 4(7)(d) says that the crystallisation date is the date the member receives payment of a trivial commutation/small lump sum. It would be more appropriate to change the wording to the date the administering authority makes the payment.

45) Regulation 4(7)(e) says that the crystallisation date is the date the member transfers their benefits out. We would suggest that the crystallisation date should align with the date at which the transfer value is worked out (in most cases, the guarantee date), rather than when the member transfers out. If this is accepted, an amendment would need to be made to the wording of regulation 4(17) as the transfer payment would not be due at the crystallisation date (i.e. the guarantee date).

46) This regulation does not cover members whose pension automatically comes into payment on their 75th birthday. In which case, we would assume that the crystallisation date would be their 75th birthday.

New regulation 4(8) of the Transitional Regulations 2014

47) In relation to the possible subsequent events, we don't think that (b) and (e) are possible.

48) What is the policy intent where a tier 3 ill health pension is uplifted to a tier 2 at the 18-month review? Should this be a further underpin date? If it is, you will need to consider that a guarantee amount awarded on the first crystallisation date could be wiped out by the enhanced service awarded when the benefit is uplifted.

49) Also, where a deferred pensioner member received a final guarantee amount at the first crystallisation date, this should be removed from the CARE account when the pension is suspended. Otherwise the member could have two underpin additions in their account after the second crystallisation date.

New regulation 4(9) of the Transitional Regulations 2014

50) We think the regulation should specify that the 'retirement pension account' must be increased by the final guarantee amount. Currently it just says 'pension account'.

51) We think that (4)(7)(d) should also be included here. This relates to trivial commutation and small pot payments. If the final guarantee amount is added to the pension account before commutation takes place it will allow for it to be taken into account for the annual allowance. The proposal to compare the trivial commutation sums of the provisional assumed benefits and the provisional underpin amount and then add the difference to the total accrued rights is administratively cumbersome. It also does not allow for the final guarantee amount to be taken account of in the annual allowance.

New regulation 4(11) of the Transitional Regulations 2014

52) If the member elects for partial flexible retirement, what happens to the percentage of the final guarantee amount not transferred into the flexible retirement account? Should this stay in the active pension account? How should it be revalued? We assume it would receive revaluation adjustment (with tweak) to the day before the flexible retirement benefits become payable and then PI?

New regulation 4(12) of the Transitional Regulations 2014

53) It should be noted that the 'final underpin amount' is not technically payable to the member - it is determined simply for the purposes of the comparison and does not take into account 50/50 membership. We think this regulation only needs to provide that the final guarantee amount is not subject to a further reduction. There is no provision in the regulations to provide a second actuarial adjustment to the CARE benefits calculated with reference to the provisional underpin amount, so we don't see it as necessary.

54) Also, if you state that the CARE benefits calculated with reference to the provisional underpin amount are not further adjusted this will cause an issue with partial flexible retirements, where the benefits not taken could potentially be subject to an adjustment at a later date.

New regulation 4(14) of the Transitional Regulations 2014

55) This regulation provides that the provisional underpin amount is updated to the underpin crystallisation date by applying the pension increases that would have applied under the 2007 Benefit Regulations from the underpin date. This does not cover cases where a previous year's final pay is used and there is no PI date between the underpin date and crystallisation date. In this situation, it appears that no pensions increase would be applied which would be incorrect. Does regulation 4(6) need to provide that where a previous year's pay is used, PI should be included in the provisional underpin amount?

New regulation 4(15) of the Transitional Regulations 2014

56) Paragraph (b) assumes that there are no actuarial reductions applicable to CARE benefits payable on redundancy. However, additional pension purchased to cover a period of absence/leave with no pensionable pay is included in provisional assumed benefits and is actuarially reduced for early payment on redundancy. However, the pension for the equivalent period of membership is not actuarially reduced in the provisional underpin amount (see comments above in response to draft regulation 4(6)(b)(ii)).

New regulation 4(16) of the Transitional Regulations 2014

57) This regulation provides that the provisional underpin amount is updated to the underpin crystallisation date by applying the pension increases that would have applied under the 2007 Benefits Regulations from the underpin date. This does not cover cases where a previous year's final pay is used and there is no PI date between the underpin date and crystallisation date. In this situation, it appears that no pensions increase would be applied which would be incorrect. Does regulation 4(6) need to provide that where a previous year's pay is used, pensions increase should be included in the provisional underpin amount?

New regulation 4(17) of the Transitional Regulations 2014

58) The impact on previously paid trivial commutation lump sums needs to be considered; in particular, what happens if when the final guarantee amount is retrospectively added to the valuation at the nominated date the valuation then exceeds £30,000. It would seem unfair for the trivial commutation payment to be considered as an unauthorised payment retrospectively. The recent HMRC newsletter on GMP equalisation may be helpful in considering issues.

59) Should regulation 7(e)(ii) be excluded on the basis that the value of the bulk transfer payment is decided by agreement between an actuary appointed by the Fund and an actuary appointed by the new scheme.

New regulation 4(20) of the Transitional Regulations 2014

60) As we are revaluing the provisional guarantee amount it will not cover cases where a previous year's final pay is used. Does regulation 4(6) need to provide that where a previous year's pay is used, pensions increase should be included in the provisional underpin amount?

New regulation 4(22) of the Transitional Regulations 2014

61) This regulation provides that the provisional guarantee amount must be used when calculating a death grant under regulation 43(3) and 46(3). We assume this means that any final guarantee amount the pensioner was receiving is excluded; however, we think it would be more appropriate for the final guarantee amount to be used when calculating the death grant for a pensioner.

We think this because the death grant calculation is based on 10 times the amount of pension the pensioner would have been entitled to receive less any amounts of commuted lump sum and pension already paid. The member's pension would have included the final guarantee amount, where appropriate, not the provisional guarantee amount. The provisional guarantee amount is used in the calculation of survivor benefits because survivor benefits are not subject to a reduction. However, this does not apply to death grants

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From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Pension Board – 15 October 2020

Subject: Superannuation Fund Report & Accounts and External Audit

Classification: Unrestricted

Summary:

To present the Report and Accounts of the Superannuation Fund for 2019/20, the External Audit Findings Report and updated Fund policies.

Recommendation:

The Pension Board to note this report.

FOR INFORMATION

1. Introduction

1.1 Members are advised that the Annual Report and Accounts and updated policies of the Superannuation Fund will be presented for approval to the Superannuation Fund Committee on 13 November 2020.

1.2 The Superannuation Fund Accounts for 2019-20 have been approved by the Governance and Audit Committee on 8 October 2020 and Grant Thornton have issued an unqualified audit opinion to Kent County Council on 9 October 2020.

1.3 The Report and Accounts will be published to the Kent Pension Fund website after the Committee's approval and are attached here for the Board's information at appendix 1.

1.4 The key findings and other matters arising from the statutory audit of the Fund are included in the external auditor's Audit Findings Report which is also attached at appendix 2.

1.5 Copies of the Fund policies are attached at appendices 3-5. The Funding Strategy Statement (FSS) has been updated taking into account the results of the 2019 actuarial valuation. The policies will also be published to the website in due course.

Alison Mings, Acting Business Partner – Kent Pension Fund

T: 03000 416488

E: Alison.mings@kent.gov.uk

October 2020

Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2020

Kent County Council
kent.gov.uk

Contents

Introduction and overview

Investments

Administration

Actuary's report

Financial statements

Independent Auditor's report

If you have any comments on the annual report,

• please call 03000 416 431

• email investments.team@kent.gov.uk, or

• write to: Kent Pension Fund, Treasury and Investments, Kent County Council, Room 3.08, Sessions House, County Hall, Maidstone, Kent ME14 1XQ

Chairman's foreword

As the Chairman of the Superannuation Fund Committee it is my pleasure to introduce the Kent Pension Fund annual report.

Investments
2019-20 has been a very unusual year for the Fund as financial markets have been impacted by political uncertainty both in the UK and abroad and more recently by the onset of the Covid-19 crisis. At the end of December 2019 we saw the Fund's valuation rise to a new high of £6.6bn only for it to drop back sharply in February to £5.4bn. Thankfully, the swift introduction of fiscal stimuli by governments across the globe helped to restore some confidence across the financial markets and the Fund's valuation had recovered to £5.7bn by the end of March.

While there is still a lot of uncertainty around the long-term impact of Covid-19, markets have continued to respond positively and at the time of writing this report were nearly back to pre-Covid levels. Understandably some asset classes, notably retail and leisure property, continue to face the difficult reality of a period of prolonged recovery.

Since the onset of Covid-19 officers and Committee members have been in regular contact with the Fund's investment managers to ensure they are responding to the crisis in the most appropriate way to safeguard the interests of the Fund. We feel reassured that the actions managers are taking are mitigating the impact of the pandemic as well as exploiting the new opportunities arising. As expected, technology is playing an increasing role in the continued functioning of the global economy as well as providing much needed social interaction and recreation during lockdown. Unsurprisingly the Fund's investments in the technology sector have outperformed others. Our portfolios have proved to be well positioned for this growth.

During 2019-20 the Committee continued the implementation of the recommendations of the strategic asset allocation review undertaken in 2018 which had recommended reducing the exposure to equities and diversification into other asset classes. We have invested £260m in Multi Asset Credit Funds managed by CQS and M&G and taken out £200m from the Baillie Gifford global equity fund as a result of the global equities portfolio overweight position compared to benchmark. Further investments were made in the M&G residential property fund and additional commitments were made to private equity funds.

At every meeting the Committee with the assistance of our investment consultants reviews the performance of the Fund's investment managers and considers the actual asset allocation compared with the strategic allocation.

In May 2019 the Committee decided to redeem the Fund's investment in the Woodford Equity fund following a period of under-performance. Trading in the fund was immediately suspended and it was subsequently closed. In January and February 2020 we received some £148m of our investment and are awaiting further redemptions pending the sale of the fund's remaining illiquid stocks.

Following the suspension of the Woodford Fund the Governance and Audit Committee commissioned a review undertaken by KCC's internal audit team. The review made several recommendations to strengthen the governance and decision making in the fund and good progress is being made in their implementation.

The Kent Fund now has £2.8bn invested in the ACCESS ACS and in pool aligned passive funds, 50% of assets available for pooling. During the year we moved the £70m Ruffer investment into the ACCESS pool. Recently as a result of Covid-19 the pace of set up of new sub-funds in the pool has slowed however progress is being made with plans for establishing pooled solutions for the alternative asset classes. The ACCESS annual report is overleaf.

Actuarial Valuation
The Fund's actuary completed the triennial valuation of the Fund as at 31 March 2019 during the year and it is very pleasing to report that funding levels have improved since the last valuation as at 31 March 2016 particularly reflecting the above target return achieved by the Fund's investments over the 3 year period. As at 31 March 2019 the Fund was 98% funded (2016 89%). My thanks to Barnett Waddingham for the efficient way in which they carried out the valuation and for their continuing support to the Fund.

Membership
During the year individual and employer membership of the Fund increased. At 31 March 2020 there were 51,685 contributing members, an increase of some 340 from 31 March 2019 and in total there are now 142,532 members in the Fund. The number of employers in the Fund also increased, to 448, mainly as a result of staff transferring to new employers as services have been outsourced and as schools have converted to academy status.

Officers have continued to clear the backlog of member queries with support from external parties and introduced i-connect enabling employers to upload their data directly to the pensions database thereby achieving significant savings of effort. I-connect is due to be rolled out further in 2020-21.

Staff
I am grateful to all the pensions administration staff for all their hard work throughout the year providing a high level of service to members. Their efforts since the lockdown restrictions came into force requiring everyone to adapt to working from home are particularly appreciated.

I am also grateful to those officers responsible for supporting the work of the Committee and Board, to those with responsibility for the oversight of the Fund employers and to those who provide the accounting and investment monitoring service to the Fund. Their hard work over the last year especially since the onset of the Covid-19 crisis and as they adjusted to working from home has been exemplary and very much appreciated by all members of the Committee.

Finally, I should like to express my thanks to members of the Superannuation Committee and Pensions Board for their support for me as Chair of the Committee. Also for their hard work and commitment during the year not least during the recent Covid-19 crisis which has also involved attendance at virtual meetings.

As Chairman I am really looking forward to working with Members and Officers to meet the challenges of what is expected to be a busy next 12 months.

Charlie Simkins
Chairman

ACCESS Annual Report 2019-2020

Cllr Mark Kemp-Gee,
Chairman, ACCESS Joint Committee

"I am pleased to introduce the ACCESS 2019/20 Annual Report.

We find ourselves in challenging times, facing a national emergency, but we will continue to manage these very substantial LGPS assets to the best of our abilities. I am truly grateful, at this time, that ACCESS has built a strong partnership that allows each of the 11 member authorities to support each other in this difficult period. I would like to take this opportunity to thank Cllr Andrew Reid of Suffolk for the contribution he made as the first chairman of the ACCESS Joint Committee, which was critical in building a strong foundation for the Pool. It goes without saying that I was honoured by the confidence shown in me by my fellow Joint Committee members in choosing me to succeed Cllr Reid last December.

It has been another busy year for ACCESS with good progress made by our operator, Link, in launching new sub-funds, which has brought the total AUM under ACCESS auspices to £21.4bn. Equally important work has also taken place in reviewing the governance of the Pool and progressing options for pooling alternative investment categories.

I'm sure that 20/21 will be another busy year for ACCESS, not only in continuing to issue further sub-funds, but also in other crucial areas such as deepening the Pool's approach to Responsible Investment."

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS. The first ACCESS Inter Authority Agreement was signed in late June 2017.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating within a clear set of objectives and principles that drives the decision-making process.

Collectively as at 31 March 2020 the ACCESS Authorities have:

£44 billion
total assets (of which 49% has been pooled)

serving 3,534 employers

with 1.1 million members

including 288,248 pensioners

At a glance

- **1** Inter Authority Agreement
- **1** Joint Committee
- **11** Authorities

- **£11bn** assets in **15** ACS actively managed sub funds
- **£10bn** assets with **1** jointly procured passive manager: UBS
- **49%** pooling progress

- **4** FTE ASU* staff
- **4** part time Techical Leads**
- **Link:** ACS Operator
- **Alternatives** under consideration

- **£8.4m** costs
- **£20.6m** gross savings
- **£12.2m** net savings

Cumulative: 2016 inception 31 March 2020

- **1st** Investor Day: 16 October 2019
- **6** Investment Managers: **70** delegates
- **2nd** Investor Day re-scheduded: October 2020

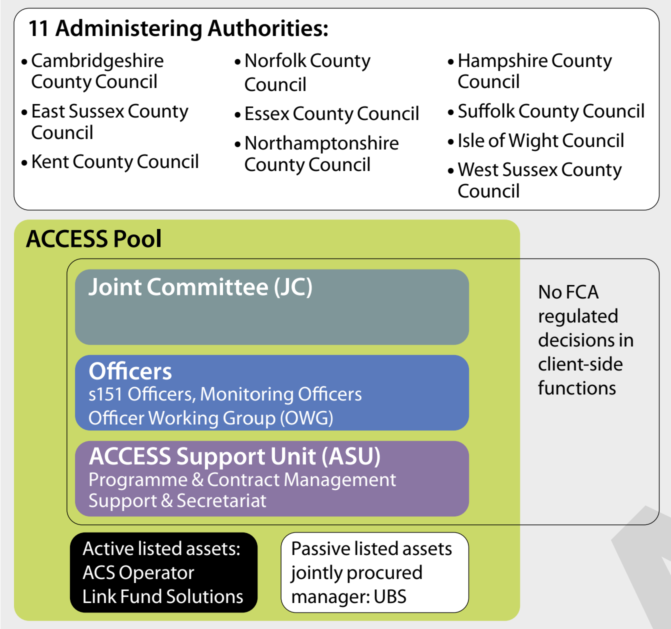
*FTE = Full Time Equivalent
ASU = ACCESS Support Unit

**Technical Leads drawn from ACCESS Authorities

All figures as at 31 March unless stated

Governance

An extract from the ACCESS governance model is shown below:



Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool- aligned asset providers (for passive asset management), to the Administering Authorities. The JC also reviews ongoing performance.

The Section 151 Officers of ACCESS Authorities provide advice to the JC in response to its decisions ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The JC further supported by Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group are officers identified by each of the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. 2019/20 saw the completion of appointments to each of the three full time ASU roles, hosted by Essex County Council. These roles are also supplemented with additional technical support from Officers within the ACCESS Authorities.

The Operator: Link Fund Solutions

Appointed 2018 Link Fund Solutions Ltd pooled operator service, overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies.

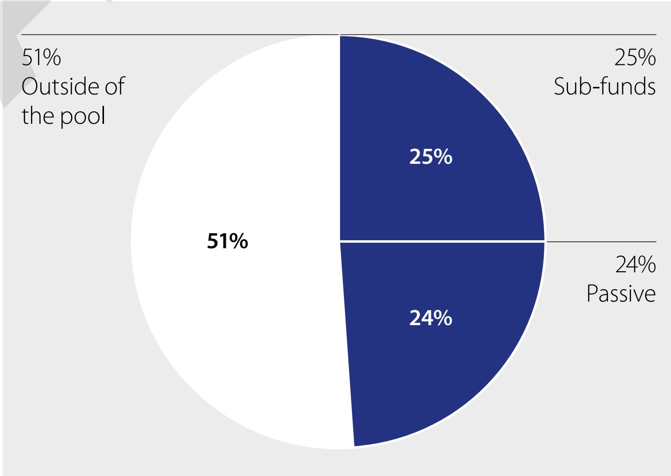
Pool Aligned Assets: UBS

Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress on Pooling

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool. Included in the proposal was an indicative timeline of when assets will be pooled, and ACCESS has continued to make excellent progress against the principal milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

As at 31 March 2020, 49% of assets have been pooled:



Pooled Assets

As at 31 March 2020 ACCESS has pooled the following assets:

Pooled Investments	**£ billion**
Passive investments	10.486
UK Equity Funds	1.588
Global Equity Funds	7.189
UK Fixed Income	0.834
Diversified Growth	1.262
Total Pooled Investments	**21.359**

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2019/20

- Recruitment of an interim Director to lead the ACCESS Support Unit.
- Establishment of business as usual functions of the ACCESS Support Unit being undertaken by the ACCESS Support Unit officers and technical leads officers.
- Approval and launch of a range of sub-funds further rationalising the existing range of mandates whilst reflecting the strategic asset allocation needs of the ACCESS Funds.
- Re-procurement of a legal advisor for ACCESS.
- Provision of updates of progress of pooling to Government and responding to consultations.
- Commencement of a review of Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the first investor day for members and officers of the individual funds to hear from the investment managers in the ACCESS pool.
- Commencement of a review to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Objectives for 2020/21

ACCESS is well placed to continue to develop the pool and progress will continue unbated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2020/21 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Governance: the application of appropriate forms of governance throughout ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

Expected v Actual Costs and Savings

The table below summarises the financial position for 2019/20 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2019/20 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2019-20			2019-20
	Actual In Year £'000	Budget In Year £'000	Actual Cumulative to date £'000	Budget Cumulative to date £'000
Set Up Costs	–	–	1,824	1,400
Transition Costs	–	–	674	2,499
Ongoing Operational Costs	811	1,203	2,208	2,469
Total Costs	**4,058**	**3,203**	**8,338**	**8,868**
Pool Fee Savings	**13,456**	**13,200**	**20,515**	**18,450**
Net Savings Realised	**9,398**	**9,997**	**12,177**	**9,582**

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The initial ACCESS business plan to MHCLG anticipated Operator costs of 2bps.

The 2019/20 fee savings have been calculated using the CIPFA price variance methodology and based on the asset values as at 31 March 2020. This approach highlights the combined level of investment fee savings, across all ACCESSS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering savings ahead of the timeline contained in the original proposal.

Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole.

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.

Cllr Mark Kemp-Gee
Chairman, ACCESS Joint Committee

Governance arrangements

The Superannuation Fund Committee
The Superannuation Fund Committee exercises all of the powers and duties of the Kent County Council (KCC) in relation to its functions as Administering Authority for the Fund. The Committee is responsible for setting investment strategy, appointing professional fund managers and carrying out regular reviews and monitoring of investments. It also monitors the administration of the Pension Scheme and determines Pension Fund policy in regard to employer admission arrangements.

The membership of the Committee during 2019-20 is detailed below. There were 6 full Committee meetings during the year.

Committee members

Charlie Simkins
Chairman
Kent County Council

Nick Chard
Vice Chairman
Kent County Council

Dan Daley
Kent County Council

Paul Barrington-King
Kent County Council

Peter Homewood
Kent County Council

James McInroy
Kent County Council

John Burden
Gravesham Borough Council

Nick Eden-Green
Canterbury City Council

Paul Clokie
Ashford Borough Council

Paul Bartlet
Kent County Council

Paul Cooper
Kent County Council

John Wright
Kent County Council

Stuart Tranter
Medway Council

Kent Active Retirement Fellowship Representatives
Mary Wiggins
David Coupland

Union Representative
Joe Parsons

Local Pensions Board
The Local Pensions Board for Kent was established in April 2015 in accordance with the relevant Government Legislation. The membership of the Board during 2019-20 is detailed below; there were 3 full Board meetings during the year.

Board members

Margaret Crabtree, Chairperson	Kent County Council
Rosalind Binks	Kent County Council
David Monk	Shepway District Council
Alison Kilpatrick	Kent and Medway Fire and Rescue Service
Joe Parsons, Vice Chairperson	Unison Representative
Lauren Shah	Staff Representative
David Coupland	Kent Active Retirement Fellowship Representative

Kent County Council Officers and Others
The day to day operations and management of the Fund and implementing the decisions of the Superannuation Fund Committee are delegated to the KCC Section 151 officer and their staff. This includes the power to seek professional advice and devolve day to day handling of the Fund's investments to professional fund managers and advisers within the scope of the regulations. KCC undertakes the monitoring and accounting for the investments of and income due to the Fund.

Governance 2019-20

During the year the Superannuation Fund Committee met six times and the Pensions Board met thrice. Attendance at the Committee and Board meetings was as below:

Superannuation Fund Committee

Member	Meetings attended
Charlie Simkins	5/6
Nick Chard	6/6
Paul Barrington-King	6/6
Paul Bartlett	6/6
John Burden	5/6
Paul Clokie	6/6
Paul Cooper	5/6
David Coupland	5/6
Dan Daley	6/6
Nick Eden-Green	5/6
Peter Homewood	5/6
James McInroy	5/6
Joe Parsons	5/6
S Tranter	3/3
J Iles	0/3
Mary Wiggins	3/6
John Wright	6/6

Pensions Board

Member	Meetings attended
Margaret Crabtree	3/3
Joe Parsons	3/3
Rosalind Binks	1/3
David Coupland	1/3
Alison Kilpatrick	2/3
David Monk	2/3
Lauren Shah	3/3
Unison Rep – VACANCY	

Committee activity

Items considered by the Committee at its meetings in 2019/20 were as follows:

- Review of the Fund's investment strategy
- Quarterly updates on the Fund's asset allocation and performance
- Review of the Fund's fixed income investments
- Review of the Fund's Property investment strategy
- ACCESS pooling updates
- Updates on Employer matters and admission applications
- Update from the Fund's Actuary
- Pension administration updates
- The 2018/19 Report and Accounts and External Audit Report
- Review of the Fund's Risk Register
- Review of the Fund's Training Plan
- The Pension Fund Committee's work programme
- The Pension Fund's business plan
- The implications of the CMA directive on the Fund
- Consideration of investment risk management strategies for the Fund
- Review of its Responsible Investment Policy

Board activity

At its meetings in June and November 2019 and February 2020, the Pension Board considered the following:

- ACCESS pooling updates
- Updates on Employer matters
- Pension administration updates
- The 2018/19 Report and Accounts and External Audit Report
- Training Report
- Risk Register
- TPR Governance and Administration Survey

Training received in 2019/20

As an administering authority of the Local Government Pension Scheme, Kent County Council recognises the importance of ensuring that all staff and members, charged with the financial management and decision making with regards to the pension scheme, are fully equipped with the knowledge and skills to act in line with their responsibilities.

Committee training

During the year, training sessions were organised specifically for the Committee members in order to gain an understanding of asset classes and risk management strategies being considered as part of its review of its investment strategy. These included:

- Multi asset credit and private debt
- Equity protection
- Foreign exchange hedging
- Responsible Investing

The Committee also had an opportunity to gain an understanding of new asset classes and existing investment mandates from investment managers at the following Committee meetings:

Committee meeting	Topic	Provider
May 2019	Multi Asset Credit	M&G CQS
June 2019	Property	DTZ
November 2019	CMA Directive Equity Protection	Mercer Mercer
February 2020	Thematic Equities Responsible Investing	Sarasin Mercer
March 2020	Global Equities	Baillie Gifford

Individual training

Individual Committee and Board members as well as staff attended a range of training events in 2019/20 provided by the Pension Fund's investment managers and other external organisations, as follows:

- Trustee Training
- Treasury Management
- LGPS Governance Training Fundamentals
- Effective Risk Management
- Annual Fund Manager Client Workshops
- PLSA LGPS conference
- CIPFA accounting and audit workshop
- LGPS actuary conference
- Baillie Gifford Investor Forum
- ACCESS Investor day
- ESG Forum
- LGPS Asset Allocation Forum
- TPR Toolkit

Fund managers

Schroders | Baillie Gifford | YFM Equity Partners | DTZ Investors
Fidelity International | Goldman Sachs Asset Management | HarbourVest | Kames Capital
CQS | Partners Group | Pyrford | Sarasin & Partners
Impax Asset Management | Ruffer | UBS
Kent County Council Treasury Management Team | M&G Investments | Link Asset Services

Further details of the fund manager mandates can be found in the Investment Strategy Statement (ISS).

Other organisations providing services to the Kent Fund

Service	Organisation
Custodian	Northern Trust Company
Bankers	National Westminster Bank
Fund Actuary	Barnett Waddingham
Additional Voluntary Contributions (AVC) Providers	Equitable Life Assurance (now Utmost Life) Prudential Assurance Company Standard Life Assurance
Investment Consultants	Mercers
Auditors	Grant Thornton
Legal Advisors	Invicta Law
Performance Measurers	Northern Trust Company CEM Benchmarking PIRC Limited
Scheme Administrators	Kent County Council
Administration software provider	Aquila Heywood

The Kent Pension Fund maintains the following statutory statements and policies; these are reviewed and updated regularly:

- Funding Strategy Statement.
- Investment Strategy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.
- Responsible Investment Policy.

These documents can be found on the Pension Fund's website http://www.kentpensionfund.co.uk/local-government/fund-information/policies

Risk Management

Kent County Council as the Administering Authority for the Kent County Council Superannuation Fund has delegated responsibility for the management of risk to the Superannuation Fund Committee.

Risk register
The Committee regularly reviews the Fund's key risks. The Covid-19 pandemic has thrown up new challenges in the investments as well as the administration of the fund. Whilst actions to mitigate the risks have been put in place and are being monitored, the key risks currently identified remain:

- Investments achieve returns below rate assumed by the actuary.
- Financial impact of the McCloud judgement and the impact on resources required to implement the judgement as well as the cap on exit payments.

Arrangements have been agreed for the management of these risks in order to mitigate their impact on the Fund.

Financial, demographic, regulatory, and employer risks
Details of the counter measures in place for financial, demographic, regulatory, and employer risks are included in the Fund's Funding Strategy Statement (FSS). The FSS is reviewed annually.

Operational risks
Kent County Council's Internal Audit Section conducts risk based audits on the management of risk in the Pension Fund.

Third party risk such as that relating to employers in the Fund is managed through monitoring the timeliness of receipts of contributions as well as the annual review of guarantees / bonds provided by Admitted bodies.

Investment risk management
Further details of the Fund's policy on investment risk management are disclosed in the Fund's Investment Strategy Statement (ISS). The Superannuation Fund Committee formally considers investment risk at four of its five planned meetings during the year.

Assurance over third party operations is provided by investment managers who are required to provide annual AAF 01/06 reports and ISAE 3402 reports.

Financial Performance

Financial Summary
A brief summary over the last 5 years is shown below:

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	**2019/20 £'000**
Value of Fund at start of year	4,539,037	4,597,540	5,565,175	5,828,846	**6,218,169**
Revenue account for year					
– Contributions and transfers in	224,366	238,851	243,299	247,758	**259,591**
– Investment and other income net of expenditure	90,449	84,792	93,503	84,971	**109,358**
– Benefits and transfers out	(216,314)	(222,949)	(232,373)	(248,538)	**(256,540)**
Net Revenue	98,501	100,694	104,429	84,191	**112,409**
Increase (Decrease) in market value of investments in year	(39,998)	866,941	159,242	305,132	**(613,700)**
Increase (decrease) in Fund during year	58,503	967,635	263,671	389,323	**(501,291)**
Value of Fund at end of year	4,597,540	5,565,175	5,828,846	6,218,169	**5,716,878**

Fund Trends
A summary of the Fund's key trends is shown below:

	2015/16	2016/17	2017/18	2018/19	**2019/20**
Net Assets at 31 March (£'000)	4,597,540	5,565,175	5,828,846	6,218,169	**5,716,878**
No of Contributors	49,816	50,834	52,775	51,345	**51,685**
Contributions (£'000)	220,961	228,285	232,037	238,331	**250,263**
Number of Pensioners	37,260	38,648	39,813	41,739	**43,441**
Benefits Paid (£'000)	210,281	214,895	220,876	235,953	**243,832**

Despite a very difficult year in 2019-20, the Fund has increased in value by £1.1bn (24%) over the five years from 1 April 2015 to 31 March 2020.

The number of contributors in the Fund has started to rise again, after a slight decrease last year.

The amount of contributions has increased by 5% this year, whilst the number of contributors increased by just 1%, mainly due to a continued increase in salary levels of employees.

The number of pensioners has continued to grow and were 17% higher at 31 March 2020 compared to 31 March 2016. Pension payments have increased by 16% during the same period.

Pension Fund Administration and Governance Costs

The following table compares actual Administration, Governance and Oversight costs against the budget for 2019-20.

	Actual £'000	Budget £'000
Pensions Administration Team costs	**3,143**	**3,345**
Other Pensions admin costs	**402**	**431**
Administration expenses	**3,545**	**3,776**
Actuarial Fee including cost of valuation	**387**	**300**
Direct recovery of actuary, legal fees and admin costs	**(169)**	**(250)**
Subscriptions	**43**	**46**
Investment Accounting and Oversight costs	**300**	**286**
Performance Measurement Fees	**39**	**30**
Investment Consultancy	**159**	**50**
Other professional advice	**5**	**20**
Governance and Oversight Expenses	**764**	**482**

The costs of administration of the scheme were lower than budget due to vacancies in the section and lower than expected legal fees due to lower employer related activity.

Governance and admin costs were higher than budget mainly due to higher actuary costs for the triennial valuation exercise and increased use of investment consultants for the implementation of the strategic asset allocation review as well for monitoring and review of Fund Managers. Additional charges were also made by the auditors for assurances provided to other employers in the Pension Fund.

Employers

At 31 March 2020 there were 448 Employers in the Fund. During the year 15 organisations joined the Fund as either scheduled bodies or admitted bodies following the transfer of staff from existing fund employers and as schools converted to academy trusts. Academy trusts also consolidated and other employers exited the Fund as their last active members left or retired. During the year 13 employers either ceased to be members of the Fund or merged with other employers.

The following table shows a summary of the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (i.e. with contributing members) and ceased (i.e. with no active members but with some outstanding liabilities).

Number of employers

	Active	Ceased	Total
Scheduled Body	240	64	304
Admitted Body	75	69	144
Total	**315**	**133**	**448**

Amounts due from Employers

During 2019-20 we collected 99%, (98% in 2018-19) of total contribution income from Employers by the due date of the 19th of the month following. The option to levy interest on overdue contributions was not exercised. At 31 March 2020 contributions in respect of the March salaries totaling £17.9m (31 March 2019 £16.7m) due by 19 April had not been received.

Member Age Profile

The following table shows that at 31 March 2020 the age profile of the contributing membership was:

Age	Members
Under 20	586
20 – 25	3,535
26 – 30	3,935
31 – 35	4,597
36 – 40	5,562
41 – 45	6,280
46 – 50	7,703
51 – 55	8,230
56 – 60	6,620
61 – 65	3,809
66 – 70	663
Over 70	165

Five-year analysis of pension overpayments, recoveries and write-offs

Overpayments

The overpayments identified over the last 5 years as a result of the Fund's participation in the National Fraud Initiative are:

Year	No.	Value (£)	Action
2015	2	17,692	Recovered
	1	2,906	No response – writen off
2017	2	4,946	No next of kin so written-off
	1	537	No response – written-off
2019	2	641	Written-off
	1	207	Trying to locate next of kin
	1	2135	Being investigated
Total	**10**	**26,730**	

Note: the number of cases has decreased as a mortality screening service is now used on a monthly basis to identify registered deaths.

Pension overpayments write-offs

Details of the write-offs made in the last 5 years:

Year	No. of cases	Value (£)
2015-16	15	3,947
2016-17	36	8,135
2017-18	39	53,946 *
2018-19	18	27,717 *
2019-20	**3**	**1,318**

*£71,502 of these amounts refer to historic overpayments that occurred and all possibilities of recovery have been exhausted.

Investments

This report sets out details of the progress made against the Fund's investment strategy during the year.

At its regular meetings during 2019-20 the Committee reviewed the Fund's actual asset allocation compared to the benchmark, in the context of how it will achieve the required investment return of 5.8% per annum assumed by the Fund actuary and agreed any action required.

The Fund's strategic asset allocation as at 1 April 2019 was as follows:

Asset Class	Allocation %	Index
UK Equities	23.5	FTSE All Share
Overseas Equities	32	MSCI World Index NDR
Fixed Income	15	BAML GBP Broad Market
Property	13	IPD All Properties Index
Private Equity & Infrastructure	7.5	GBP 7 Day LIBID
Absolute Return	8	RPI +5%
Cash	1	GBP 7 Day LIBID
Total	**100**	

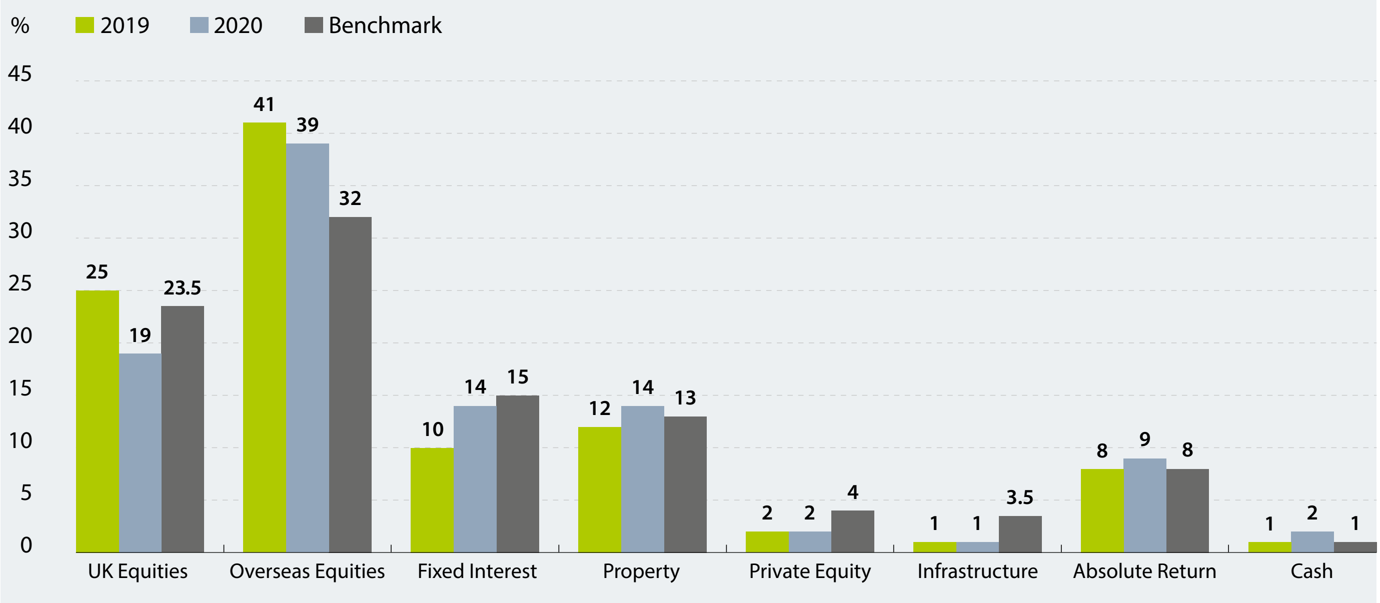
Asset Pooling
The Kent Pension Fund has made a commitment to pool its assets other than its direct property holdings into the ACCESS Pool. (Please see section on ACCESS for further information about the Pool).

As at 31 March 2020 it had investments of £2.84 billion in four ACCESS sub-funds. It's investments in life funds were valued at £0.6billion. These assets are held in jointly procured life fund policies, which cannot be held within an authorised contractual scheme which is the overarching legal structure of the ACCESS pool.

The Kent Pension Fund has saved £4.0 million on fees through pooling initiatives.

Portfolio Distribution
The graph shows the Fund's actual portfolio distribution between the main asset-classes as at 31 March 2019 and 31 March 2020 vs the benchmark.

Asset Allocation as at 31 March

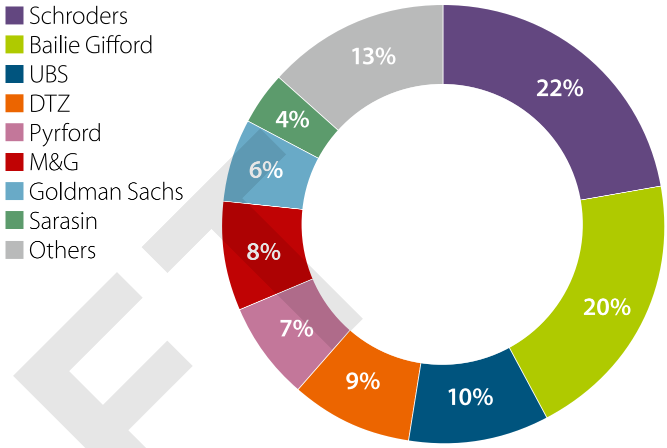


Value of funds under management by Fund Manager

The following graph shows the Assets Under Management (AUM) and the proportion of the Fund under management by fund manager as at 31 March 2020:

Fund Managers	**AUM (£m)**
Schroders	1,236
Baillie Gifford	1,123
UBS	577
DTZ	529
Pyrford	415
M&G	484
Goldman Sachs	368
Sarasin	246
Others	725
Total	**5,703**

AUM by Fund Manager as a proportion of the Fund



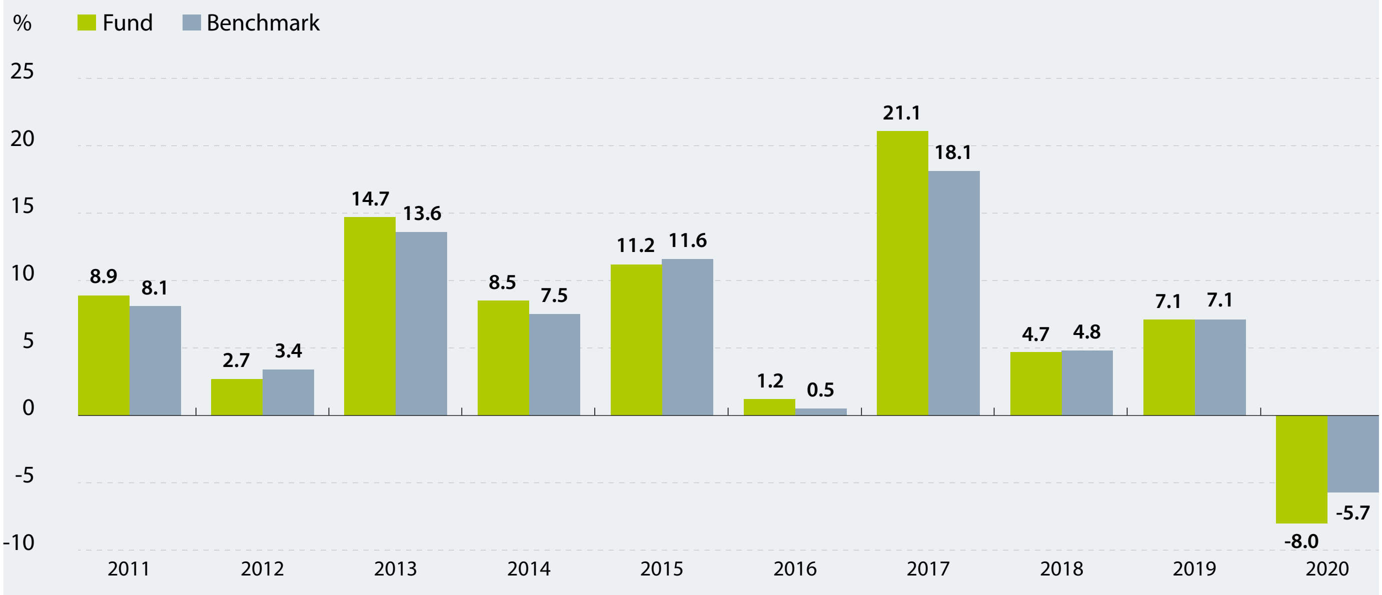
Investment performance 2019-20
The performance of the Fund's investment managers is reported on a quarterly basis to the Superannuation Fund Committee. The managers submit reports and valuations for this purpose and managers of the larger mandates meet at least annually with the Committee and / or its officers to make presentations and to answer questions.

Managers are required to provide valuation information to Northern Trust which assesses the rate of return achieved and provides performance reports that are for consideration by the Committee.

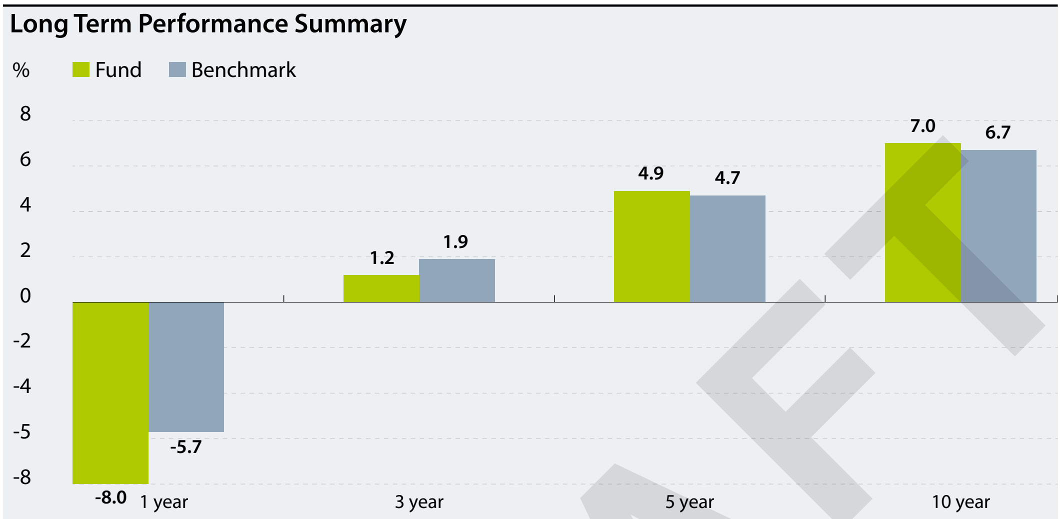
Total Fund Performance
The graph below shows the relative performance of the Kent Fund investments over the last 10 years. The overall return on the Fund investments for 2019-20 was -8% compared to the customised strategic benchmark of -5.7%.

For comparison the PIRC Local Authority Universe average fund return for 2019-20 was -4.1%.

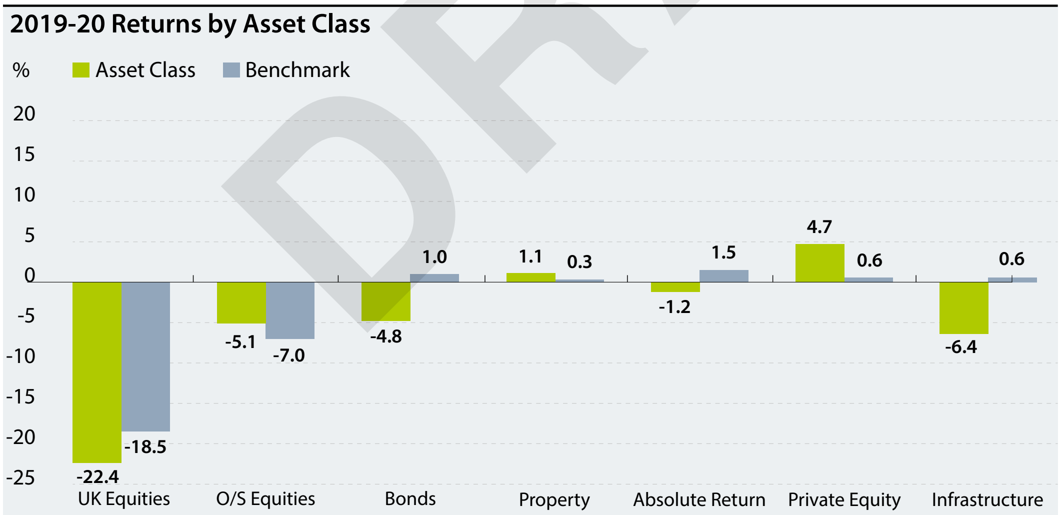
Annual Investment Returns



The graph below shows the long term performance of the Fund's investments compared against its Strategic benchmark.

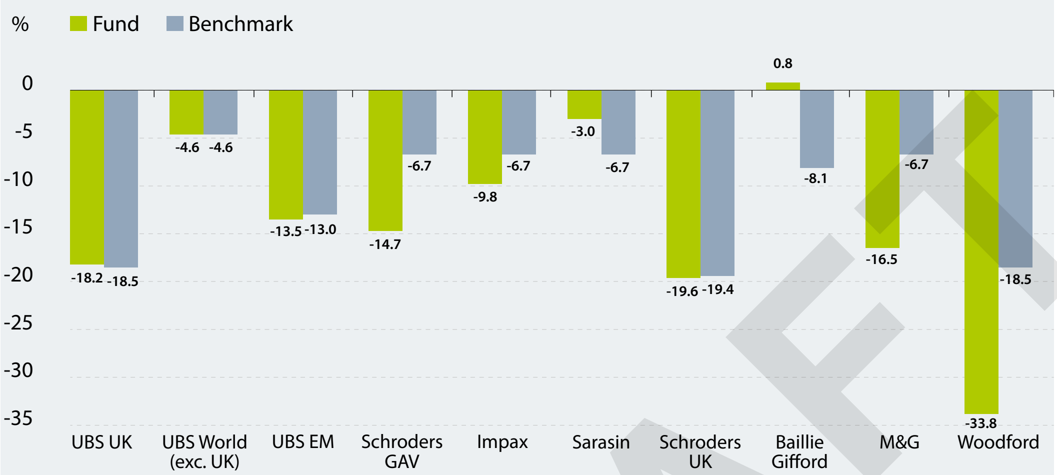


Returns by Asset Class
The analysis set out below shows the returns by asset class for 2019-20:

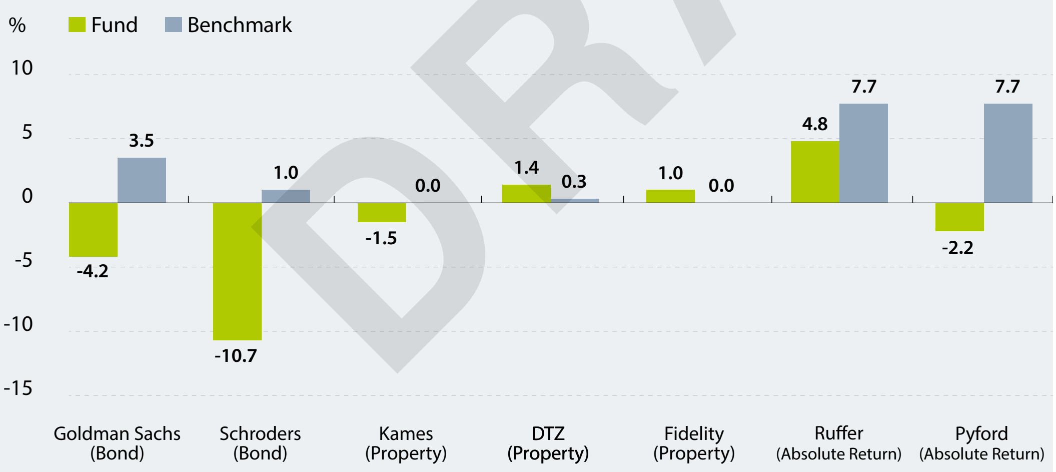


Performance by Fund Manager
The following graphs show the performance of the Equity and other Mandates compared to their benchmarks for the year ended 31 March 2020.

Peformance Returns by Fund Manager – Equities



Peformance Returns by Fund Manager – Other Mandates



M&G and CQS multi asset credit managers were appointed during the year and a full year history is therefore not available for those portfolios

Environmental Social and Governance Investments Policy
In February the committee updated its ESG policy to clearly articulate its ESG principles and beliefs and it is currently open for consultation. The draft policy can be accessed at https://www.kentpensionfund.co.uk/local-government/about-us/investment-management-of-the-fund/policies/draft-responsible-investment-policy

The Fund complies with the UK Stewardship Code through the outsourcing to its external investment managers responsibility for governance, engagement, and voting activity. The Superannuation Fund Committee receives quarterly monitoring reports from the managers.

Voting by Equity Fund Managers 2019/20

Sarasin manage the only direct investment portfolio for the Fund

	Number of Resolutions		
	For	**Against**	**Abstain**
Voting record	409	186	88

The Fund is a member of The Pensions and Lifetime Savings Association (PLSA) and The Institutional Investors Group on Climate Change (IIGCC), and has signed up to the UN Principles for Responsible Investments (UNPRI).

Administration

Responsibility for the administration of the Kent Pension Fund is undertaken by the Pensions Section, Kent County Council. The Pensions Section uses Altair, an Aquila Heywood system, to provide all aspects of pensions administration, including pensioner payroll.

There are 51 full time equivalent members of staff involved in the administration of the scheme, split into two main teams, supported by technical, systems and management staff:

- member services teams responsible for administering all casework and handling all member queries;
- an Employer and Communications team responsible for all employer work, including training and employer support, maintaining the Pension Fund website and for all bulk communications sent to current and former members of the scheme.

The Pension Section administration performance is measured against key performance indicators each month, and is used to improve processes. The key service standards for 4 of the key processes are shown below:

Key Service Standards for Scheme Members

The table below details the Fund's Key Service Standards and performance against these standards.

Type of Case	Target Time	Number Processed	Processed Within Target
Calculation and payment of retirement award	20 days from receipt of paperwork	2,483	97%
Calculation and payment of dependants' benefit	15 days from receipt of paperwork	454	93%
Provision of estimates	20 days from receipt of paperwork	3,898	90%
Correspondence	Full reply within 15 working days	4,279	100%

Other projects that were undertaken by the Pensions Section during the year included:

- further roll out of i-Connect, a process for receiving data from employers on a monthly basis
- a review of the quality of the data held by the Pensions Section, a measurement taken against both Core and Specific data, and a data improvement plan devised.
- preparation and submission of data in order that the scheme actuary could undertake the.

The profile of the new retirees during the year was as below:

Type of retirement	From Active membership	From Deferred membership	Total Retirements
Redundancy	139	–	139
Ill Health	52	9	61
Early	307	1,227	1,534
Normal	10	177	187
Late	200	57	257
Flexible	12	–	12
Total	**720**	**1,470**	**2,190**

CIPFA Benchmark Survey

The Kent administration section seeks to demonstrate value for money through its participation annually in the CIPFA Benchmark survey which compares the cost of administration with 27 other local authority administering bodies across the UK. The table below is in respect of the year ending 31 March 2019 which is the most recent survey to be conducted.

	Kent £	All Scheme Average £
Total cost of administration per scheme member	17.40	21.34
LGPS members per FTE staff	3100	2848
Membership engagement	0.55	1.27

It is pleasing to note that survey results place Kent 12th of 28 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.

Communications

The Pension Section communicates with members and employers in a variety of ways: newsletters are sent to pensioners, pension forums are used to communicate with employers, and current and former Scheme members have access to the KCC Pensions Section to make written, e-mail or telephone enquiries. Scheme members receive an annual benefit illustration and each pensioner and deferred pensioner is advised annually of the indexation increase to their pension.

The Kent Active Retirement Fellowship (KARF) has been established as a facility of which pensioners can become members and participate in a wide variety of activities. KARF has established groups throughout the County and welcomes new members.

Internal Dispute Procedure

The Kent Pension Fund has a formal Internal Dispute Procedure to consider a member dispute over a decision made either by a scheme employer or Kent County Council acting as the Administering Authority. An independent person is appointed by each employer to consider an appeal made by a scheme member.

2019/20 Disputes considered: 7

2019/20 Appeals upheld: 2

Actuary's Statement as at 31 March 2020

Introduction

The last full triennial valuation of the Kent County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:
- The value of the Fund's assets as at 31 March 2019 for valuation purposes was £6,193m.
- The Fund had a funding level of 98% i.e. the assets were 98% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £129m.

Contribution rates

The employer contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:
- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.4% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, further "secondary" contributions were required in order to pay off the Fund's deficit by no more than 14 years with effect from the 2019 valuation. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer. The total secondary contributions payable by all employers, present in the Fund as at 31 March 2019, over the three years to 31 March 2023 was estimated to be as follows:

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	2.8%	3.1%	3.5%
Equivalent to total monetary amounts of	£24.93m	£28.68m	£33.57m

In practice, each employer was assessed individually in setting the minimum contributions due from them over the inter-valuation period. Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Financial assumptions	
Market date	31 March 2019
CPI inflation	2.6% p.a.
Long-term salary increases	3.6% p.a.
Discount rate	4.7% p.a.

Demographic assumptions	
Post-retirement mortality	Male/Female
Member base tables	S3PA
Member mortality multiplier (Male/Female)	110%/115%
Dependant base tables (Male/Female)	S3DA
Dependant mortality multiplier (Male/Female)	95%
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.5
Initial addition to improvements	0.5% p.a.

The mortality assumptions translate to life expectancies as follows:

Assumed life expectancies at age 65:	
Average life expectancy for current pensioners – men currently age 65	21.7 years
Average life expectancy for current pensioners – women currently age 65	23.7 years
Average life expectancy for future pensioners – men currently age 45	23.1 years
Average life expectancy for future pensioners – women currently age 45	25.1 years

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

In terms of investment performance, returns were strong for the first three quarters following the valuation date, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were significantly less than where they were projected to be based on the previous valuation.

The projected liabilities will have increased due to the accrual of new benefits net of benefits paid, but offset by lower levels of projected future inflation. However the potential reduction in the value of the liabilities will be offset by lower expected future investment returns reflected in the discount rate underlying the valuation model.

On balance, we estimate that the funding position is likely to have fallen slightly when compared on a consistent basis to 31 March 2019. The change in inflation and discount rates is likely to place a lower value on the cost of future accrual but due to the worsening in funding position, this is likely to be offset by an increase in deficit contributions.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends. There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

We will continue to monitor the impact on the Fund and review the appropriateness of the assumptions used in our funding model.

Graeme D Muir, FFA
Partner, Barnett Waddingham

Statement of Responsibilities for the Statement of Accounts

Kent County Council's Responsibilities
The Council is required:

- to make arrangements for the proper administration of the Superannuation Fund's financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance;
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the statement of accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 8 October 2020 on behalf of Kent County Council.

Councillor David Brazier
Chairman of the Governance and Audit Committee
8 October 2020

Corporate Director of Finance's Responsibilities
The Corporate Director of Finance is responsible for the preparation of the Superannuation Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Superannuation Fund at the accounting date and its income and expenditure for the year ended 31 March 2019.

In preparing this Statement of Accounts the Corporate Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Corporate Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that these accounts give a true and fair view of the financial position of the Superannuation Fund at the reporting date and its income and expenditure for the year ended 31 March 2020.

Certificate of the Corporate Director of Finance

Zena Cooke
Corporate Director of Finance
8 October 2020

Pension Fund Accounts

The following financial statements are included in the Kent County Council Superannuation Fund's Annual Report and Accounts 2020 available from the Fund's website at www.kentpensionfund.co.uk.

Fund Account for the year ended 31 March

	Notes	2019–20 £'000	2018–19 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	**250,263**	238,331
Transfers in from other pension funds	8	**9,328**	9,427
		259,591	247,758
Benefits	9	**(243,832)**	(235,953)
Payments to and on account of leavers	10	**(12,708)**	(12,585)
		(256,540)	(248,538)
Net additions from dealings with Members		**3,051**	(780)
Management Expenses	11	**(25,606)**	(27,184)
Net additions/withdrawals including fund management expenses		**(22,555)**	(27,964)
Returns on Investments			
Investment Income	13	**135,344**	117,258
Taxes on Income		**(380)**	(5,103)
Profits and losses on disposal of investments and changes in the market value of investments	15a	**(613,700)**	305,132
Net Return on Investments		**(478,736)**	417,287
Net increase/(decrease) in the Net Assets available for benefits during the year		**(501,291)**	389,323

Net Assets Statement as at 31 March

	Notes	2019–20 £'000	2018–19 £'000
Investment Assets		**5,720,555**	6,211,004
Investment Liabilities		**(17,405)**	(5,906)
Net Investment Assets	15	**5,703,150**	6,205,098
Current Assets	21	**34,625**	31,537
Current Liabilities	22	**(20,897)**	(18,466)
Net Assets available to fund benefits at the period end		**5,716,878**	6,218,169

Notes to the Pension Fund Accounts

1. Description of the Fund

General
The Kent County Council Superannuation Fund (Kent Pension Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district and borough councils in Kent and a number of other employers within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme.

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:
– the Local Government Pension Scheme Regulations 2013 (as amended);
– the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
– the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme Manager). The Local Pension Board assists the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme.

Membership
Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the Scheme or to make personal arrangements outside the Scheme. Employers in the Fund include Scheduled Bodies which are local authorities and similar entities whose staff are automatically entitled to be members of the Scheme; and Admission Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admission bodies include voluntary, charitable and similar entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 315 employers actively participating in the Fund and the profile of members is as detailed below:

	Kent County Council		Other Employers		Total	
	31 Mar 20120	31 Mar 2019	**31 Mar 2020**	31 Mar 2019	**31 Mar 2020**	31 Mar 2019
Contributors	**20,986**	21,435	**30,699**	29,910	**51,685**	51,345
Pensioners	**22,372**	21,696	**21,069**	20,043	**43,441**	41,739
Deferred Pensioners	**24,316**	22,676	**23,090**	21,656	**47,406**	44,332
Total	**67,674**	65,807	**74,858**	71,609	**142,532**	137,416

Funding
Benefits are funded by contributions and investment earnings. The 2016 triennial valuation certified a common contribution rate of 21% of pensionable pay to be paid by each employer participating in the Kent Pension Fund for 2019-20. In addition to this, each employer has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Benefits
Pension benefits under the LGPS are based on the following:

	Service pre April 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued salary
Lump sum	Automatic lump sum of 3/80 x final pensionable salary.	No automatic lump sum	No automatic lump sum.
	In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There is a range of other benefits provided under the Scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: www.kentpensionfund.co.uk

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2019(20 financial year and its position at 31 March 2020.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019(20 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS)19 basis is disclosed at note 20 of these accounts.

3. Summary of Significant Accounting Policies

Fund Account – revenue recognition

a) Contribution income
Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employers Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in 'transfers in'. Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

c) Investment income
Dividends, distributions, interest, and stock lending income on securities have been accounted for on an accruals basis and where appropriate from the date quoted as ex(dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. Where the Fund's investments are held in income accumulating funds that do not distribute income the accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year. Direct property related income mainly comprises of rental income which is recognised when it becomes due.

Fund Account – expense items

d) Benefits payable
Pensions and lump(sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities providing the payment has been approved.

e) Taxation
The Fund has been accepted by the HM Revenue and Customs as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of tax, and any recoverable tax at the end of the year is included in accrued investment income.

By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

Notes to the Pension Fund Accounts continued

f) Management expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund, and overheads incurred by the County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Fees incurred include fees directly paid to fund managers as well as fees deducted from the funds by pooled fund managers which is grossed up to increase the income from these investments.

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year(end are recorded as amounts receivable for sales and amounts payable for purchases. From the trade date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.
The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 and IFRS 9. For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The values of investments as shown in the Net Assets Statement have been determined as follows:
- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.
- Debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

h) Freehold and Leasehold Properties

The Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2019. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2020.

i) Derivatives

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the reporting date the Fund only held forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year(end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year(end with an equal and opposite contract. Under the European Market Infrastructure Regulations the Fund's forward currency contracts are required to be covered by margin cash. These amounts are included in cash or cash equivalents held by the Fund and reflected in a corresponding margin cash liability under investment liabilities.

j) Foreign currency transactions
Assets and liabilities in foreign currency are translated into sterling at spot market exchange rates ruling at the year(end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in change in market value of assets.

k) Cash and cash equivalents
Cash comprises cash at bank and demand deposits. Cash equivalents are short(term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council are included in investments. All other cash is included in Current Assets.

l) Financial Liabilities
The Fund recognises financial liabilities relating to investments at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

m) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2020 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

n) Contingent Assets and Liabilities
A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. Contingent assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

o) Pooling Expenses
The Fund is member of the ACCESS pool, a group of 11 LGPS Administering Authorities who, as part of a Government initiative, have agreed to pool their investments to achieve cost and scale benefits. Pooling costs included in the Fund's accounts reflect the Fund's proportion of the cost of the governance arrangements of the Pool.

p) Additional Voluntary Contributions
The Fund provides an additional voluntary contribution (AVC) scheme for its members, assets of which are invested separately from those of the Fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in note 23.

4. Critical judgements in applying accounting policy

Pension fund liability
The net pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short(term yield/return.

Recent market movements since the outbreak of Covid-19 have seen falls in gilt yields and equity values. As per the actuary, the Fund's funding model is designed to withstand short(term volatility in markets as we use smoothed assumptions over a six(month period with the ultimate aim of setting stable contributions for employers. Therefore, although the falls have been significant, the ongoing funding position under the model will not have fallen as significantly as markets as the model helps to mitigate some of the impact of the extreme events.

Notes to the Pension Fund Accounts continued

5. Assumptions made about future and other major sources of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £182m. A 0.1% increase in assumed earning inflation would increase the value of liabilities by approx. £171m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £354m.
Private Equity and Infrastructure and other level 3 investments (Note 17)	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association. Following the Covid-19 outbreak, special considerations for valuations in view of the increased uncertainty around economic growth, include applying increased discount rates or reduced multiples of earnings.	The total private equity including infrastructure and other level 3 investments on the financial statements are £226m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 17.
Freehold and Leasehold Property and Pooled Property Funds (Note 17)	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property. Since the outbreak of Covid-19, as at the valuation date, valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global.	Less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. However, the affect of 10% variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £48m on a fair value of £478m.

6. Events after the Balance Sheet date

Since the outbreak of COVID-19, market activity is being impacted in many sectors. Initially, market volatility in almost all asset classes significantly increased and affected valuations negatively. Subsequently, the monetary and fiscal support measures announced by the governments across the world reduced volatility and valuations recovered to a significant extent. Prices and valuations of assets as at 31 March 2020 already reflect the impact of the economic uncertainty prevailing as at 31 March 2020. Where the impact cannot be easily determined as in the case of property and other illiquid asset classes, valuations have been issued with material uncertainty caveats or by making adjustments for future variability in income streams. Any actual impact of the changing economic conditions will only become clear and be reflected in valuations of the assets in the subsequent periods and would not require an adjustment to these accounts as at 31 March 2020.

In addition, dealing in the Lothbury Property Unit Trust has been suspended from 22 May 2020, which restricts the ability of the Kent Fund to redeem its investments valued at £10.7m in that Unit Trust. This however does not affect the accessibility of those investments in the long term, although it is difficult to estimate the impact on the valuations in the short term and do not require an adjustment to these accounts.

There have been no other events since 31 March 2020, up to the date when these accounts were authorised, that require any adjustment to these accounts.

7. Contributions Receivable

	2019–20 £'000	2018–19 £'000
By Category		
Employees' contributions	**56,324**	53,904
Employers' contributions		
– normal contributions	**134,662**	127,999
– deficit recovery contributions	**53,952**	51,965
– augmentation contributions	**5,325**	4,463
Total Employers' contributions	**193,939**	184,427
Total contributions recievable	**250,263**	**238,331**
By type of employer		
Kent County Council	**94,300**	**89,394**
Scheduled Bodies	**141,689**	**135,013**
Admitted Bodies	**14,274**	**13,924**
Total	**250,263**	**238,331**

8. Transfers in from other pension funds

	2019–20 £'000	2018–19 £'000
Individual	**9,328**	9,427
Group	**0**	0
Total	**9,328**	**9,427**

9. Benefits Payable

	2019–20 £'000	2018–19 £'000
By Category		
Pensions	**203,810**	192,254
Retirement Commutation and lump sum benefits	**34,195**	38,006
Death benefits	**5,827**	5,693
Total	**243,832**	**235,953**
By type of employer		
Kent County Council	**109,643**	107,867
Scheduled Bodies	**119,218**	113,639
Admitted Bodies	**14,971**	14,447
Total	**243,832**	**235,953**

10. Payments to and on account of leavers

	2019–20 £'000	2018–19 £'000
Group transfers	**11,087**	0
Individual transfers	**0**	10,695
Payments/refunds for members joining state scheme	**(95)**	199
Refunds of contributions	**1,716**	1,691
Total	**12,708**	**12,585**

Notes to the Pension Fund Accounts continued

11. Management Expenses

	Notes	2019–20 £'000	2018–19 £'000
Administration costs		**3,545**	3,110
Governance and oversight costs		**764**	343
Investment management expenses	12	**21,163**	23,570
Audit fees		**60**	24
Pooling expenses		**74**	137
Total		**25,606**	27,184

The Audit fee for 2019-20 includes £23k for charges for assurance letters to scheduled bodies in relation 2019 and 2020 audits.

12. Investment Management Expenses

	2019–20 £'000	2018–19 £'000
Investment managers' fees	**20,415**	20,220
Transaction costs	**709**	3,260
Custody fees	**39**	90
Total	**21,163**	**23,570**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

Transaction costs are substantially lower in the current year due to a significant number of assets previously held directly now being held in pooled funds. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These indirect costs are not separately provided to the Pension Fund.

13. Investment Income

		2019–20		2018–2019	
	Notes	£'000	%	£'000	%
Bonds		**17,132**	**12.7**	17,007	14.5
Equities		**5,421**	**4.0**	52,526	44.8
Pooled Investments		**85,335**	**63.1**	14,099	12.0
Private Equity / Infrastructure		**4,644**	**3.4**	7,978	6.8
Property	14	**15,488**	**11.4**	18,114	15.4
Pooled Property Investments		**6,010**	**4.4**	5,482	4.7
Cash and cash equivalents		**1,273**	**0.9**	1,010	0.9
Stock Lending		**42**	**0.0**	1,042	0.9
Total		**135,344**	**100.0**	117,258	100.0

The reduction in income from equities and increase in income from pooled funds is mainly as a result of the transition of directly held assets into pooled funds and the timing of distributions by funds.

14. Property Income and Expenditure

	2019–20 £'000	2018–19 £'000
Rental Income from Investment Properties	**21,697**	22,326
Direct Operating Expenses	**(6,209)**	(4,212)
Net operating income from Property	**15,488**	**18,114**

15. Investments

Investment Assets	**Market Value as at 31 March 2020 £'000**	Market Value as at 31 March 2019 £'000
Bonds	**339,055**	363,728
Equities	**236,536**	249,994
Pooled Investments	**4,028,527**	4,601,708
Private Equity/Infrastructure	**189,864**	150,015
Property	**478,104**	487,193
Pooled Property Investments	**287,008**	257,690
Derivatives – Forward Currency contracts		3,122
Investment Cash and cash equivalents	**131,959**	80,526
Investment Income due	**11,975**	17,028
Amounts receivable for sales	**724**	0
Margin cash	**16,803**	0
Total Investment Assets	**5,720,555**	6,211,004
Investment Liabilities		
Amounts payable for purchases	**(324)**	(1,373)
Margin cash liability	**0**	(4,533)
Derivatives – Forward Currency contracts	**(17,081)**	0
Total Investment Liabilities	**(17,405)**	(5,906)
Net Investment Assets	**5,703,150**	6,205,098

Investment income due (debtors) includes a sum of £4.5m for rents and service charges payable by tenants of properties owned by the Pension Fund. Based on historic experience and information of similar properties, as well as in view of the special circumstances of the COVID-19 pandemic, it is likely that dues of £1.82m may not be fully received.

Notes to the Pension Fund Accounts continued

15a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 2019 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Market Value as at 31 March 2020 £'000**
Bonds	363,728	73,391	(86,027)	(12,038)	**339,054**
Equities	249,994	82,835	(83,716)	(12,577)	**236,536**
Pooled Investments	4,601,708	408,148	(418,777)	(562,551)	**4,028,528**
Private Equity/Infrastructure	150,015	59,487	(27,272)	7,634	**189,864**
Property	487,193	1,844	(4,710)	(6,222)	**478,105**
Pooled Property Investments	257,690	39,191	(2,696)	(7,177)	**287,008**
	6,110,328	664,896	(623,198)	(592,931)	**5,559,095**
Derivative contracts					
– Forward Currency contracts	3,122	3,438,138	(3,436,691)	(21,651)	**(17,082)**
	6,113,450	**4,103,034**	**(4,059,889)**	**(614,582)**	**5,542,013**
Other Investment balances					
– Investment Cash and cash equivalents	80,526			882	**131,959**
– Amounts receivable for sales	0				**724**
– Amounts payable for purchases	(1,373)				**(324)**
– Margin cash liability	(4,533)				**16,803**
– Investment Income due	17,028				**11,975**
Net Investment Assets	**6,205,098**			**(613,700)**	**5,703,150**

	Market Value as at 31 March 18 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Market Value as at 31 March 2019 £'000**
Bonds	353,090	96,498	(110,813)	24,953	**363,728**
Equities	2,224,616	406,586	(2,447,741)	66,533	**249,994**
Pooled Investments	2,195,389	2,573,875	(364,067)	196,511	**4,601,708**
Private Equity/Infrastructure	128,895	30,710	(25,899)	16,309	**150,015**
Property	484,241	31,700	(43,749)	15,001	**487,193**
Pooled Property Investments	247,201	2,011	(2,706)	11,184	**257,690**
	5,633,432	3,141,380	(2,994,975)	330,491	**6,110,328**
Derivative contracts					
– Forward Currency contracts	5,593	5,262,823	(5,239,422)	(25,872)	**3,122**
	5,639,025	**8,404,203**	**(8,234,397)**	**304,619**	**6,113,450**
Other Investment balances					
– Investment Cash and cash equivalents	148,514			513	**80,526**
– Amounts receivable for sales	2,253				**0**
– Amounts payable for purchases	(8,864)				**(1,373)**
– Margin cash liability	(7,993)				**(4,533)**
– Investment Income due	17,995				**17,028**
Net Investment Assets	5,790,930			305,132	**6,205,098**

15b. Analysis of Investments

	Market Value as at 31 March 2020 £'000	Market Value as at 31 March 2019 £'000
Bonds		
UK		
Corporate Quoted	**28,266**	34,873
Overseas		
Public Sector Quoted	**43,520**	39,948
Corporate Quoted	**267,269**	288,907
	339,055	363,728
Equities		
UK		
Quoted	**29,238**	33,301
Overseas		
Quoted	**207,298**	216,693
	236,536	249,994
Pooled Funds		
UK		
Fixed Income Unit Trusts	**216,010**	240,897
Unit Trusts	**1,080,951**	1,553,260
Overseas		
Fixed Income Unit Trusts	**228,556**	0
Unit Trusts	**2,503,011**	2,807,551
	4,028,528	4,601,708
Property	**478,104**	487,193
Property Unit Trusts	**287,008**	257,690
Private Equity Funds/Infrastructure	**189,864**	150,015
	954,976	894,898
Derivatives		3,122
Cash and cash equivalents	**131,959**	80,526
Investment income due	**11,975**	17,028
Amounts receivable for sales	**724**	0
Margin Cash	**16,803**	0
	161,461	100,676
Total Investment Assets	**5,720,556**	6,211,004
Investment Liabilities		
Amounts payable for purchases	**(324)**	(1,373)
Margin cash liability	**0**	(4,533)
Derivatives	**(17,082)**	(4,533)
Total Investment Liabilities	**(17,406)**	(5,906)
Net Investment Assets	**5,703,150**	6,205,098

15c. Analysis of Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Notes to the Pension Fund Accounts continued

15c. Analysis of Derivative Contracts (continued)

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager hedges the overseas exposure of the portfolio.

Settlement	Currency bought	Local value 000's	Currency sold	Local value 000's	Asset value £'000	Liability value £'000
Up to one month	GBP	245	USD	(304)	1	
Up to one month	GBP	26	EUR	(29)	1	
Up to one month	USD	5	GBP	(4)		(1)
Up to one month	USD	400	GBP	(324)		(2)
Up to one month	GBP	728	CHF	(867)	6	
Up to one month	GBP	702	CHF	(883)		(35)
Up to one month	CHF	867	GBP	(729)		(6)
Up to one month	GBP	141,174	USD	(182,884)		(6,235)
Up to one month	GBP	141,195	USD	(182,884)		(6,215)
Up to one month	GBP	697	USD	(903)		(31)
Up to one month	GBP	1,379	USD	(1,802)		(73)
Up to one month	USD	1,220	GBP	(939)	44	
Up to one month	USD	479	GBP	(370)	16	
Up to one month	USD	356	GBP	(276)	11	
Up to one month	USD	2,637	GBP	(2,043)	82	
Up to one month	GBP	608	USD	(778)		(19)
Up to one month	USD	1,296	GBP	(1,013)	32	
Up to one month	USD	5,604	GBP	(4,365)	152	
Up to one month	USD	1,655	GBP	(1,298)	36	
Up to one month	GBP	402	USD	(513)		(12)
Up to one month	USD	6,285	GBP	(5,083)		(17)
Up to one month	USD	9,298	GBP	(7,699)		(205)
Up to one month	USD	2,104	GBP	(1,763)		(67)
Up to one month	USD	3,694	GBP	(3,164)		(187)
Up to one month	USD	2,264	GBP	(1,941)		(116)
Up to one month	GBP	5,344	USD	(6,266)	293	
Up to one month	USD	8,952	GBP	(7,721)		(506)
Up to one month	USD	5,898	GBP	(5,008)		(254)
Up to one month	USD	9,386	GBP	(8,106)		(541)
Up to one month	USD	4,826	GBP	(4,138)		(248)
Up to one month	USD	879	GBP	(746)		(37)
Up to one month	GBP	998	USD	(1,174)	52	
Up to one month	USD	2,506	GBP	(2,104)		(84)
Up to one month	GBP	6,663	USD	(8,199)	55	
Up to one month	USD	304	GBP	(245)		(1)
Up to one month	GBP	1,125	USD	(1,390)	5	
Up to one month	GBP	618	USD	(762)	4	
Up to one month	GBP	324	USD	(400)	2	
Up to six months	GBP	39,310	EUR	(47,299)		(2,578)
Up to six months	EUR	552	GBP	(465)	24	
Up to six months	EUR	1,931	GBP	(1,726)		(15)
Up to six months	EUR	6,747	GBP	(6,277)		(302)
Up to six months	EUR	2,741	GBP	(2,527)		(100)
Up to six months	EUR	890	GBP	(798)		(9)
					816	(17,896)
Net forward currency contracts at 31 March 2020						**(17,080)**
Prior year comparative						
Open forward currency contracts at 31 March 2019					3,414	(292)
Net forward currency contracts at 31 March 2019						**3,122**

15d. Property Holdings

	Year ending 31 March 2020 £'000	Year ending 31 March 2019 £'000
Opening Balance	**487,193**	484,241
Additions	**1,844**	31,700
Disposals	**(4,710)**	(43,750)
Net increase in market value	**(6,222)**	15,002
Closing Balance	**478,105**	487,193

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligation to purchase, construct or develop these properties.

The future minimum lease payments receivable by the Fund are as follows:

	Year ending 31 March 2020 £'000	Year ending 31 March 2019 £'000
Within one year	**18,228**	19,769
Between one and five years	**42,150**	47,985
Later than five years	**33,885**	39,740
Total	**94,263**	**107,494**

The above disclosures have been reduced by a credit loss allowance of 0.35% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. The income has also been reduced to take into account the possibility of tenants taking advantage of break clauses in their contracts to terminate tenancies.

15e. Investments analysed by Fund Manager

	Market Value as at 31 March 2020		Market Value as at 31 March 2019	
	£'000	%	£'000	%
Investments managed by Link for the ACCESS Pool				
Baillie Gifford	**1,122,058**	**19.7**	1,299,300	20.9
M&G	**298,971**	**5.2**	357,903	5.8
Ruffer	**71,377**	**1.3**	0	0.0
Schroders	**770,263**	**13.5**	957,557	15.4
Investments managed outside the ACCESS Pool				
Baillie Gifford	**1,406**	**0.0**	2,763	0.0
CQS	**108,422**	**1.9**	0	0.0
DTZ	**529,174**	**9.3**	543,548	8.8
Fidelity	**130,671**	**2.3**	129,377	2.1
Goldman Sachs	**368,288**	**6.5**	384,637	6.2
HarbourVest	**94,199**	**1.8**	73,316	1.2
Impax	**43,028**	**0.8**	47,716	0.8
Kames	**47,176**	**0.8**	52,368	0.8
Kent County Council Investment Team	**96,613**	**1.7**	55,040	0.9
M&G	**185,344**	**3.2**	31,604	0.5
Partners Group	**60,157**	**1.1**	48,211	0.8
BMO (Pyrford)	**415,074**	**7.3**	424,373	6.8
Ruffer	**0**	**0.0**	67,970	1.1
Sarasin	**246,207**	**4.3**	253,960	4.1
Schroders	**466,119**	**8.2**	532,993	8.6
UBS	**577,391**	**10.1**	654,320	10.5
YFM	**35,508**	**0.6**	28,488	0.5
Link Fund Solutions (previously Woodford)	**35,704**	**0.6**	259,654	4.2
Total	**5,703,150**	**100**	6,205,098	100

All the external fund managers above are registered in the United Kingdom. During the year assets managed by Ruffer were transferred to the ACCESS pool. Following the commencement of liquidation proceedings of the LF Woodford Equity Income Fund it is now managed by Link Fund Solutions.

Notes to the Pension Fund Accounts continued

15f. Single investments exceeding 5% of net assets available for benefits

Investments	31 March 2020 £'000	31 March 2020 % of net assets
LF ACCESS Global Equity Core Fund	**1,122,058**	**19.7**
LF ACCESS UK Equity Fund	**770,263**	**13.5**
UBS Life World Ex-UK Equity Tracker Fund	**289,255**	**5.1**
LF ACCESS Global Dividend Fund	**298,971**	**5.2**
BMO Investments Ireland (Plc) Global Total Return Fund	**415,074**	**7.3**

Investments	31 March 2019 £'000	31 March 2019 % of net assets
LF ACCESS Global Equity Core Fund	**1,299,300**	**20.9**
LF ACCESS UK Equity Fund	**957,557**	**15.4**
UBS Life UK Equity Tracker Fund	**336,049**	**5.4**
LF ACCESS Global Dividend Fund	**357,903**	**5.8**
BMO Investments Ireland (Plc) Global Total Return Fund	**424,373**	**6.8**

15g. Stock Lending

The Custodians undertake a programme of stock lending to approved UK counterparties against non-cash collateral mainly comprising of Sovereigns and Treasury Bonds. The programme lends directly held global equities and bonds to approved borrowers against a collateral of Government and Supranational fixed interest securities of developed countries, which is marked to market on a daily basis. Securities on loan are included at market value in net assets on the basis that they will be returned to the Fund at the end of the loan term. Net income from securities lending received from the custodian is shown as income from investments in the Fund Account.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

	31 March 2020		31 March 2019		
Loan Type	**Market Value £'000**	**Collateral Value £'000**	Market Value £'000	Collateral Value £'000	**Collateral Type**
Equities	**12,842**	**13,377**	11,877	12,444	Treasury Notes and other Government debt
Bonds	**7,761**	**8,084**	11,653	12,210	Treasury Notes and other Government debt
Total	**20,603**	**21,461**	23,530	24,654	

During the year a large part of the Fund's directly held assets included in the custodian's securities lending programme were transferred to the Link pooled funds. This reduced the amount available for loan as at 31 March 2019.

16. Financial Instruments

16a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading. The implementation of IFRS9 has not resulted in changes to the classification of financial assets/liabilities.

	31 March 2020			31 March 2019		
	Designated at fair value through profit and loss £'000	**Assets at amortised cost £'000**	**Financial liabilities at amortised cost £'000**	Designated as fair value through profit and loss £'000	Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
Financial Assets						
Bonds	**339,054**			363,728		
Equities	**236,536**			249,994		
Pooled Investments	**4,028,528**			4,601,708		
Property Pooled Investments	**287,008**			257,690		
Private Equity/Infrastructure	**189,864**			150,015		
Derivative contracts				3,122		
Cash & Cash equivalents		**135,027**			86,099	
Other Investment Balances		**29,502**			17,028	
Debtors/ Receivables		**31,557**			25,964	
	5,080,990	**196,086**	**0**	5,626,257	129,091	0
Financial Liabilities						
Derivative contracts	**(17,081)**		**(324)**			(5,906)
Other Investment balances			**(20,897)**			(18,466)
	(17,081)	**0**	**(21,221)**	0	0	(24,372)
Total	**5,063,909**	**196,086**	**(21,221)**	5,626,257	129,091	(24,372)

16b. Net Gains and Losses on Financial Instruments

	31 March 2020 £'000	31 March 2019 £'000
Fair value through profit and loss	**(608,360)**	289,618
Assets at amortised cost	**882**	513
Total	**(607,478)**	290,131

Notes to the Pension Fund Accounts continued

17. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/ companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Quoted Funds in administration	3	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values /or if the fund holds illiquid asets, valuation of underlying investment/assets/ companies/EBITDA multiples	If the fund holds illiquid assets, estimation techniques used in valuations, changes in market conditions, industry specific conditions
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	Wide range of deals executed in the currency markets, exchange rate risk	Not required

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/()	Value as at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	**26.2%**	**129,707**	**163,690**	**95,724**
Infrastructure	**28.6%**	**60,157**	**77,362**	**42,952**
Other Level 3 investments	**26.2%**	**35,704**	**45,058**	**26,350**

	Assessed valuation range (+/()	Value as at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	**26.2%**	**101,804**	**128,477**	**75,131**
Infrastructure	**28.6%**	**48,211**	**61,999**	**34,423**
Other Level 3 investments	**0**	**0**	**0**	**0**

17a. Valuation of assets and liabilities carried at Fair Value

Level 1
Assets and Liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted fixed interest securities, quoted index linked securities and quoted unit trusts.

Level 2
Assets and Liabilities at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data. Investments include Derivatives, Direct Property Investments, Property Unit Trusts and Property Unit Trusts and investments in Link pooled funds for ACCESS.

Level 3
Assets and Liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested. Assurances over the valuation are gained from the independent audit of the accounts. These assets also include investments in quoted funds that were in administration as at 31 March 2020 and are invested in illiquid underlying assets.

These valuations are prepared by the fund managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the fund managers, who provide a detailed breakdown of the valuations of underlying assets as well as a reconciliation of movements in fair values. Cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

The following table provides an analysis of the assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2020	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Assets				
Financial assets at fair value through profit and loss	**1,861,179**	**2,994,242**	**225,568**	**5,080,989**
Non-Financial assets at fair value through profit and loss		**478,104**		**478,104**
Financial liabilities at fair value through profit and loss	**0**	**(17,081)**	**0**	**(17,081)**
Net Investment Assets	**1,861,179**	**3,455,265**	**225,568**	**5,542,012**

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Assets				
Financial assets at fair value through profit and loss	2,600,671	2,875,571	150,015	5,626,257
Non(Financial assets at fair value through profit and loss	0	487,193		487,193
Financial liabilities at fair value through profit and loss	0	0	0	0
Net Investment Assets	4,773,095	737,035	128,895	5,639,025

Notes to the Pension Fund Accounts continued

17b. Reconciliation of Fair Value Measurements within Level 3

	£'000
Market Value 1 April 2019	150,015
Transfers into level 3	198,467
Transfers out of level 3	0
Purchases during the year	59,487
Sales during the year	(175,604)
Unrealised gains/losses	(6,797)
Realised gains/losses	0
Market Value 31 March 2020	**225,568**

During the year the LF Woodford Equity Income Fund (now renamed Link Equity Fund) went into liquidation and its units therefore cannot be redeemed by investors. The units will be redeemed as and when the underlying, mainly illiquid assets of the fund are sold. As a result the investment in the Link Fund is now classified as a Level 3 investment.

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the value of its assets will fall short that of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

18a. Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All security investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The possible loss from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments and their activity is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019-20 reporting period.

Asset Type	Potential Market Movements (+/()
UK Equities	25.8
Overseas Equities	22.0
Global Pooled Equities inc UK	22.0
Bonds	6.2
Property	9.8
Infrastructure	28.6
Private Equity	26.2

The potential price changes disclosed above are based on predicted volatilities calculated by our fund managers. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	**135,027**	**0.00**	**135,027**	**135,027**
Investment portfolio assets:				
UK Equities	**29,239**	**25.80**	**36,783**	**21,695**
Overseas Equities	**207,298**	**22.00**	**252,904**	**161,692**
Global Pooled Equities inc UK	**3,583,961**	**22.00**	**4,372,432**	**2,795,490**
Bonds incl Bond Funds	**783,621**	**6.20**	**832,206**	**735,036**
Property Pooled Funds	**287,008**	**9.80**	**315,135**	**258,881**
Private Equity	**129,707**	**26.20**	**163,690**	**95,724**
Infrastructure Funds	**60,157**	**28.60**	**77,362**	**42,952**
Net derivative Liabilities	**(17,081)**	**0.00**	**(17,081)**	**(17,081)**
Investment income due	**11,975**	**0.00**	**11,975**	**11,975**
Amounts receivable for sales	**724**	**0.00**	**724**	**724**
Amounts payable for purchases	**(324)**	**0.00**	**(324)**	**(324)**
Margin Cash	**16,803**	**0.00**	**16,803**	**16,803**
Total	**5,228,115**		**6,197,635**	**4,258,595**

Asset Type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	86,099	0.00	86,099	86,099
Investment portfolio assets:				
UK Equities	33,301	25.80	41,893	24,709
Overseas Equities	216,693	22.00	264,365	169,021
Global Pooled Equities inc UK	4,360,811	22.00	5,320,189	3,401,433
Bonds incl Bond Funds	604,625	6.20	642,112	567,138
Property Pooled Funds	257,690	9.80	282,944	232,436
Private Equity	101,804	26.20	128,477	75,131
Infrastructure Funds	48,211	28.60	61,999	34,423
Net derivative assets	3,122	0.00	3,122	3,122
Investment income due	17,028	0.00	17,028	17,028
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(1,373)	0.00	(1,373)	(1,373)
Margin Cash Liability	(4,533)	0.00	(4,533)	(4,533)
Total	5,723,478		6,842,322	4,604,634

Notes to the Pension Fund Accounts continued

18a. Market risk continued

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposures to interest rate movements as at 31 March 2020 and 31 March 2019 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2020 £'000**	31 March 2019 £'000
Cash and cash equivalents	131,959	80,526
Cash Balances	3,068	5,573
Bonds		
– Directly held securities	339,055	363,728
– Pooled Funds	444,566	240,897
Total	**918,648**	**690,724**

Interest rate risk – sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A one percent movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than one percent from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- one percent change in interest rates:

	Carrying amount as at 31 March 2020	**Change in year in the net assets available to pay benefits**	
Asset Type	**£'000**	**+1% £'000**	**(1% £'000**
Cash and cash equivalents	**131,959**	**0**	**0**
Cash Balances	**3,068**	**0**	**0**
Bonds			
– Directly held securities	**339,055**	**(3,391)**	**3,391**
– Pooled Funds	**444,566**	**(4,446)**	**4,446**
Total change in assets available	**918,648**	**(7,836)**	**7,836**

	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
Asset Type	£'000	+1% £'000	(1%) £'000
Cash and cash equivalents	80,526	0	0
Cash Balances	5,573	0	0
Bonds			
– Directly held securities	363,728	(3,637)	3,637
– Pooled Funds	240,897	(2,409)	2,409
Total change in assets available	690,724	(6,046)	6,046

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 100 bps increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than GBP, the functional currency of the Fund. Most of these assets are not hedged for currency risk and the Fund is exposed to currency risk on these financial instruments. However, a significant proportion of the investments managed by Goldman Sachs Asset Management and all investments in the CQS Fund are hedged for currency risk through forward currency contracts.
The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2020 and 2019:

Currency exposure – asset type	Asset value 31 March 2020 £'000	Asset value 31 March 2019 £'000
Overseas Equities	**207,298**	216,693
Overseas Pooled Funds	**2,623,144**	2,807,551
Overseas Bonds	**0**	6,577
Overseas Private Equity, Infrastructure and Property funds	**154,618**	122,156
Non GBP Cash	**9,123**	15,287
Total overseas assets	**2,994,183**	**3,168,264**

Currency risk – sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2019-20 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset value as at 31 March 2020 £'000	Change to net assets available to pay benefits +7.1% £'000	Change to net assets available to pay benefits (7.1%) £'000
Overseas Equities	**207,298**	**222,016**	**192,580**
Overseas Pooled Funds	**2,623,144**	**2,809,387**	**2,436,901**
Overseas Bonds	**0**	**0**	**0**
Overseas Private Equity, Infrastructure and Property funds	**154,618**	**165,596**	**143,640**
Non GBP Cash	**9,123**	**9,771**	**8,475**
Total change in assets available	**2,994,183**	**3,206,770**	**2,781,596**

Currency exposure – asset type	Asset value as at 31 March 2019 £'000	Change to net assets available to pay benefits +7.1% £'000	Change to net assets available to pay benefits (7.1%) £'000
Overseas Equities	216,693	232,078	201,308
Overseas Pooled Funds	2,807,551	3,006,887	2,608,215
Overseas Bonds	6,577	7,044	6,110
Overseas Private Equity, Infrastructure and Property funds	122,156	130,829	113,483
Non GBP Cash	15,287	16,372	14,202
Total change in assets available	3,168,264	3,393,211	2,943,317

Notes to the Pension Fund Accounts continued

18b. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Derivative contracts are also covered by margins which provide collateral against risk of default by the counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 2020 £'000	Balance as at 31 March 2019 £'000
Money Market Funds			
Northern Trust Sterling Fund	**AAAm**	**9,002**	7,442
SSGA Liquidity Fund	**AAAm**	**2**	19
Blackrock ICS	**AAAm**	**65**	0
Blackrock USD Government Liquidity Fund	**AAAm**	**17**	6,222
Aberdeen Sterling Liquidity Fund	**AAAm**	**18,619**	3,750
Goldman Sachs Liquid Reserve Government Fund	**AAAm**	**17,523**	12,014
Aviva Investors Sterling Liquidity Fund	**AAAm**	**42,348**	14,996
Federated (PR) Short-term GBP Prime Fund	**AAAm**	**10,001**	0
Deutsche Managed Sterling Fund	**AAAm**	**9,294**	15,004
HSBC Global Liquidity Fund	**AAAm**	**5,963**	33
LGIM Liquidity Fund	**AAAm**	**7,161**	14,992
Insight Sterling Liquidity Fund	**AAAm**	**3,143**	16
		123,138	74,488
Bank Deposit Accounts			
NatWest SIBA	**BBB+**	**0**	8
		0	8
Bank Current Accounts			
NatWest Current Account	**BBB+**	**30**	53
NatWest Current Account – Euro	**BBB+**	**39**	4,146
NatWest Current Account – USD	**BBB+**	**0**	732
Northern Trust – Current Accounts	**AA-**	**9,767**	3,939
Barclays – DTZ client monies account	**A*+**	**2,053**	2,733
		11,889	11,603
Total		**135,027**	86,099

18c. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. The Council has immediate access to the Fund's money market fund and current account holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk
The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2013 (as amended), the Fund is required to obtain an actuary's funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019.

The key elements of the funding policy are:
– To ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment.
– To ensure employer contribution rates are as stable as possible.
– To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
– To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so.

At the 2019 valuation a maximum deficit recovery period of 14 years (2016-17 years) is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

In the 2019 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £6,193m and the liabilities were £6,322m. The assets therefore, represented 98% (2016 - 89%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has increased from 20.9% to 21.1% of pensionable salaries in 2020-21 and to 21.2% in 2021-22 and 21.3% in 2022-23. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow new entrants. These methods assess the costs of benefits accruing to existing members during the remaining working lifetime, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

The 2019 actuarial assumptions were as follows:		
Valuation of Assets:		assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)		4.7% p.a.
Rate of general pay increases:	Long term	3.6% p.a.
	Short term	N/A
Assumed pension increases		2.6% p.a.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

Actuarial present value of promised retirement benefits	**31 March 2020 £m**	31 March 2019 £m
Present value of promised retirement benefits	**(9,099.7)**	(9,300.5)
Fair value of scheme assets at bid value	**5,716.9**	6,218.2
Net liability	**(3,382.8)**	(3,082.3)

Notes to the Pension Fund Accounts continued

The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 62.8% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used:	% p.a.
Salary increase rate	2.95%
Inflation/Pensions increase rate	1.95%
Discount rate	2.35%

In December 2018 the Court of Appeal passed the McCloud judgement, which relates to age discrimination in relation to judges and firefighters pensions. Although the case only relates directly to these two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. Whilst there is uncertainty of how this judgement may affect LGPS members' past or future service benefits CIPFA has suggested that local authorities should consider the materiality of the impact. Our actuaries have used GAD's analysis to calculate the likely additional costs and have based it on all members who were active at 31 March 2012 until their retirement. This exercise has estimated the aditional costs to be 0.7% of the Fund's liabilities and these have been included in the total liabilities of the Fund.

21. Current Assets

	31 March 2020 £'000	31 March 2019 £'000
Debtors		
– Contributions due – Employees	4,160	4,055
– Contributions due – Employers	13,791	12,690
	17,951	16,745
Sundry Debtors	13,606	9,219
Total Debtors	**31,557**	25,964
Cash	**3,068**	5,573
Total Current Assets	**34,625**	31,537

22. Current Liabilities

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
– Benefits Payable	12,039	10,472
– Sundry Creditors	8,858	7,994
Total Current Liabilities	**20,897**	18,466

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company.

23. Additional Voluntary Contributions (continued)

These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Utmost Life	Equitable Life
	2019–2020 £'000	2018–2019 £'000	**2019–2020 £'000**	2018–2019 £'000	**2019–2020 £'000**	2018–2019 £'000
Value at 1 April	**8,636**	8,480	**2,017**	2,087	**424**	534
Value at 31 March	**8,416**	8,636	**1,736**	2,017	**423**	424
Contributions paid	**1,305**	1,633	**114**	110	**1**	1

During the year, investments with Equitable LIfe were transferred to Utmost Life and Pensions following a transfer of business by Equitable Life.

24. Related Party Transactions

The Kent Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2019–2020 £'000	2018–2019 £'000
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	**71,025**	71,127
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	**3,892**	3,409
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	**(823)**	(4,683)

Key management personnel
The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2019-20 was the Director of Finance.

Total remuneration payable to key management personnel is set our below:

	31 March 2020 £'000	31 March 2019 £'000
Salary	**137**	97
Allowances	**4**	4
Other	**0**	5
Employer's pension contributions	**39**	20
Total	**180**	126

The remuneration for the current year was lower in the previous year as the position of the Director of Finance was vacant for part of the year.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2020 totalled £564.4m (31 March 2019: £352.5m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

44 admitted body employers in the Kent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

Post Pool Reporting

The Pension Fund transitioned one mandate into the ACCESS pool during the year.

The Fund's assets pooled and non-pooled are as under:

Pooled (ACCESS)		
Fund Manager	**Asset Class**	**£'000**
Baillie Gifford	Global Equities	1,122,058
Schroders	UK Equities	770,263
M&G	Global Equities	298,971
Ruffer	Absolute Return	71,377
Total Pooled		**2,262,669**

Pooled Governance		
Fund Manager	**Asset Class**	**£'000**
UBS	UK Equities	274,984
UBS	Global Equities	302,407
Total Pooled Governance		**577,391**

Non-Pooled		
Fund Manager	**Asset Class**	**£'000**
Baillie Gifford	Global Equities	1,406
Schroders	Fixed Income	216,010
Schroders	Global Equities	250,109
DTZ	Property	529,174
Goldman Sachs	Fixed Income	368,288
Link Fund Solutions (formerly Woodford)	UK Equities	35,704
BMO (Pryford)	Absolute Return	415,074
Sarasin	Global Equities	246,207
Fidelity	Property	130,671
Kames	Property	47,176
Impax	Global Equities	43,028
Partners Group	Infrastructure	60,157
Harbourvest	Private Equity	94,199
M&G	Property	65,210
M&G	Fixed Income	120,134
YFM	Private Equity	35,508
CQS	Fixed Income	108,422
Kent County Council Investment Team	Cash	96,613
Total Non-Pooled		**2,863,090**
Grand Total		**5,703,150**

For 2019-20 the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below:

Pool Set up Costs	**2019–2020 £'000**	Cumulative £'000	ACCESS
Strategic & Technical Advice	**0**	56	614
Legal	**0**	37	409
Project Management	**0**	53	588
ACCESS Support Unit	**0**	0	3
Other	**0**	19	210
Total	**0**	**166**	**1,824**
Transition costs		**363**	

The Pooled ACS was operational in 2017-18 and all set up costs were incurred prior to that, so no costs attributable to set up for 2019-20.

Pooling has enabled the funds to obtain fees and cost savings. In the past few years, pooling has enabled individual funds to negotiate lower fees as well as to do joint procurements such as for the UBS passive mandates. From 2018-19, bulk of the savings are anticipated to be achieved through pooling in ACCESS funds.

The fund's costs and net fee savings since inception of the pooling project are as follows:

	2015–2016 £'000	2016–2017 £'000	2017–2018 £'000	2018–2019 £'000	**2019–2020 £'000**	Cumulative £'000
Set up costs	6	80	80	–	**–**	166
Pooling ongoing costs				137		137
Transition costs	–	–		363	**–**	363
Fee savings	26	242	776	1,436	**1,596**	4,024
Net savings	32	162	696	936	**1,596**	3,359

The investment managers are paid ad valorem fees on the assets under their management. As a result, the fees in absolute terms goes up as the investments appreciate in value. Compared to 2015, the Funds investment management fees was lower by £2.8m. Of this the decrease attributable to the fall in Fund value was £1.2m. However, with fees negotiations and pooling the Fund achieved a saving of £1.6m during this period.

For 2019-20, the ongoing costs of the investments broken down between pooled and non-pooled assets are detailed below. These costs have been compiled from information provided by the fund managers who have signed up to the LGA cost transparency code.

	Asset Pool			**Non Asset Pool**			**Total Fund**
	Direct £'000	Indirect £'000	Total £'000	Direct £'000	Indirect £'000	Total £'000	Total £'000
FM Fees	72	6,599	6,671	5,844	9,204	15,048	21,719
Pool shared (ASU)	87	0	87	0	0	–	87
Transaction costs	N/A	1,717.00	1,717	381	2,827	3,208	4,925
Other ongoing charges	N/A	470.00	470	N/A	1,239	1,239	1,709
Other – pooled fund costs	N/A	N/A		N/A	N/A		
Total			8,945	13,287	14,845	19,495	28,440

The fund's performance broken down into pooled and non-pooled assets is as below:

Asset Category	**Opening Value** £'000	% of total fund	**Closing Value** £'000	% of total fund	**1 Yr Performance** %	**Benchmark** %
ACCESS Pooled Investments						
UK Equity	958	16.8	770	13.5	(19.57)	(19.37)
Global Equity	1,657	29.1	1,421	24.9	(3.26)	(6.74)
Absolute Return			71	1.3		
Total Pooled Assets	**2,615**	**45.9**	**2,263**	**39.7**		
Under Pooled Governance						
UK Passive Equity	336	5.9	275	4.8	(18.2)	(18.5)
Global Passive Equity	318	5.6	302	5.3	(5.0)	(5.0)
Total Under Pooled Governance	**654**	**11.5**	**577.4**	**10.1**		
Assets Outside of the ACCESS Pool						
UK Actively managed Equity	260	4.6	36	0.6	(28.0)	(18.5)
Global Actively managed Equity	594	10.4	539	9.5	(7.8)	(7.0)
Property	757	13.3	772	13.5	1.1	0.3
Infrastructure	48	0.8	60	1.1	6.4	0.6
Private Equity	102	1.8	130	2.3	16.3	0.6
Cash	68	1.2	97	1.7	0.8	0.6
Absolute Return	492	8.6	415	7.3	(2.1)	7.7
Fixed Income	615	10.8	813	14.3	7.0	2.5
Total Non-Pooled Assets	**2,936**	**51.5**	**2,862**	**50.2**		
Grand Total	**6,205**	**108.8**	**5,702**	**100.0**		

1 year performance is not available for absolute return in ACCESS pooled investments as they were pooled only for part of the year.

Independent Auditor's report

Independent auditor's report to the members of Kent County Council on the consistency of the pension fund financial statements included in the Pension Fund Annual Report.

Opinion

The pension fund financial statements of Kent Pension Fund (the 'pension fund') administered by Kent County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 25 July 2019.

Head of Finance Operations (Acting Deputy s151) responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Head of Finance Operations (Acting Deputy s151) of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Dossett
Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
21 August 2019

Kent County Council Superannuation Fund Report and Accounts

For the year ended 31 March 2019

Kent County Council
kent.gov.uk

DRAFT

Grant Thornton

The Audit Findings for Kent Pension Fund

Year ended 31 March 2020

29 September 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Pension Investments team have all been working from home since the outbreak of the pandemic, however they have been able to continue with business as usual, as they have been able to access systems and complete meetings on-line. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit plan in July 2020. In that plan we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. The audit has, and continues to be delivered remotely.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed on site/remotely during July-September. Our findings are summarised on pages 4 to 11. We have identified 1 adjustment to the financial statements that have resulted in a reclassification adjustment to the Pension Fund's reported financial position. The finance team amended the draft accounts for a valuation received after they were produced. Audit adjustments are detailed in Appendix A. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix B) or material changes to the financial statements, subject to the following outstanding matters; • receipt of management representation letter – see appendix C; • receipt and review of the final Annual Report; • completion of or review of derivatives; • completion of our internal review procedures; and • review of the final set of financial statements. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting property investments valuation material uncertainties.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the Pension Fund team and other staff during these unprecedented times.

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Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

In our Audit Plan, we identified a financial statement risk relating to the Covid-19 pandemic are currently completing additional procedures to review how the Pension Fund has addressed the impact of this, it's working arrangements, and we have also considered the impacts on the year-end investment valuations. As part of our review we consider whether suitable disclosures have been prepared in relation to Covid-19.

Conclusion

Our work is substantially complete ongoing and there are no matters of which we are aware that would require material changes to the financial statements at present.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been updated from those reported in our audit plan as the planning materiality was based on prior year financial statements and we have updated these on receipt of the draft financial statements..

	Pension Fund Amount (£k)
Materiality for the financial statements	57,000
Performance materiality	39,900
Trivial matters	2,850

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Covid–19**	**Auditor commentary .** We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 May 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. There are no issues to bring to your attention. The accounts disclose a material valuation uncertainty in relation to property investments. We have considered in the significant risk for investments on page 6.
2	**The revenue cycle includes fraudulent transactions (rebutted)**	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted. Therefore we do not consider this to be a significant risk for Kent Pension Fund. Our audit work has not identified any issues in respect of revenue recognition.
3	**Management override of controls**	**Auditor commentary** We have undertaken work to: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of Level 3 Investments (Annual revaluation)**	**Auditor commentary** We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and the custodian • for all but one of the Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and either agreed these to the fund manager reports at that date or used the March valuation and adjusted for transactions to reconcile to the audited accounts. No audited accounts were available for the LF Woodford Equity Income Fund (now renamed Link Equity Fund); • evaluated the competence, capabilities and objectivity of the fund manager as valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available reviewed investment manager service auditor report on design effectiveness of internal controls. With regards the Woodford Equity Income Fund, we reviewed the accounting for movements in the investment and the year end valuation. We agreed the transactions and performed an evaluation of the fund manager as a management expert for the purposes of valuation. We have considered the work being undertaken as a result of the internal audit report produced following the suspension of the fund in June 2019 and we were provided with an update on progress against the internal audit recommendations by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. We will be following up on the outcome of this review as part of our 2020/21 audit. Addressing the recommendations of the Internal Audit Review , and any that follow the governance review are , in our view a key priority that needs to be addressed in 20/21 where appropriate. There are no further issues to bring to your attention.

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Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	**Valuation of Directly Held Property (Level 2 Investment) Annual valuation**	**Auditor commentary** We have undertaken work to: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm or investment manager the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records Our **Findings** The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. This also covers the same uncertainty in relation to the valuation of pooled property investments. The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

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Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Officers have a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.	• As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern” (ISA (UK) 570). • Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We have reviewed management's assessment of the going concern assumption and any material uncertainties, and evaluated the disclosures in the financial statements.
Work performed	**Auditor commentary**
Management have prepared the financial statements on a going concern basis.	• We have not identified any material uncertainty about the Fund’s ability to continue as a going concern.

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	The Pension Fund has investments in "hard to value" funds that in total are valued on the balance sheet as at 31 March 2020 at £231.45m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management, fund managers and the custodian use other means to assess the value, e.g. audited accounts. The value of the investments in this category has increased by £81.39m in 2019/20.	We have: • Relied on the fund manager as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; • Compared latest audited accounts for investments, where available., and considered the level of amendments between the audited figures and valuations for the same period; • Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; • Tested the valuation by re-performing the basis of the valuation; and • Reviewed any assumptions used in the calculation. Our work has not identified any issues over the reasonableness of the valuations.	●
Level 2 investment	The Pension Fund have investments with observable inputs that are not quoted investments, that, in total, are valued on the balance sheet as at 31 March 2020 at £3,455.2659m. In order to determine the value, management, fund managers and the custodian use observable market data and other valuation techniques to assess their value. The value of the investments in this category has increased by £92.501m in 2019/20.	We have: • Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; • Reviewed the bass of fund manager valuation where the custodian does not provide an independent valuation; • Evaluated the competence, capabilities and objectivity of management's valuation expert; • Challenged the valuation of directly held property including the use of an auditor's valuation expert • Tested the valuation; and • Reviewed any assumptions used in the calculation Our work has not identified any issues over the reasonableness of the valuations however due to the level of uncertainty in the property market the Fund has disclosed a material valuation uncertainty in relation to pooled property investments and directly held property and we will highlight this as an Emphasis of Matter. See page 7 for more detail	●

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Assessment
- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Actuarial Present Value of Promised Retirement Benefits	The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£3,377m) and the sensitivity of the estimate to changes in key assumptions.	We have: • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • tested the consistency of disclosures with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Our work has not identified any issues over the reasonableness of the Actuarial Present Value of Promised Retirement Benefits.	Green

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Assessment

- Red: We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber: We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow: We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green: We consider management's process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Fund, including specific representations in respect of the property valuations, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests for bank balances. This permission was granted and the request was sent and returned with positive confirmation. • We obtained confirmations from the custodian and fund managers where required, relating to control reports and investment balances.
6	**Disclosures**	• Our review found no material omissions in the financial statements. We are finalising this review to ensure they are fully compliant with accounting standards requirements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. • We are reviewing the draft Pension Fund Annual Report. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Details of fees charged are included below.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Pension Fund audit	37,037	None	N/A – no threats to our independence.
Non-audit related			
IAS19 procedures for other bodies admitted to the pension fund	11,000	None	N/A – no threats to our independence. Audit fee is only a small percentage of the total audit fee.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

Action plan

Assessment	Issue and risk	Recommendations
High	Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of the 2020/21 audit.	We will revisit this risk as part of he 2020/21 audit to review the actions taken in response the internal audit report recommendations. **Management response** Progress on implementing the actions recommended by Internal Audit has been impacted by Covid 19. However a number have been implemented and an external consultant appointed to undertake a review of the governance of the Fund and the finance resources allocated to the management and administration of the Fund. Internal Audit will do a follow up once this review is complete.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted unadjusted misstatements

There are no adjusted or unadjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2020.
The client adjusted the accounts following receipt of the final valuation for one of the Level 3 investments.

Misclassification and disclosure changes

During the audit we requested that the derivative assets were reclassified to liabilities rather that included as a negative asset.
There are no significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

Provided separately

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DRAFT

Management letter of representation

Provided separately

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Direct Dial: 03000 415270
Date:

Dear Sirs

Local Government Pension Scheme (LGPS) - Response to consultation: Amendments to the Statutory Underpin

Name	Barbara Cheatle
Position	Pensions Manager
Organisation	Kent Pension Fund
Address	As above
Email	Barbara.cheatle@kent.gov.uk
Telephone Number	03000 415270

I write in response to the Department’s consultation on amendments to the statutory underpin which commenced in July 2020.

As agreed by the Scheme Advisory Board we have referenced some of their responses to the consultation in answer to some of the questions.

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?

Yes. To avoid discrimination all scheme members need to be treated equally and therefore the fairest way is to extend the underpin to younger scheme members.

Question 2 – Do you agree that the underpin period should end in March 2022?

Yes. In order to obtain the benefits of changing the LGPS to a Career Average Revalued Earnings (CARE) scheme.

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

Yes. This does seem the obvious date as this was the date of the introduction of the CARE scheme however by making the regulations retrospective to 1 April 2014 it needs to be acknowledged that this will lead to administrative complexities and heavy additional workloads for both employers and administrators as outlined in the consultation paragraphs 134-136.

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Partially. There are outstanding issues requiring further clarification such as the impact on pension sharing orders, scheme pays debits and the default regarding missing data. Also technical issues detailed in Annex A.

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Yes. The draft regulations provide a framework however the changes are so complex that clear communications will be needed in respect of all parties. To implement the changes by April 2022 will involve huge amounts of extra work for administrators, employers and pension administration system providers in order to collect the data required and that correct calculations can be made.

Question 6 – Do you have other comments on technical matters related to the draft regulations?

Our comments on technical matters related to the draft regulations concur with those highlighted by the Scheme Advisory Board and are at Annex A.

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

Yes. A requirement for members to have an immediate entitlement to a pension to receive the underpin protection would not remove discrimination.

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

It is possible that members who joined the scheme between 1 April 2012 and 31 March 2014, and therefore have membership based on final salary may challenge why they are not included in the remedy.

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

Yes. If this were to be extended to multiple periods of unaggregated membership it would be inconsistent with other aspects of the scheme and would add to the complexity.

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

Yes. With the understanding that communicating this option to scheme members who have previously decided not to aggregate periods of membership will be problematical and as with all option exercises may lead to appeals in the future.

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

We consider that the proposals would not have a 'significant adverse effects' however may affect scheme members that are unable to aggregate, e.g. concurrent members leaving membership on same day, members who opted out on or after 11 April 2015 etc

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

No comments

Question 13 – Do you agree with the two-stage underpin process proposed?

Yes. Although we believe that the 2 stage underpin process is necessary in order that a true comparison of final salary and CARE benefits takes place member communication at the underpin date of the provisional assessment with no adjustment to the member's benefits at that time will be complex.

Question 14 – Do you have any comments regarding the proposed approaches outlined? and
Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

Technical issues regarding the proposed approaches are included in Annex A.
Regarding paragraphs 65-102:

Para 66 Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.
As the Pensions Regulator asks for annual benefit illustrations to be more succinct and easily understandable is this necessary as will be complex to provide and very difficult to explain the provisional assessment.

Para 67 This implies that for those qualifying members that remain in the scheme beyond their 2008 scheme NPA date that at the underpin date a comparison of their benefits will be triggered and the member will be informed of the results of the comparison with the information that a further check will be undertaken when they reach their underpin crystallisation date. This will incur additional work in obtaining their pay details from their employer at their 2008 scheme NPA date, carrying out calculations and explaining the reason for the comparison at that date when the final comparison will not be undertaken until they leave.

Para 71 As for response to Para 66 question as to whether this information really is necessary on deferred benefit annual illustrations**.**

Annex A

Question 6 – Do you have other comments on technical matters related to the draft regulations?

Amended regulation 89 of the LGPS 2013 Regulations

*See also comments on ABS in answer to questions 16 and 17.
1) Inserted regulations 89(5) and 89(7) refer to 'a 2008 Scheme normal retirement age', which is not defined in the 2013 regulations. Therefore, it might be helpful to include a definition of the term in the 2013 Regulations.

2) Inserted regulation 89(5) to (10) will come into force on the same date that the Amendment regulations take effect. The Amendment regulations do not specify the first scheme year that the annual benefit statements (ABS) will need to include the additional information. For example, if the regulations come into force on 30 June 2021, will the requirements apply to the ABS for active members in relation to Scheme year 2021/22 or 2020/21? It would be helpful to set this out in the regulations.

3) An active member who has taken benefits in relation to the relevant scheme membership on flexible retirement does not have any further underpin/crystallisation dates. However, the wording of inserted regulations 89(5) and 89(7) would still capture these cases and thus administering authorities would need to provide the additional information on the benefit statements following the flexible retirement. This outcome does not appear intended. We would suggest that an amendment is made to inserted regulations 89(5) and 89(7) explicitly excluding active members who have drawn their benefits in relation to the relevant scheme membership on flexible retirement. Consideration will need to be given as to what to show on an ABS for a member who has taken partial flexible retirement.

4) Regulation 89 of the 2013 Regulations assumes that each statement relates to a Scheme year. The statement relating to a Scheme year must then be issued no later than five months after the end of the Scheme year. The wording does not bar the statement being issued before the end of the relevant scheme year. When it comes to statements for deferred members, most administering authorities will issue the statement including the latest pensions increase (PI) Order. This means that the statement includes up-to-date figures at the point of issue. However, it is not always clear whether the statement 'relates' to the previous Scheme year or the Scheme year in which the statement is given. Currently, as long as the statement is issued before the end of 31 August following the end of the previous Scheme year, it doesn't matter. However, inserted regulation 89(6) says that the underpin figures shown on the statement must include the index adjustment to the end of the Scheme year to which the statement relates. If this becomes law, administering authorities will need to understand what scheme year the deferred statement relates to. For example –

- If the ABS relates to the previous Scheme year, the underpin figures would need to be revalued to the end of the previous Scheme year (so, will not include the PI applying in the April between the end of the Scheme year and the date of issuing the statement). If the administering authority includes the latest PI in the other figures, the underpin figures will be a year behind the main figures.
- If the ABS relates to the Scheme year in which the statement is issued, the underpin figures will need to be adjusted to the end of the Scheme year (so, will include the latest PI). In this case, the deadline for the statement would be the following August.

5) Inserted regulation 89(6) says that the provisional underpin amount and provisional assumed benefits, calculated at the underpin date, must be adjusted by the appropriate index rate adjustment to the end of the scheme year to which the statement relates. However, in the year the member leaves the Scheme the provisional assumed benefits should be treated like CARE benefits and will be due a revaluation adjustment (including the tweak to avoid double indexation) for the period from the beginning of the Scheme year to the underpin date – this will be applied on 1 April following the Scheme year in which the member leaves or reaches their 2008 scheme normal pension age. They will also be due part year PI for the period from the underpin date to the end of the Scheme year.

We recommend that the wording is amended to reflect the final part year revaluation adjustment that applies in the year of leaving.

6) The wording in regulation 89(6) also suggests that you revalue the ‘provisional guarantee amount’ from the underpin date to the end of the relevant Scheme year. This assumes that the difference between the provisional assumed benefits and the provisional underpin amounts remains the same over time. But this may not be true. For example, in the year of leaving, the provisional assumed benefits will be due the revaluation adjustment (including the tweak) for the period from the previous 1 April to the date of leaving and then PI thereafter. The provisional underpin amount will be due PI between the underpin date and the end of the relevant Scheme year. Therefore, the gap between the two amounts may change. We recommend that the ‘provisional guarantee amount’ should equal the difference between the provisional underpin amount and provisional assumed benefit amounts as at the end of the relevant Scheme year (or £nil where the assumed benefits are more than the underpin amount).

7) Regulation 89(7) provides that, in relation to active members who have met their 2008 Scheme NPA, the provisional underpin amount and provisional assumed benefits should be revalued to the end of the Scheme year to which the statement relates. It does not set out how this should be done. We assume that the provisional underpin amount is increased by pensions increase; however, it is unclear how the provisional assumed benefits are increased. Do these continue to receive revaluation adjustment after the underpin date while the member is an active member, with part year revaluation adjustment (the tweak) applying on 1 April following the date of leaving and then PI from the date of leaving? Or does the revaluation adjustment apply to the provisional assumed benefits up to the underpin date (with tweak applied on 1 April following the underpin date) and PI thereafter?

8) The wording in regulation 89(7) also suggests that you revalue the ‘provisional guarantee amount’ from the underpin date to the end of the relevant scheme year. This assumes that the difference between the provisional assumed benefits and the provisional underpin amounts remains the same over time. But this may not be true. For example, the provisional assumed benefits will be due further revaluation adjustments, as described above. The provisional underpin amount will be due PI between the underpin date and the end of the relevant scheme year. Therefore, the gap between the two amounts may change. We recommend that the ‘provisional guarantee amount’ should equal the difference between the provisional underpin amount and provisional assumed benefit amounts as at the end of the relevant scheme year (or £nil where the assumed benefits are then more than the underpin amount).

Draft regulation 6
New regulation 4(1B) of the Transitional Regulations 2014

9) Inserted regulation 4(1B) does not appear to cover members who leave and re-join without a break. This could be interpreted as meaning that such a member would meet the requirements of regulation 4(1)(a) to (c) even if they do not aggregate their benefits which would not deliver the policy intent.

10) Inserted regulation 4(1B) says that a member who has had a break in service/concurrent employment ‘only has’ a relevant scheme membership if the benefits containing 31 March 2012 membership are aggregated with the 2014 CARE account. This wording appears to cause problems where the member was active on 31 March 2012, left after 31 March 2014 with a deferred benefit or pension and later re-joins. In this case, at the point of originally leaving, the member had relevant scheme membership. But the member has had a break in service. Which means that the member only has relevant scheme membership if the period including 31 March 2012 has been aggregated to a CARE account as a result of the provisions listed in (a) to (c). In our case, it is true that the benefit including the 31 March 2012 is aggregated to 2014 benefits; however, this was not a result of the provisions listed in (a) to (c). So, if the member does not aggregate (or is not able to aggregate) the original benefit with the new benefit, it would appear that the member can’t have a relevant scheme membership. Where does this leave the original benefit that was considered to be relevant scheme membership?

11) Inserted regulation 4(1B) specifies the regulations under which an aggregation decision must have been made for relevant scheme membership to apply when separate periods are aggregated. We do not think that it is necessary to list the regulations here – it would be enough to say that the period referred to in paragraph 1(a) has been aggregated with their 2014 Scheme pension account. However, we do think these regulations should be listed in relation to 4(1C) and (1D) – see below.

12) If regulation 4(1B) is going to list the regulations under which the aggregation has taken place they will also need to cover the following situations:

- where a member who was active on 31 March 2012 left with a frozen refund, re-joined before 1 April 2014 and then subsequently joined the 2014 scheme by virtue of regulation 5(1) of the Transitional Regulations. This is because the aggregation of the benefits will not be the result of a decision taken under any of the regulations listed.
- a member who was active on 31 March 2012, left with a deferred benefit before 1 April 2014, re-joined on or after that date without a disqualifying break and aggregates under reg 5(5) of the Transitional Regulations.

13) Also, inserted regulation 4(1B) appears to cover a member who was active on 31 March 2012, left with a frozen refund (before 1 April 2014), re-joined on or after that date where the frozen refund was aggregated under regulation 10(5) of the Transitional Regulations. However, it should be noted that ‘no decision’ was required to instigate the aggregation.

New regulation 4(1C) of the Transitional Regulations 2014

14) If regulation 5(5) of the Transitional regulations is inserted in regulation 4(1B), it will also need to be included here.

15) Do the words ‘in respect of the active account or the deferred account’ need to be added after ‘relevant scheme membership’ in regulation 4(1C)(a) as the member may have relevant scheme membership for a different account? This would ensure the effect of the aggregation is to qualify the particular deferred or active account as relevant scheme membership.

New regulation 4(1D) of the Transitional Regulations 2014

16) Again, do the words ‘in respect of the active account or the deferred account’ need to be added at the end after ‘relevant scheme membership’, as the member may have relevant scheme membership for a different account. This would ensure the effect of the aggregation is to qualify the particular deferred or active account as relevant scheme membership.

17) We understand that the account to which previous benefits will be added under the extended aggregation window under inserted regulation 4(1D) should be at deferred or active status. This means that the potential receiving account can't be at pensioner status, frozen refund status, deferred pensioner status or at no status as a result of the benefits being transferred out or trivially commuted. However, it is not clear what status of previous scheme membership can be aggregated under the extended window. The wording of regulation 4(1C) and the previous provisions suggest that the previous membership must have been capable of being aggregated with the active record or the deferred record at some point. We understand that the intention is that the previous membership must be at deferred status at the point of the aggregation (to avoid unwinding pensions in payment). If so, the current wording does not explicitly say that benefits that could have been aggregated to the active/deferred account at some point but have since become pensioner benefits cannot now be aggregated.

18) The regulation does not set out how the aggregation is to be given effect. The regulation needs to be clear that the aggregation is to be treated as if it was done under the aggregation provisions that it could have originally been done under. This will then make it clear what benefits are being bought on aggregation eg CARE or final salary and that a transfer payment is due if the benefits are being aggregated with a different fund.

19) The current wording of inserted regulation 4(1D) would allow certain members to take advantage of the extended aggregation window, when we do not believe that it is the intention for them to be able to do so:

- We understand that the intention is not to allow members to use the extended window to aggregate benefits with benefits that are in payment. However, there is a potential case where this could be possible. This applies where the member, in relation to membership that is not relevant scheme membership, has taken flexible retirement and is still an active member on the date the regulations come into force – this member holds a separate period of membership that includes 31 March 2012. In this case, the member could use the extended window to combine the separate period of membership with the new period of membership. The flexible retirement calculation would then need to be recalculated, taking into account both the newly acquired underpin protection and the aggregated period of membership.
- A member on 31 March 2012 who left after that date and re-joined after their 2008 scheme normal pension age (NPA) would be given the opportunity to aggregate their earlier benefits with their ongoing pension account. As the more recent period of membership does not include any benefits built up before 2008 scheme NPA, those benefits would not attract underpin protection.

20) We believe that the intention is for an extended opportunity to aggregate to be offered to those members who would benefit from underpin protection on a pension record if the aggregation were to take place. We believe a change of wording is required to ensure that the extended opportunity to aggregate is not offered to those members to whom this does not apply.

21) What happens where there are multiple records? For example, where the member has one current active/deferred record and multiple records that include 31 March 2012. Can the member use the extended window to aggregate all the records on to the active/deferred record? What about where the member has multiple active/deferred records and a single record that contains 31 March 2012? Can the member aggregate to one of the active/deferred records and then combine that aggregated record onto a further active/deferred record? What about where the member has multiple active/deferred records and multiple records that include 31 March 2012?

Amended regulation 4(2) of the Transitional Regulations

22) We understand that the intention is that the underpin calculation is done at the end of the following, as appropriate:

- last day of active membership
- the day before the member's 2008 NPA
- the day before the member reduces hours/grade for flexible retirement cases
- the date of death.

However, we do not think the wording of the regulation makes this clear. For example, inserted regulation 4(4) says:
'a member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date'.

It is not clear whether the comparison is done at the start of the underpin date (so, not including accrual on the underpin date) or at the end of the underpin date. If it is done at the end of the underpin date, then should the regulations specify that in relation to regulation 4(2)(a) the underpin date is the day before the member attains NRA in the 2008 Scheme? If clarification is provided on the above point, consideration will be needed as to how that then interacts with the notional underpin date of 31 March for the purposes of annual benefit statements.

23) Also, in relation to flexible retirement, it would be more appropriate for the regulations to specify the underpin date is the day before the member reduces their hours /grade, as the date the member elects to receive immediate payment will, in most cases, not be the date the benefits become payable from.

New regulation 4(2A) of the Transitional Regulations 2014

24) This regulation says:

'(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b)'

We think this should be (2)(a), (2)(b) or (2)(c). This is because the current wording causes confusion for a member whose underpin date is their flexible retirement date but then dies in service before attaining their 2008 Scheme normal retirement age. Under regulation 4(2), the member's underpin date is the flexible retirement date. However, regulation 4(2A) says that the underpin date is the date of death as it is earlier than the date of leaving or the date the member attained their 2008 Scheme normal pension age.

Amended regulation 4(5)(a) of the Transitional Regulations 2014

25) It would be helpful if the regulation made it clear that the period is 1 April 2014 to 31 March 2022 inclusive.

Amended regulation 4(5)(b) of the Transitional Regulations 2014

26) The use of ‘between’ before 1 April 2014 suggests that the remedy period does not include 31 March 2022 or the underpin date. Again, it would be helpful if the regulation made it clear the period is inclusive of the start and end dates.

27) This regulation sets out that additional contributions paid by the member are to be disregarded when working out the provisional assumed benefits other than contributions paid to cover a period of absence from work with no pensionable pay. It does not set out that additional contributions paid by the employer should also be disregarded (other than contributions to cover absence/leave).

28) There is an issue where a member pays additional contributions to buy lost pension to cover a period of absence from work with no pensionable pay if the period of leave occurs during the remedy period but some or all of the additional contributions are paid after the remedy ends, or after the member attains their 2008 normal pension age. The lost CARE pension is credited in the Scheme year it is paid for, meaning that the whole period will be counted for the underpin amount but not for the assumed benefits. To ensure a fair comparison the lost pension purchased should be included in the assumed benefits, although this would pose problems in reassigning lost pension acquired after the remedy period into a scheme year during the remedy period.

29) The above will also be an issue where an absence spans the period before and after the remedy period.

30) This regulation sets out that AVCs paid by the member are to be disregarded when working out the provisional assumed benefits. It also needs to set out that AVCs paid by the employer should also be disregarded.

Amended regulation 4(5)(d) of the Transitional Regulations 2014

31) Where a member aggregates previous LGPS final salary benefits and those benefits are converted to CARE benefits on aggregation we understand the resulting CARE benefits should be excluded from the calculation of provisional assumed benefits. We do not think the regulations deliver this. We recommend including a provision that explicitly disregards the transferred in CARE benefits in this circumstance.

Regulation 4(5)(f) of the Transitional Regulations 2014

32) Regulation 4(5)(f) and corresponding 4(6)(f) provide that, for the purpose of calculating the provisional assumed benefits and the provisional underpin amount, the active member’s account at the underpin date, should be adjusted to take account of any pension debit or Scheme pays election the member has made.

▪ As the debits are deducted equally from both the provisional underpin amount and provisional assumed benefits, we think the same outcome could be achieved by not taking making the adjustment. This would be simpler from an administrative point of view. It would also avoid the potential situation where a member’s calculated provisional assumed and underpin benefits are negative. This could happen where the member has a large transfer in from another pension arrangement and is subsequently subject to a pension sharing order. Because a transfer in is ignored in the calculation of the provisional underpin amount and provisional assumed benefits, but the pension debit is not, the resulting benefits could be negative.

If pension debits are kept in the calculation of the provisional assumed and underpin amounts, MHCLG will need to consider whether the pension debit will need to be recorded separately for the remedy period. This will be necessary if the CARE benefits calculated with reference to the provisional underpin amount and the provisional guarantee amount are awarded an NPA of 65, as is the case under the current regulations.

Amended regulation 4(6) of the Transitional Regulations 2014

33) The draft regulation reads:

‘The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if-‘
The word ‘immediate’ should be removed to deliver policy intent.

Amended regulation 4(6)(a) of the Transitional Regulations 2014

34) Again, it would be helpful if the regulation made it clear the period is inclusive of the start and end dates.

Regulation 4(6)(b)(ii) of the Transitional Regulations 2014

35) The wording of this regulation suggests that where the APC contract is not completed (or deemed to be completed on a tier 1 or tier 2 ill health retirement) none of the absence/leave period would be included. However, the equivalent provision on the provisional assumed benefits for a case where the APC contract was partially completed would include the additional pension acquired. Therefore, for the sake of a fair comparison, does regulation 4(6)(b)(ii) need to include some of the membership where the APC contract is not completed? This will also require an amendment to regulation 8(4) of the Transitional Regulations and potentially Schedule 2(4)(2)(a)(iii) – 85-year rule.

This issue has been raised before by the national technical group.

36) Where an APC contract is incomplete due to death in service, regulation 16 of the 2013 regulations does not provide for the APC contract to be deemed to be completed, in the way that it does for tier 1 or 2 ill health retirements. The reason for this is that the APC does not feed into death-in-service benefits. However, where a member dies in service, should an incomplete APC contract that was taken out to cover a period of absence from work with no pensionable pay be deemed to be complete for the purposes of the underpin?

Amended regulation 4(6)(b)(iii) of the Transitional Regulations 2014

37) Should this regulation clarify that a member who is eligible under regulation 35 of the 2013 regulations for an ill health pension is also deemed to meet the equivalent conditions in the 2007 Benefit Regulations (i.e. the ill health conditions, the tier 1 or 2 conditions, the conditions where reductions in pay/hours are ignored)?

38) An ill-health enhancement is only added if the provisional assumed benefits include an adjustment under regulation 39 of the 2013 regulations. Therefore, if the member, because of a previous ill-health award, is denied any enhancement under regulation 39, no enhancement would be added under regulation 20 of the 2007 Benefit Regulations to the provisional underpin benefits, notwithstanding that, had the 2007 Benefit Regulations applied at the underpin date, the member potentially would have received an enhancement. Is this intended?

New regulation 4(6A) of the Transitional Regulations 2014

39) The regulation requires a comparison of the enhancements that are worked out under regulation 24(2) of the 2007 Benefit Regulations and 41(4)(b) of the 2013 Regulations. The enhancements under these regulations are worked out using 1/160ths; however, for the purpose of this underpin we think the enhancement should be calculated with reference to the member's benefits i.e. 49ths and 60ths, and then proportioned for the relevant survivor benefit(s) as set out in draft regulation 4(21).

New regulation 4(7) of the Transitional Regulations 2014

40) In relation to the payment of pensions, regulation 4(7)(a) to (c) all represent the first date on which the pension becomes payable; however, 4(7)(f) is different because the crystallisation date is the date a member dies and the survivor pension becomes payable the day after the date of death. Is this intended?

41) In relation to flexible retirement, would it not be more appropriate to set out that the crystallisation date is the date of the relevant reduction in hours or grade, rather than saying 'the date from which the member elects to receive payment?

42) Regulation 4(7)(c) refers to 'an ill-health retirement pension' which is not defined in the regulations. Regulations 35 and 38 refer to a 'retirement pension' so we think the words ill-health could be deleted.

43) Regulation 4(7)(c) - should the wording also include 'entitled to receive payment" to align with the other provisions and to make clear that the crystallisation date is the same as the date from which the pension becomes payable.

44) Regulation 4(7)(d) says that the crystallisation date is the date the member receives payment of a trivial commutation/small lump sum. It would be more appropriate to change the wording to the date the administering authority makes the payment.

45) Regulation 4(7)(e) says that the crystallisation date is the date the member transfers their benefits out. We would suggest that the crystallisation date should align with the date at which the transfer value is worked out (in most cases, the guarantee date), rather than when the member transfers out. If this is accepted, an amendment would need to be made to the wording of regulation 4(17) as the transfer payment would not be due at the crystallisation date (i.e. the guarantee date).

46) This regulation does not cover members whose pension automatically comes into payment on their 75th birthday. In which case, we would assume that the crystallisation date would be their 75th birthday.

New regulation 4(8) of the Transitional Regulations 2014

47) In relation to the possible subsequent events, we don't think that (b) and (e) are possible.

48) What is the policy intent where a tier 3 ill health pension is uplifted to a tier 2 at the 18-month review? Should this be a further underpin date? If it is, you will need to consider that a guarantee amount awarded on the first crystallisation date could be wiped out by the enhanced service awarded when the benefit is uplifted.

49) Also, where a deferred pensioner member received a final guarantee amount at the first crystallisation date, this should be removed from the CARE account when the pension is suspended. Otherwise the member could have two underpin additions in their account after the second crystallisation date.

New regulation 4(9) of the Transitional Regulations 2014

50) We think the regulation should specify that the 'retirement pension account' must be increased by the final guarantee amount. Currently it just says 'pension account'.

51) We think that (4)(7)(d) should also be included here. This relates to trivial commutation and small pot payments. If the final guarantee amount is added to the pension account before commutation takes place it will allow for it to be taken into account for the annual allowance. The proposal to compare the trivial commutation sums of the provisional assumed benefits and the provisional underpin amount and then add the difference to the total accrued rights is administratively cumbersome. It also does not allow for the final guarantee amount to be taken account of in the annual allowance.

New regulation 4(11) of the Transitional Regulations 2014

52) If the member elects for partial flexible retirement, what happens to the percentage of the final guarantee amount not transferred into the flexible retirement account? Should this stay in the active pension account? How should it be revalued? We assume it would receive revaluation adjustment (with tweak) to the day before the flexible retirement benefits become payable and then PI?

New regulation 4(12) of the Transitional Regulations 2014

53) It should be noted that the 'final underpin amount' is not technically payable to the member - it is determined simply for the purposes of the comparison and does not take into account 50/50 membership. We think this regulation only needs to provide that the final guarantee amount is not subject to a further reduction. There is no provision in the regulations to provide a second actuarial adjustment to the CARE benefits calculated with reference to the provisional underpin amount, so we don't see it as necessary.

54) Also, if you state that the CARE benefits calculated with reference to the provisional underpin amount are not further adjusted this will cause an issue with partial flexible retirements, where the benefits not taken could potentially be subject to an adjustment at a later date.

New regulation 4(14) of the Transitional Regulations 2014

55) This regulation provides that the provisional underpin amount is updated to the underpin crystallisation date by applying the pension increases that would have applied under the 2007 Benefit Regulations from the underpin date. This does not cover cases where a previous year's final pay is used and there is no PI date between the underpin date and crystallisation date. In this situation, it appears that no pensions increase would be applied which would be incorrect. Does regulation 4(6) need to provide that where a previous year's pay is used, PI should be included in the provisional underpin amount?

New regulation 4(15) of the Transitional Regulations 2014

56) Paragraph (b) assumes that there are no actuarial reductions applicable to CARE benefits payable on redundancy. However, additional pension purchased to cover a period of absence/leave with no pensionable pay is included in provisional assumed benefits and is actuarially reduced for early payment on redundancy. However, the pension for the equivalent period of membership is not actuarially reduced in the provisional underpin amount (see comments above in response to draft regulation 4(6)(b)(ii)).

New regulation 4(16) of the Transitional Regulations 2014

57) This regulation provides that the provisional underpin amount is updated to the underpin crystallisation date by applying the pension increases that would have applied under the 2007 Benefits Regulations from the underpin date. This does not cover cases where a previous year's final pay is used and there is no PI date between the underpin date and crystallisation date. In this situation, it appears that no pensions increase would be applied which would be incorrect. Does regulation 4(6) need to provide that where a previous year's pay is used, pensions increase should be included in the provisional underpin amount?

New regulation 4(17) of the Transitional Regulations 2014

58) The impact on previously paid trivial commutation lump sums needs to be considered; in particular, what happens if when the final guarantee amount is retrospectively added to the valuation at the nominated date the valuation then exceeds £30,000. It would seem unfair for the trivial commutation payment to be considered as an unauthorised payment retrospectively. The recent HMRC newsletter on GMP equalisation may be helpful in considering issues.

59) Should regulation 7(e)(ii) be excluded on the basis that the value of the bulk transfer payment is decided by agreement between an actuary appointed by the Fund and an actuary appointed by the new scheme.

New regulation 4(20) of the Transitional Regulations 2014

60) As we are revaluing the provisional guarantee amount it will not cover cases where a previous year's final pay is used. Does regulation 4(6) need to provide that where a previous year's pay is used, pensions increase should be included in the provisional underpin amount?

New regulation 4(22) of the Transitional Regulations 2014

61) This regulation provides that the provisional guarantee amount must be used when calculating a death grant under regulation 43(3) and 46(3). We assume this means that any final guarantee amount the pensioner was receiving is excluded; however, we think it would be more appropriate for the final guarantee amount to be used when calculating the death grant for a pensioner.

We think this because the death grant calculation is based on 10 times the amount of pension the pensioner would have been entitled to receive less any amounts of commuted lump sum and pension already paid. The member's pension would have included the final guarantee amount, where appropriate, not the provisional guarantee amount. The provisional guarantee amount is used in the calculation of survivor benefits because survivor benefits are not subject to a reduction. However, this does not apply to death grants

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Investment strategy statement

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of their investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

Kent County Council is responsible for administering the Kent County Council Superannuation Fund under the Local Government Pension Scheme (LGPS) regulations. We have a duty to ensure that scheme funds not immediately required to pay pension benefits are suitably invested, and to take proper advice in the execution of this function. We have delegated these responsibilities to the Superannuation Fund Committee.

The Committee has prepared the Investment Strategy Statement (ISS) in accordance with the guidance on preparing and maintaining an investment strategy statement.
In September 2016, the Department for Communities and Local Government (DCLG) published guidance on preparing and maintaining an Investment Strategy Statement (ISS). This replaces the previous requirement for a Statement of Investment Principles.

The ISS required by regulation 7 must include

- a requirement to invest money in a wide range of investments
- the authority's assessment of the suitability of particular investments and types of investments
- the authority's approach to risk, including the ways in which risks are to be measured and managed
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments, and
- the authority's policy on the exercise of rights (including voting rights) attaching to investments.

As set out in the regulations the ISS will be reviewed at least every 3 years.

Investment strategy

The Kent Fund's (the Fund) primary objective is to ensure that over the long term it will have sufficient assets to meet pension liabilities as they fall due.

In order to achieve this objective the investment strategy seeks to:

- maximise returns for a given level of risk
- ensure liquidity requirements are met at all times
- achieve and maintain 100% funding level
- maintain stable employer contribution rates.

The Fund has had a customised asset allocation for a number of years and has regularly reviewed this in light of valuation results, changes in liabilities and investment cycles.

In 2018, the Superannuation Fund Committee approved a revised asset allocation for the Fund based on a review of its investments strategy that it carried out with the assistance of its investment advisor, Mercer. The Fund's investments are allocated across a range of asset classes with the largest allocation being to equities which also accounts for the majority of the investment risk taken by the Fund.

The Fund's current strategic asset allocation is shown in the table below.

Asset class	Allocation percentage
UK Equities	23.5
Overseas Equities	32.0
Fixed Income	15.0
Property	13.0
Private Equity	4.0
Infrastructure	3.5
Absolute Return	8.0
Cash	1.0
Total	100.0

The Fund has an 84% allocation to growth assets (equities, property, absolute return, private equity and infrastructure) in order to meet the long-term funding assumptions set out in the [2019 actuarial valuation (PDF, 1.1 MB)] and a 16% allocation to defensive assets (bonds and cash) to help manage overall levels of funding volatility.

Over the long term, equities are expected to outperform other liquid asset classes, particularly bonds. Allocations to asset classes other than equities and bonds allow the Fund to gain exposure to other forms of risk premium and can reduce the overall volatility of portfolios. These assets are expected to generate returns broadly similar to equities over the long term and so allocations to these can maintain the expected return and assist in the management of volatility.

Investment management arrangements

All investment management activities are carried out externally and there is no internal management other than of cash flow. The Fund has a policy of appointing specialist managers who are experts in managing specific investment strategies which should help the Fund deliver over different investment cycles.

The current manager structure and the rationale for this is set out in the table below:

Asset Class/Manager	Performance target	Style
UK Equities		
Schroders	Customised UK equity + 1.5%	High concentration
Link	FTSE All Share	Unconstrained (This fund is now winding down)
UBS	FTSE All Share	Tracking
Global Equities		
Baillie Gifford	Customised regional equity + 1.5%	Fixed weight regional equity
Sarasin	MSCI AC World + 2.5%	Thematic
M&G	MSCI AC World + 3%	Dividend growth
Schroders	MSCI AC World + 3-4%	Quantitative value
Impax	MSCI AC World + 2%	Environmental themed
UBS	FTSE World Ex UK	Tracking
UBS	FTSE Emerging Markets	Tracking
Fixed Income		
Schroders	3 months Sterling Libor + 4%	Total return
Goldman Sachs	+3.5-6%	Target return long term hold
CQS	Libor+4%	
M & G	Libor+4%	
Property		
DTZ	IPD Customised Pension Fund Index	Direct UK property
Fidelity	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund open ended
Kames	IPD UK PF All Balanced Property Fund Index	Pooled UK property fund close ended
M&G	IPD UK PF All Balanced Property Fund Index	UK residential property fund
Absolute Return		
Pyrford	RPI + 5%	Low risk equities/fixed income/cash
Ruffer	RPI	Low risk equities/fixed income/cash
Alternatives		

Private Equity - YFM	GBP 7 Day LIBID	Small value direct UK
Private Equity - HarbourVest	GBP 7 Day LBID	Global fund of funds
Infrastructure - Partners Group	GBP 7 Day LBID	Global fund of funds

Risk measurement and management

At four of the Committee's five planned meetings during the year, it reviews the actual investment allocation relative to the agreed asset allocation benchmark as well as individual manager performance and related risks. The Committee has to make its assessment in the context of how it will achieve the required investment return of 5.8% per annum assumed by the Fund actuary.

The Committee engages its investment consultant, Mercer, to assist it with its review and receives quarterly monitoring reports from Mercer as well as reports from officers based on their discussions with investment managers and examination of relevant information.

The Fund maintains a full risk register which is reported to every meeting of the Committee. This covers the full range of risks faced not just investment risks.

The principal investment risks faced are:

Risk	Mitigation
Equity allocation risk	The Fund holds equities in order to achieve higher investment returns however in line with its review of the Fund's asset allocation it is now reducing its exposure to traditional equities to reduce the impact of a material fall in equity markets. The Fund invests in managers with a variety of investment styles.
Asset class concentration risk	The Fund is reducing its allocation to UK equities to reduce concentration risk. It is also seeking to diversify its bond allocation.
Active manager risk	The Committee believes that good active managers will add value to the Fund and it aims to establish long term relationships with managers. Managers of the larger mandates annually attend committee meetings and others have regular meetings with officers.
Inflation risk	Current inflation remains low. The fund invests in equities and property and is increasing its investment in infrastructure to achieve inflation protection.
Exchange rate risk	The Fund is a long-term investor and can withstand short term currency fluctuations. The Fund monitors its overseas investments currency exposure but has not made arrangements to hedge this risk.
Alternative asset classes risk	The Fund is increasing its investments in non-property alternative investments following its review of the strategic asset allocation in 2018. It is monitoring the illiquidity risk arising.
Liquidity risk	The Fund actively manages its cash flows over the short and longer term to ensure liquidity.
Custody risk	The Fund must maintain its beneficial ownership of Fund assets when held in

	custody or trading and it does this through its global custodian. Counterparty risk is mitigated through a robust selection and legal contracting process. Custody risk is reducing as the Fund moves its investments into pooled funds.
Transition risk	The risk of incurring additional costs in relation to the transitioning of assets between external managers is managed through the use of professional advisers and experienced in house staff.
Stock lending risk	The Fund has agreed a stock lending policy for its segregated mandates as well as for its investments in the ACCESS pool. This is a limited programme of stock lending and risk is mitigated by lending to approved counterparties against non-cash collateral mainly comprising of Sovereigns, Treasury Bonds and Treasury Notes.
Regulatory risk	Regulatory risk is predominantly transferred to the externally appointed investment managers who have to meet regulatory requirements. The Fund only manages cash internally and complies with CIPFA and MHCLG requirements in relation to that.
Investment advice risk	The Fund has engaged Mercer as its investment consultant. The Committee regularly considers the effectiveness of the advice given.
Unmatched liability risk	The Fund is diversifying its investment in fixed income strategies which should more closely match the characteristics of the Fund's liabilities.

Asset pooling

The Fund is part of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool. This is a group of like-minded funds valued at £44bn who came together to meet the government criteria for pooling set out in November 2015. The ACCESS funds emphasise retaining as much decision making as possible locally in the exercise of their fiduciary responsibility.

In 2018, Link Fund Solutions contracted with the 11 ACCESS authorities to provide a pooled operator service. Link is responsible for operating an Authorised Contractual Scheme (ACS) along with the creation of investment sub-funds to meet the needs of the ACCESS funds.

The Kent Fund has made a commitment to pool its investments other than its direct property holdings but will rigorously apply the value for money test before moving assets into the pool.

During 2019-20, the Fund invested in 1 sub-fund managed by Ruffer. As at 31 March 2020 the total pooled was £2.26bn, being 40% of the total assets of the Fund. Further sub funds are being launched for equity and fixed income asset classes. The ACCESS pool is also making progress in establishing the appropriate structures for pooling alternative asset classes.

In February 2018, the Fund also invested in pooled life funds managed by UBS. As at 31 March 2020 the value of this investment was £577m, 10% of the Fund's investments.

Responsible Investment (RI)

The Kent County Council Superannuation Fund (the Fund) is committed to being a responsible investor and a good long-term steward of the assets in which it invests.

The Fund has published its RI policy at: Responsible investment Policy

The Fund recognises it is consistent with its fiduciary duty to manage Environmental, Social and Corporate Governance (ESG) issues that may be financially material. The policy sets out the Fund's approach to RI and details the actions the Fund and its external providers take on its behalf, to protect the Fund and its assets from ESG and reputational risk.

Engagement with companies is taken very seriously and RI and ESG issues are regularly discussed with investment managers. The Committee also receives quarterly updates from its investment consultant which include their views on the investment managers' engagement on ESG matters.

Having agreed an RI policy for the Fund the Committee receives regular monitoring reports from managers.

ACCESS voting guidelines

The Fund has also agreed voting guidelines with the other 10 ACCESS authorities for its investments in the ACCESS ACS sub-funds. The ACCESS Joint Committee receives quarterly updates on managers' activity.

Advice

The Committee takes advice and information from:

- The Council's Section 151 Officer and their staff
- Barnett Waddingham, the Fund's actuary
- Mercer, the Fund's investment consultant
- Investment managers
- Discussions with other LGPS funds
- Attendance at seminars and conferences, and
- Financial press and media.

Governance compliance statement

Regulation 55 of The Local Government Pension Scheme Regulations 2013 requires the administering authority to prepare a Governance Compliance Statement.

Description of principle	Kent Pension Fund's position
Structure • the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council. • that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. • that where a secondary committee or panel has been established, the structure ensures effective communication across both levels. • that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	The Superannuation Fund Committee exercises all of the powers and duties of Kent County Council as the administering authority for the Kent Pension Fund. The matters the Committee is responsible for include: • setting investment strategy • appointing professional fund managers • carrying out regular reviews • monitoring of investments • monitoring the administration of the pension scheme • determining pension fund policy in regard to employer admission arrangements. Membership of the Committee is drawn from the County Council as well as other scheme employers and member representatives. All representatives receive appropriate training and development.
Committee Membership and Representation • that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g. admitted bodies) • scheme members (including deferred and pensioner scheme members) • independent professional observers; • expert advisers (on an ad hoc basis). • that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Committee members serve for a 4-year term. The Committee consists of 17 members; 13 employer representatives and 4 member representatives. Of the employer representatives 9 are drawn from the County Council, 3 are nominated by the 12 district councils and Medway Council has 1 representative. Of the 4 member representatives Unison and KCC staff have 1 representative each and the Kent Active Retirement Fellowship has 2 representatives. The Fund's investment advisors, Mercers, attend the Committee meetings as required and facilitate workshops on any significant changes to investment strategy. All members of the Committee are treated equally in terms of access to papers and meetings, as well as training and are given full opportunity to contribute to the decision- making process, with or without voting rights.
Selection and role of lay members	On appointment all Committee members

• that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. • that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	are made fully aware of the status, role and function they are to perform. All members of the Committee have signed an undertaking to comply with the Code of Member conduct set out in appendix 6 of the KCC constitution. At the start of each meeting Committee members are invited to declare any related financial or pecuniary interest in any matters on the agenda.
Voting • the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	All 13 employer representative members have full voting rights in the Committee. Non-voting members are able to engage in and contribute to decision making. The voting rights of Superannuation Fund Committee members are regularly reviewed, the most recent review being October 2017.
Training / Facility time / expenses • that in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. • that where such a policy exists, it applies equally to all members of committees, subcommittees, advisory panels or any other form of secondary forum.	Arrangements for training, facility time and expenses of Committee members are described in the Kent County Council constitution. This policy applies equally to all Committee members. The Fund's training policy was updated in November 2019. All additional costs of attending training courses are reimbursed from the Fund.
Meetings - Frequency • that an administering authority's main committee or committees meet at least quarterly. • that an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits. • that administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	The Superannuation Committee usually meets 5 times year. The Pension Board usually meets 4 times a year. The Pensions Forum meets twice a year for all employers focussing on administration issues.
Access • that subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	All Committee members have access to committee papers, documents and advice that fails to be considered at meetings of the Committee. Meeting papers are also available on the KCC and Kent Pension Fund websites.

Scope • that administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The Committee monitors the administration of the pension scheme and determines pension fund policy in regard to employer admission arrangements.
Publicity • that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.	Details of all Committee meetings are available on the Kent County Council website including all unrestricted committee papers.

Local Pension Board

A local pension board (the Board) was established in 2015 in accordance with regulation 106 of the LGPS 2013 regulations. Its purpose is to assist us as the Administering Authority for the Kent Fund to secure compliance with the 2013 regulations and to ensure the effective and efficient governance and administration of the scheme.

The Board is composed of
- 8 members
- 4 employer representatives
- 4 member representatives.

Board members serve for a 4-year term.

Of the employer representatives
- 2 are drawn from the County Council
- 1 is nominated by the 12 district and Medway councils, and
- 1 is nominated by the other employers.

Of the 4 member representatives there is
- 1 trade union representative
- 1 KCC staff representative
- 1 representative of Medway and district councils, and
- 1 representative of the Kent Active Retirement Fellowship.

The Chair of the Board is a Kent County Council (KCC) elected member and the Vice Chair is elected by the Board.

The Board will meet quarterly with secretarial support provided by KCC Democratic Services. View the Board meetings including all unrestricted meeting papers.

All representatives receive appropriate training and development and all costs of attending meetings and additional costs of attending training courses are reimbursed from the Fund.

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From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Pension Board – 15 October 2020

Subject: Board Member Training

Classification: Unrestricted

Summary:

To update the Board on the training undertaken by members as well as to report on the results of the National Knowledge Assessment survey

Recommendation:

The Board is recommended to note the results of the survey and next steps

FOR INFORMATION

1. Introduction

1.1 At its March meeting members were asked to complete a training needs analysis as well as the Pensions Regulator toolkit. Many thanks to all those who responded and completed the toolkit. Any members who did not respond are reminded to contact Steve Tagg (steve.tagg@kent.gov.uk) who will assist with the completion of the toolkit.

1.2 Thank you too to the 6 Board members who responded to the National Knowledge Assessment Survey run by Hymans Robertson. This survey finally closed at the end of May and a copy of the results for the Kent Fund is attached at appendix 1.

1.3 In their report Hymans have highlighted that Board members scored highest in terms of their knowledge of financial markets and the role of the committee and pensions legislation. The report also identified areas where the Board's level of knowledge is lower and below the average of members of other Boards. These areas include actuarial methods, accounting and investment performance which need to be the focus of more training and Hymans have suggested a series of next steps.

2. Next Steps

2.1 As the Board is aware KCC has sought to procure the services of an external consultant to undertake a review of the Governance of the Pension Fund. In addition to completing this review the consultant will be asked to follow up on the results of the needs analysis and the survey and to provide training to members over the coming months.

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October 2020

LGPS

National Knowledge Assessment

HYMANS ROBERTSON

Kent Pension Fund

June 2020

National Knowledge Assessment

Overview

Following the success of the 2018 LGPS National Confidence Assessment, Hymans Robertson continued the journey to understand and develop knowledge levels in the LGPS with the 2020 LGPS National Knowledge Assessment (NKA). The NKA's key goal is to provide LGPS funds with an insight into the pensions specific knowledge and understanding of the people who hold decision making and oversight responsibility within their organisations.

18 LGPS funds and over 200 members have participated in this first ever National Knowledge Assessment of Pension Committee ('Committee') and Pension Board ('Board') members. The findings from this assessment will provide LGPS Funds with a quantitative report of the current knowledge levels of the individuals responsible for running their fund, aiding the development of more appropriately targeted and tailored training plans for both groups. This report is also a key document in evidencing your fund's commitment to training.

Background

The Kent Pension Fund ("the Fund") agreed to participate in the NKA using our online assessment. This report provides the participants' results broken down into 8 key areas. The online assessment opened in mid-March and closed at the end of May, and there were weekly progress updates provided to the Fund confirming participation levels. Each participant received their individual results report following completion of the assessment.

Challenging test

This was a challenging multiple-choice assessment of participants knowledge and understanding of relevant subject areas. There was no expectation that participants would score 100% on each subject area tested. Rather the goal was to gain a true insight into members' knowledge in the areas covered by the CIPFA Knowledge and Skills Framework and the Pensions Regulator's (TPR) Code of Practice 14.

Why does this matter?

In recent years there has been a marked increase in the scrutiny of public service pension schemes, including the 100 regional funds that make up the LGPS across the UK. The Public Service Pensions Act 2013 introduced new governance legislation, including the requirement for Local Pension Boards to be set up and extended the remit of the Pensions Regulator to public service schemes as set out in its Code of Practice 14[1]. Additionally, the Ministry of Housing, Communities and Local Government ("MHCLG") in England & Wales and Scottish Ministers in Scotland, and their respective Scheme Advisory Boards have emphasised the need for the highest standards of governance in the LGPS. This includes ensuring that all involved in the governance of public sector funds can evidence they have the knowledge, skills and commitment to carry out their role effectively.

While fund officers may deal with the day-to-day running of the funds, members of the Committee play a vital role in the scheme, and to exercise their roles effectively must be able to address all relevant topics including investment matters, issues concerning funding, pension administration and governance.

[1] Governance and administration of public service pension schemes – issued April 2015

Recent events

The introduction of Markets In Financial Instruments Directive II (MIFID II) in January 2018 required Committee members to evidence their knowledge in order to be treated as professional investors. Also, in late 2019 the Scheme Advisory Board for England and Wales began a review of governance arrangements for LGPS funds. This project – termed 'Good Governance' – addressed stakeholder knowledge and skills. A clear recommendation of the Good Governance project is that the knowledge levels already statutorily required of Board members should also be required of Committee members. These recent events have reaffirmed that LGPS funds should evidence the training provided and current knowledge and understanding levels retained within their Committee and Board.

We would encourage the use of these results to better understand the areas where Committee and Board members feel comfortably informed, but crucially where further training may be of benefit.

In keeping with the theme of increased external scrutiny, it is important not only that the Committee and Board have confidence in their roles, but also that the Fund can demonstrate the steps taken to facilitate this. We would suggest you keep a record of the process used to assist the Committee and Board with training and development. This report should form part of the overall training records for both groups.

Approach

The members of the Kent Pension Fund Committee and Board were invited to complete an online knowledge assessment. In total there were 7 respondents from the Committee and there were 6 respondents from the Board. Each respondent was given the same set of 47 questions on the 8 areas below:

1	Committee Role and Pensions Legislation	**5**	Procurement and Relationship Management
2	Pensions Governance	**6**	Investment Performance and Risk Management
3	Pensions Administration	**7**	Financial Markets and Product Knowledge
4	Pensions Accounting and Audit Standards	**8**	Actuarial Methods, Standards and Practices

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct. This allows us to build a picture of the knowledge levels of each individual member in each of the topics, but crucially to help inform you of the overall levels of knowledge in each area.

Results

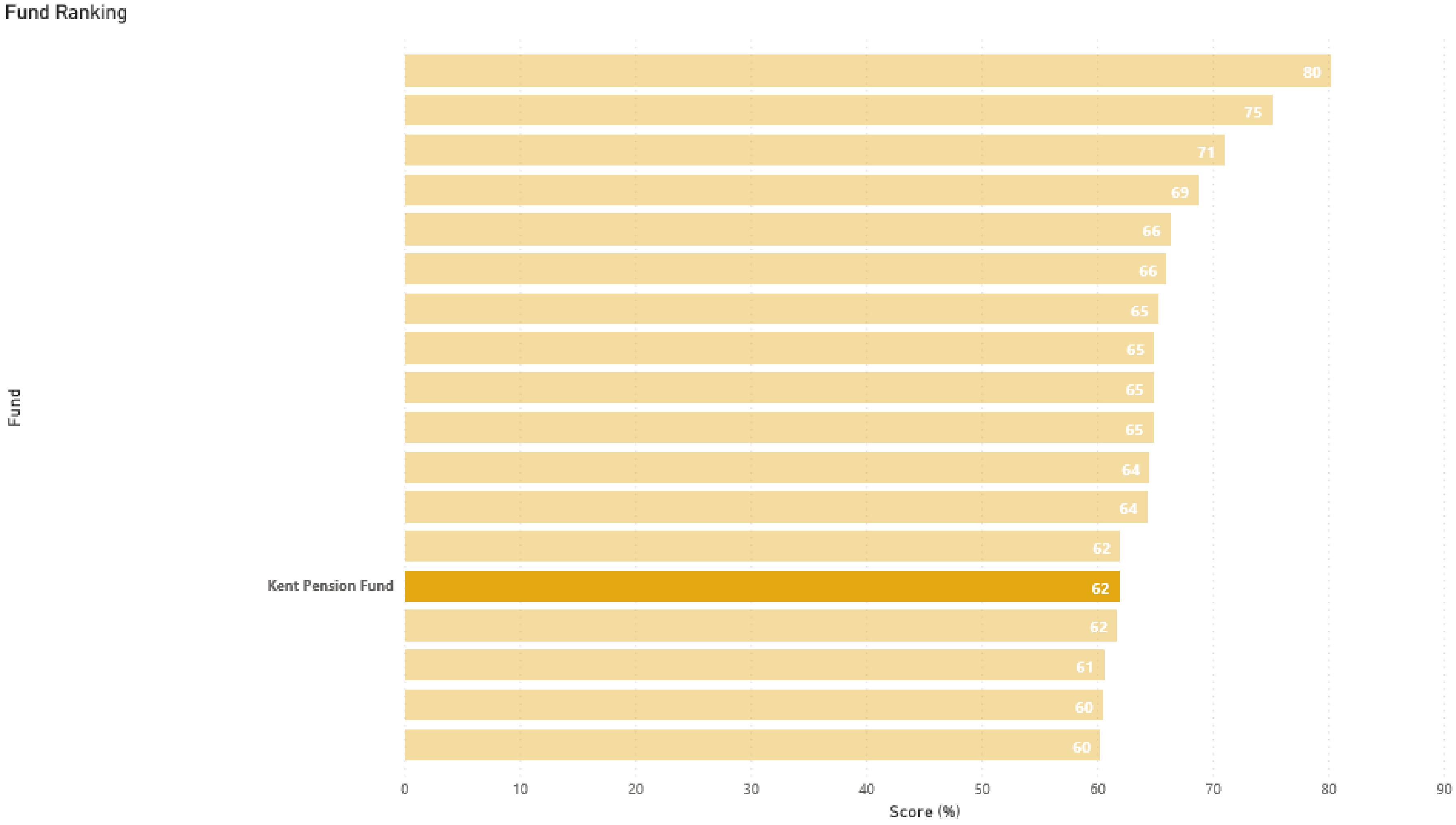
The responses for all members who participated have been collated and analysed. For each section we have shown:

- The Fund's overall ranking against other participating LGPS funds
- The average score for each of the 8 subject areas, for both the Committee and Board.
- Each average score benchmarked for both groups against the other NKA participant funds' Committee and Board for each of the 8 subject areas
- Engagement levels for both the Committee and Board and how these levels rank against other LGPS funds

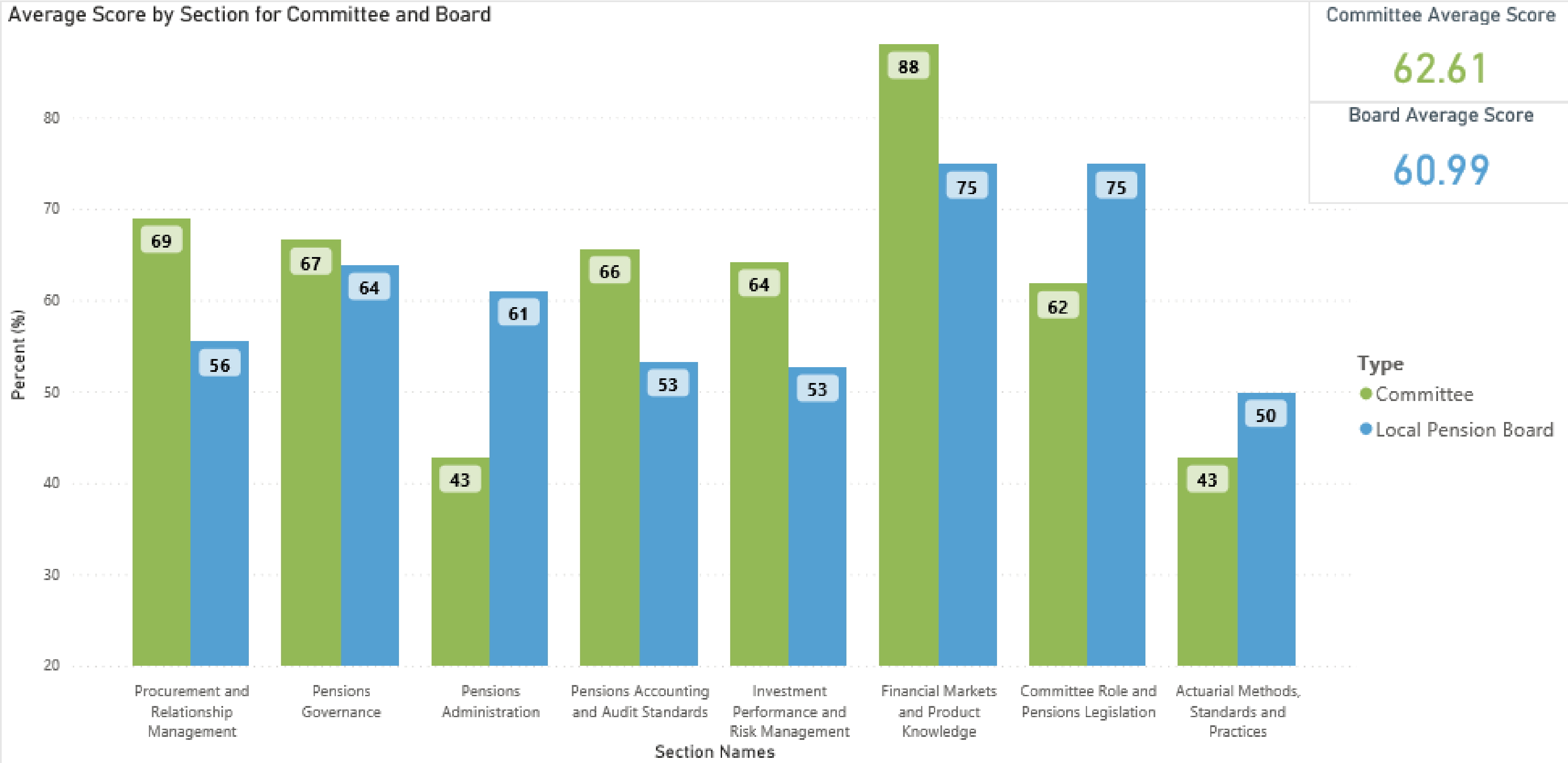
Based on the results and the responses received from participants we have also completed a proposed training plan for the Fund over the next 18 months, as well as some other "next steps" to consider.

Overall Results

The table below shows how the overall average score for your Fund compares with that of all other funds who took part in the Assessment. The “score” shown below is the average score of all participating Committee and Board members from each Fund. The Kent Fund is 14th out of 18 Funds.



For each of the assessment's 8 areas we have shown the results of both the Committee and Board. These have been shown in the order in which the sections appeared in the survey. There is also a summary showing the average scores across all sections for the Committee and Board.

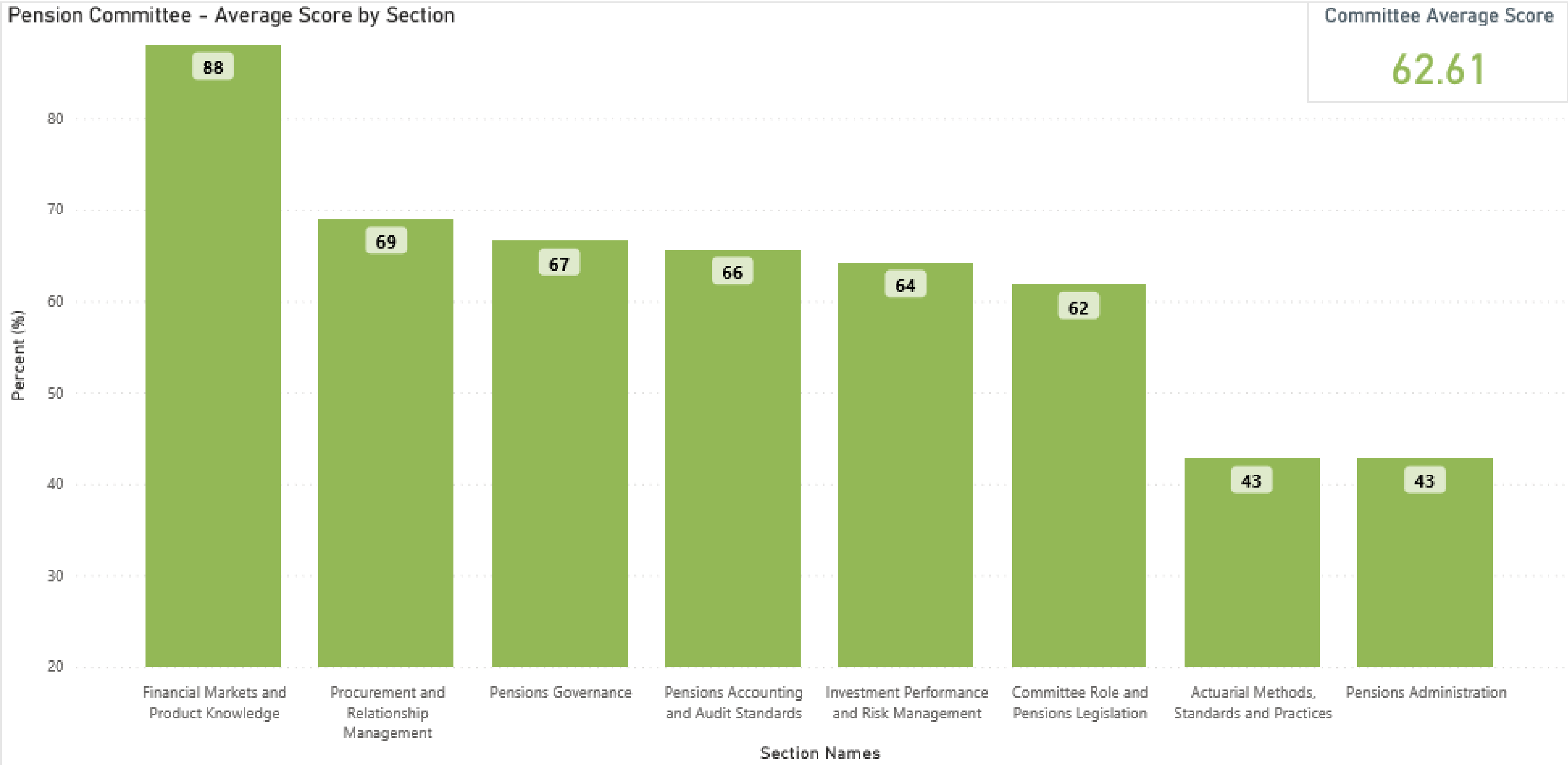


Despite the Committee and Board having almost similar average scores, it is apparent that there is a stark difference between the knowledge levels in specific areas. The Committee outscored the Board in most areas, but the Board scored better in sections to do with administration and legislation.

Performance in each area

The results can be ranked for each section from the highest score (greatest knowledge) to lowest score (least knowledge). This is shown separately for both the Committee and the Board. The intention is that training plans and/or timetables can be tailored to focus on the areas of least knowledge, whilst ensuring the Committee and Board maintain the high level of knowledge in the stronger areas.

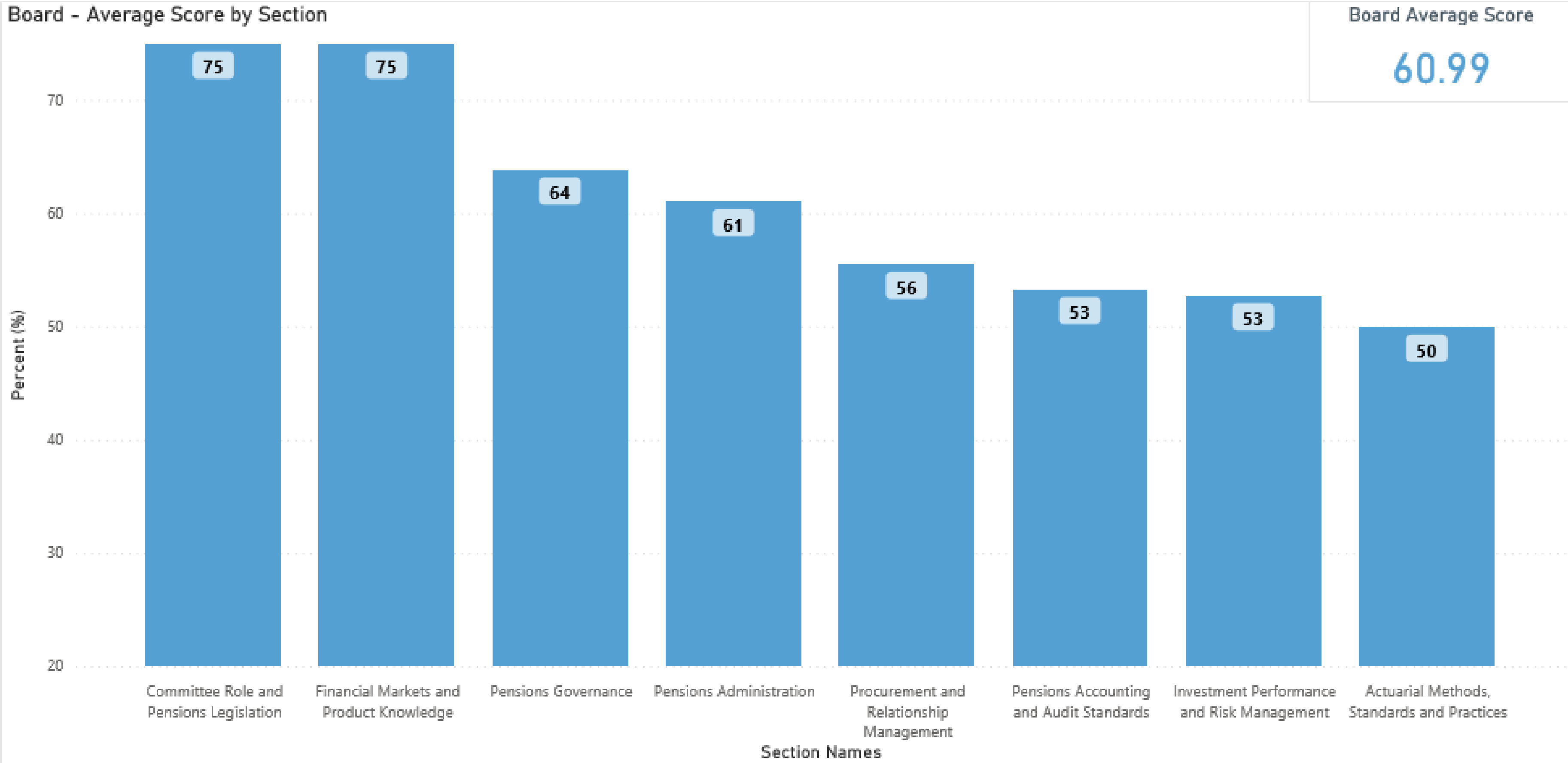
Pension Committee



The results show the scores for financial markets and product knowledge were significantly higher than other areas. There was a good spread of knowledge across other areas too.

Actuarial methods, standards and practices and pensions administration were the area with weakest scores – significantly lower than all other areas.

Pension Board



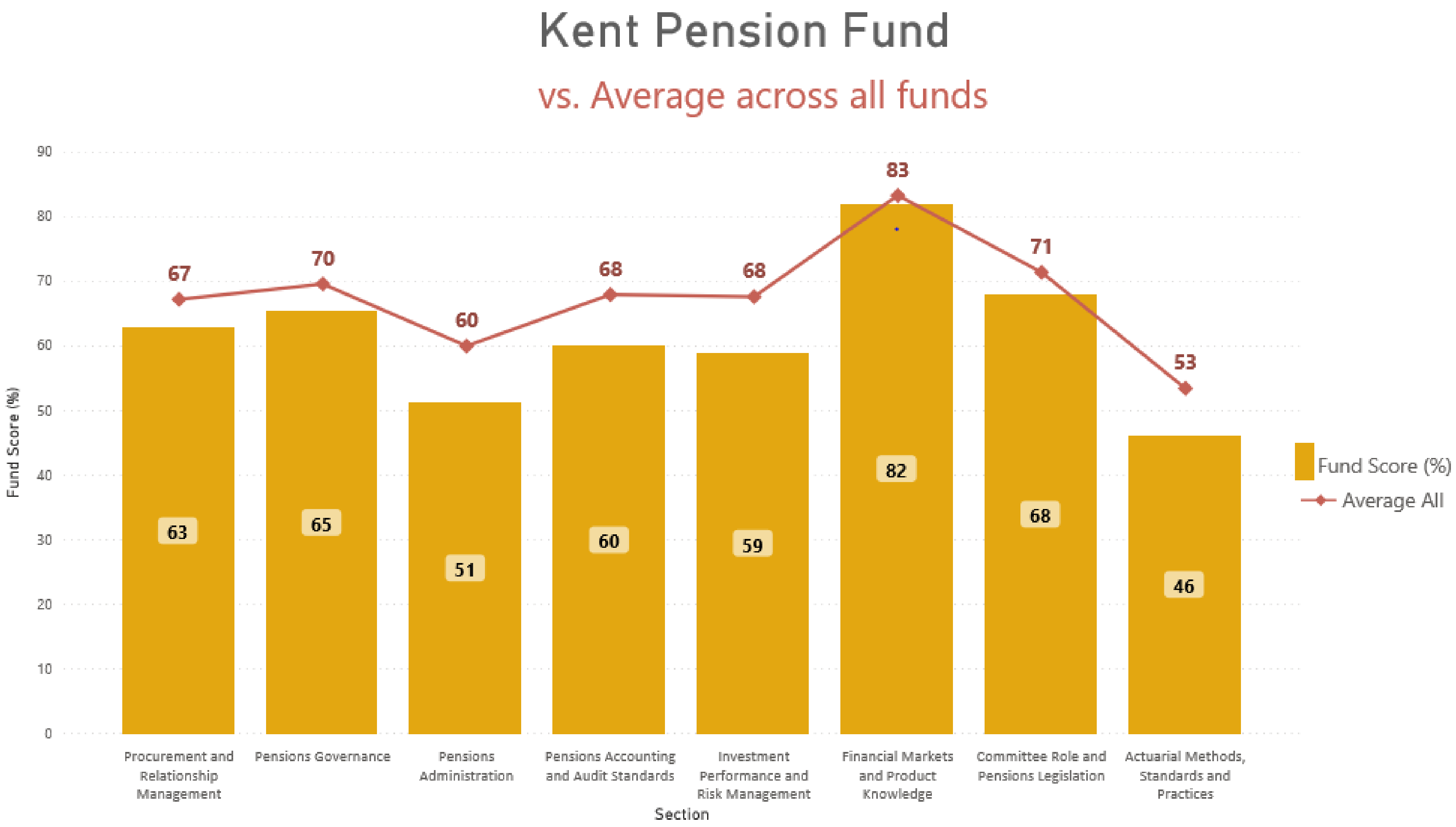
The Committee's role and pensions legislation was the highest scoring area for the Board. Financial markets and governance were also answered strongly which is encouraging.

It does appear that the Board's knowledge in the other areas varies, with actuarial methods, audit standards and investment performance the key areas to focus on. This is highlighted further in the following section which compares the Kent results, with all participating funds' results.

Benchmarking

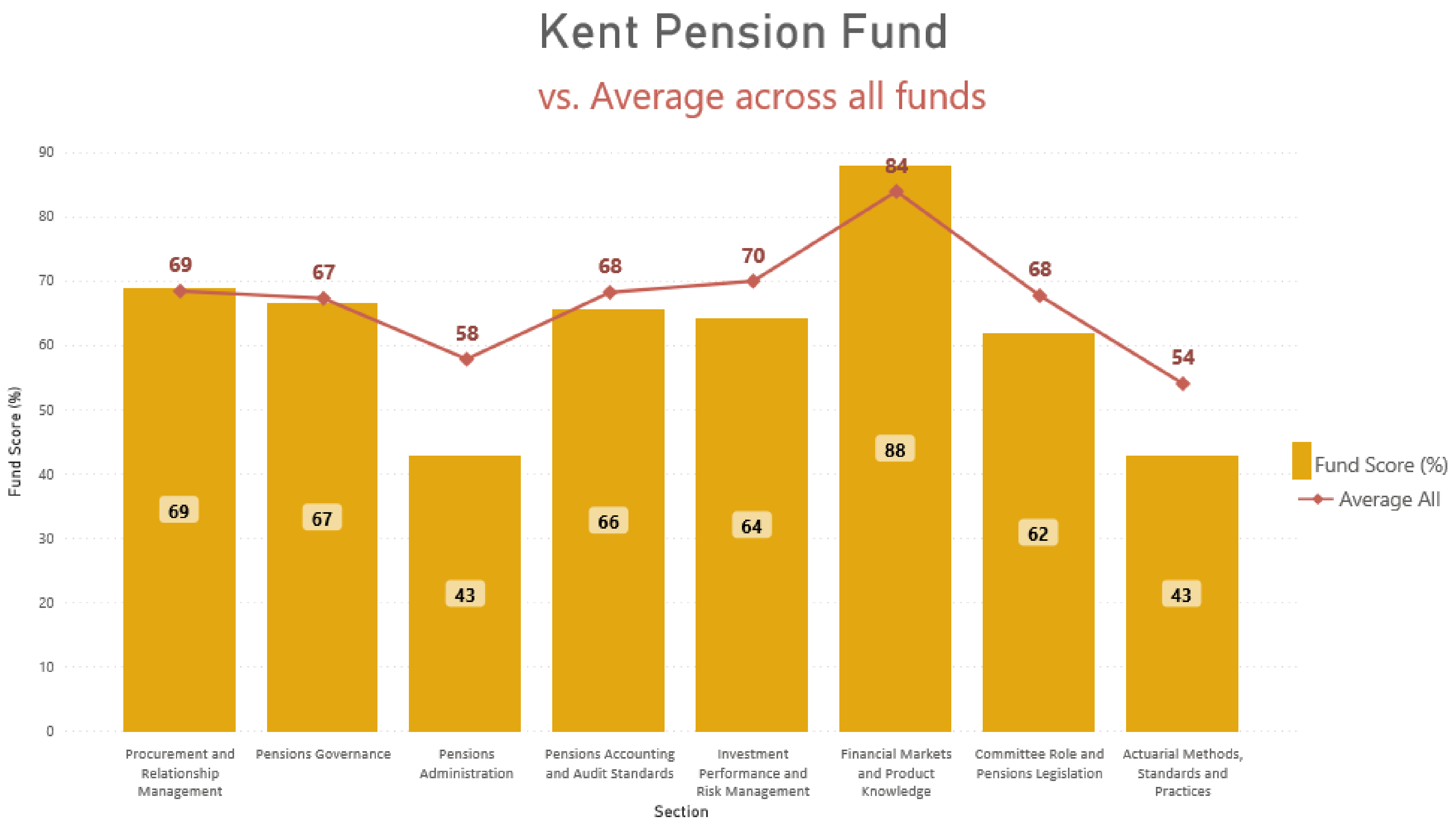
As this assessment is being conducted at national level across a number of LGPS funds we are able to provide details of how your Fund's results compare to those across the average of all funds who have taken part to date. We have provided a comparison of the results for both your Fund's Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

Committee and Board combined



Pension Committee

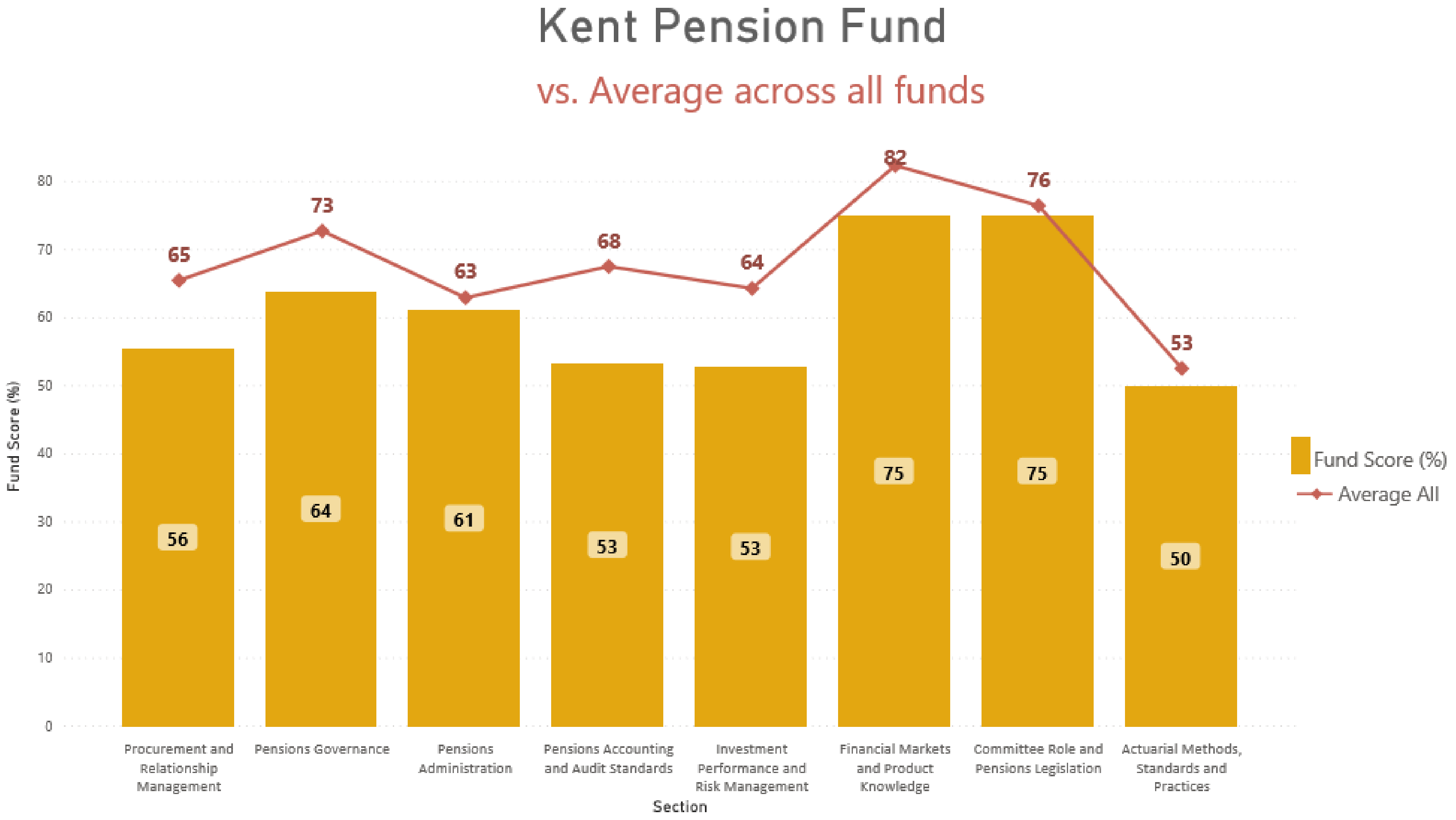
The following chart shows how your Fund's Committee scored in each section, versus the national average of all Committee members who took part.



The Committee ranked 10 out of 18 Funds' Committee results

Pension Board

The chart below shows how your Fund's Board scored in each section, versus the national average of all Board members who took part.



The Board ranked 14 out of 18 Funds' Board results.

Commentary

It is encouraging that 13 participants from your Fund took part in the assessment. Overall the results were positive and it is clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time. We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee/Board, their tenure or indeed their background in terms of pensions experience. The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across your Committee and Board which is supported by advice from officers and professional advisors.

Just as important as gaining the relevant knowledge and understanding expected of a Pension Committee or Board is the application of that knowledge and understanding, including the utilisation of an individual's own background and perspective. To supplement a Fund's training plan, we recommend that case study analysis is also included as part of both the Committee and Board training plans, allowing time for reflection on how both groups react and act on issues.

Committee

The results show that procurement and financial markets have the highest levels of knowledge, but that the areas to focus any specific training on might be actuarial methods, administration, as well as the role of the Committee and Pensions Legislation, which you might expect to be stronger for the Committee.

Pension Board

The results show that the highest levels of knowledge relate to financial markets and the role of the Committee, but that the areas to focus any specific training on might be actuarial methods, accounting and investment performance for the Board.

The next step would be to try an develop the knowledge about the lower scoring areas. You might already have a training plan in place, in which case you could use these results to tailor the specific training and with the knowledge of these results, ensure it aligns with your priorities.

Engagement

One of the key areas that we recommend funds focus on is Committee and Board engagement. With the ever-increasing pace of change in the pensions and investments world, member engagement is critical to maintaining strong collective knowledge. There is an expectation that they need to be not only willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

Overall engagement

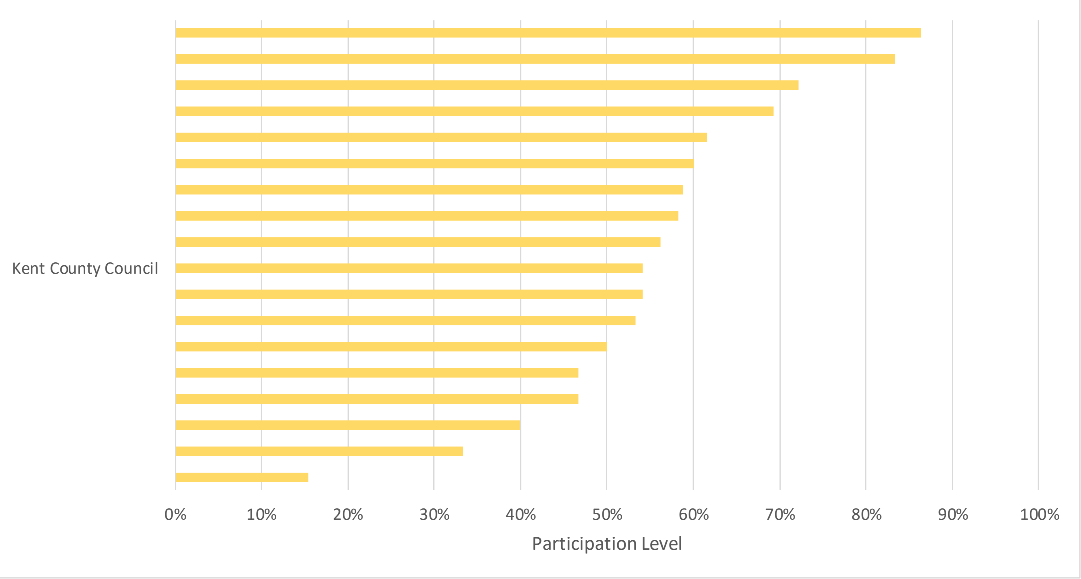
One measure of the engagement of members is their willingness to participate in training. As such, we have used the participation level of this survey to measure the engagement of your Committee and Board members. The table below shows the breakdown of the total number of participants from the Kent Fund, as a proportion of those who could have responded.

	Participants	Total Number	Participation rate
Committee	7	16	44%
Board	6	8	75%
Total	**13**	**24**	**54%**

We understand that different Committees function in different ways and have different numbers of members. We therefore draw no conclusions or make any inferences from these results. The information is simply being provided to the Fund officers, as they will be best placed to draw any conclusions.

Engagement benchmarking

The chart below shows how your Fund's participation level compares with that of all other funds who took part.



Commentary on engagement

That 13 participants from your Fund took part in the assessment is encouraging. There were however a number of members who did not participate. With the number of changes to the LGPS in recent years, it is vital that Committee and Board members remain abreast of the latest developments and feel confident that they have the knowledge required to make the decisions required of them. Their level of engagement is a key driver of this.

Overall engagement seems to be at a reasonable level, however it is important to maintain and improve, this, particularly in the current climate where face-to-face meetings and therefore delivery of training sessions might be difficult for some time to come.

Training feedback from participants.

One of the final sections of the survey asked participants to indicate which topics they would like to receive training on. There was a list of options available, covering a broad spectrum of the topics we believe are most relevant to allowing Committee and Board members to effectively perform their roles. Members were also given the option to indicate any other areas in which they would benefit from further training.

The table below summarises the areas in which members indicated training would be beneficial.

In the addition to the pre-defined list of training, we also asked participants for comment and areas in which they feel further training would be beneficial. We have provided a selection of these comments below:

"Additional training re the Pension Act is always useful"

"Investment strategy"

"Always happy to receive refresher training in any areas"

Suggested Training Plan

We have put together a summarised training plan below, picking out the key areas for development based on participant assessment results and the training requests.

2020/21 – Q3	• The impact of COVID-19 on the Fund + actuarial methods
2020/21 – Q4	• Financial markets and product knowledge was the most requested topic for training despite being the highest scoring area. It would be worth investigating this further to see if there are specific topics members require training on.
2021/22 – Q1	• Pensions administration + McCloud impacts
2021/22 – Q2	• Investment performance+ investment strategy + illiquid asset training
2021/22 – Q3	• Audit standards + Good Governance
2021/22 – Q4	• Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.

Training support

Tools such as this online assessment offer different ways for members to take part in training. There might be more options for online training sessions which you could take advantage of. We have noted some training materials and websites below which might help you deliver focussed sessions to your Committee and Board and keep them informed on the most pertinent pension areas.

- CIPFA Knowledge and Skills Framework
- TPR Public Service Toolkit
- LGA fundamental training – currently a 'physical' attendance course
- LGA monthly bulletins
- Hymans Robertson Training videos for Committee and Board members (details noted below)

Next Steps

Based on the results we would suggest that there should be consideration to the following next steps:

- This report should be **reviewed** by the funds officers and results shared with the Committee and Board
- Set up a **structured training plan** for the next 18 months covering the main areas highlighted in this report
- Plan for the **delivery** of training over a 6-month period while meeting restrictions might continue to be in place
- Consider the most **pressing** training requirements in the coming months, to ensure members have the required knowledge such as the effect of COVID-19 on assets and liabilities and how this might develop over time
- **Assess** the tools available to the Fund to assist with training.
- Consider ways of **maintaining** and **increasing** the engagement of both the Board and Committee. This could include providing them with more information, training materials, briefing notes etc.
- Ensure that the Fund's training strategy is up to date and **appropriate** for purpose
- Look to conduct a **case study workshop** with your Committee and Board. This will gain officers a further insight into the **practical application** of both groups knowledge and understanding. This could be presenting various scenarios e.g. how the administration teams will deal with the McCloud judgement and allowing group discussion on how the Committee and Board would deal with selected case studies in their role as decision makers and oversight bodies. Hymans Robertson can facilitate a case study workshop for your Committee and Pension Board, as well as preparing an observation report for the Fund.

Hymans Support

We are happy to run training sessions, and/or provide training materials covering any of the topics covered in this report. The value of a face-to-face session for this type of training lies in members being able to ask relevant questions and interrogate the trainer on the specific areas they want to develop knowledge in. We understand that at present this will exclude physical attendance, but we are happy to set up video conference calls to assist with the ongoing training of both groups now. We will very soon be releasing our Hymans LGPS online training support that will give a comprehensive but bitesize training course.

We will be producing an NKA report discussing and analysing the results at the national level. A copy of this will be made available to the Fund when that report is complete.

If you wish to discuss the contents of this report further, please get in touch with either myself, Alan or Ian Colvin.

Prepared by Hymans Robertson LLP.

Andrew McKerns

LGPS Governance, Administration and Projects (GAP) Consultant

Alan Johnson

LGPS Governance, Administration and Projects (GAP) Consultant

Reliances and Limitations

This report has been prepared for the Kent Pension Fund.

This report must not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety.

Hymans Robertson LLP do not accept any liability to any party unless we have expressly accepted such liability in writing.

This report has been prepared by Hymans Robertson LLP, based upon its understanding of legislation and events as at June 2020.

From: Acting Business Partner – Kent Pension Fund
Corporate Director of Finance

To: Pension Board – 15 October 2020

Subject: ACCESS update

Classification: Unrestricted

Summary:

This update provides a summary of the activities of the ACCESS pool.

Recommendation:

The Pension Board to note this report.

FOR INFORMATION

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1. Introduction

1.1 As members will be aware the ACCESS pool is a collaboration of 11 LGPS administering authorities that was set up in 2016 to pool their fund investments.

1.2 At the end of June 2020 the Kent Fund has invested in 4 sub-funds in the ACCESS authorised contractual scheme (ACS) operated by Link Financial Solutions, with a combined value of £2.7bn, and £668m invested in UBS funds, managed under pool governance. The total held in the ACCESS pool is now £3.4bn.

1.3 This report is to update the Board on the work being undertaken by the ACCESS pool.

2. Joint Committee

2.1 The Joint Committee has met since the last update for the Board and a summary report of their meeting on 7 September 2020 is attached at appendix 1. Copies of the minutes of the Joint Committee meetings held on 9 March and 17 July are attached at appendices 2 and 3.

2.2 The next meeting of the JC is scheduled for Monday 9 November 2020.

3. Recent activity

3.1 Since the last report to the Board the ACCESS support unit (ASU) staff and staff at Link, Northern Trust and investment managers have continued to work remotely and throughout the summer the officer working group (OWG) was having a one hour call every Thursday.

3.2 Several working groups have recently been established reporting to the OWG, and it is anticipated that officers representing the Kent Fund will be involved in each of these working groups.

a) to progress the on-boarding within the access authorised contractual scheme (ACS) of previously agreed sub-funds. The transition of the Kent investment in a global value equity fund has now been agreed for 23 November.

b) to agree the implementation of pooled arrangements for alternative assets.

c) to develop a set of ESG / RI guidelines for the pool taking into account the policies of the individual authorities.

3.3 Terms of reference of these groups have been agreed and they are meeting remotely on a periodic basis.

3.4 The OWG will also be involved in the establishment of the ACCESS communications policy and the review of the resources of the ACCESS Support Unit.

3.5 Finally, it is pleasing to note that after much discussion a revised Inter Authority Agreement (IAA) has been agreed by the monitoring officers of each of the ACCESS authorities. For Kent, the County Council will be asked to approve the adoption of the agreement on 22 October. The IAA was originally agreed in 2017 and describes the operation of the ACCESS pool allowing the 11 authorities to pool their investments. It has been updated to recognise the role of section 151 officers in providing advice to the Joint Committee and to allow for multiple platforms to be established for pooling all classes of investment.

Alison Mings, Acting Business Partner – Kent Pension Fund

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October 2020

SUMMARY UPDATE (Part I)
ACCESS Joint Committee (JC):
7 September 2020

All ACCESS Authorities were represented. The key matters considered are described below.

Part I Item	Details
Virtual meeting protocols	The Chair and Clerk outlined virtual meeting protocols which were noted by the Committee.
Business plan & budget	The Committee noted proposals to amend the 2020/21 meeting schedule. Dates for the meetings in early November and the first half of January will be notified by the Clerk. It was highlighted that the revised Inter Authority Agreement (IAA) had now been agreed by the Monitoring Officers of each Authority. ACCESS's legal advisers, Squire Patton Boggs will circulate a memo detailing the changes, and inviting the adoption of the revised IAA to all Authorities. It was noted that proposals on pooling alternatives assets were expected to be brought to the next Committee meeting. In detailing 2020/21 budget variances, it was noted that as the programme of alternative procurements will not occur in full in the current financial year, no additional budget provision would be required to resource the proposals on external communications support along with advice on ESG/RI matters.
Communications	Hymans Robertson introduced a report detailing aspects of communications messaging and included a proposal to source external communications support. An approach to procuring the external support was outlined by the ASU. The Committee noted the report, agreed the Hymans Robertson recommendations and agreed that Essex be designated as the procurement lead authority. Officers will progress the matter in consultation with the Chairman.
Environmental, Social & Governance (ESG) and Responsible Investment guidelines.	The Committee noted a report surmising the references within each Authorities' ESG/RI policy to the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI). Initial results from the investment manager survey indicated that: • all 11 investment Managers are UNPRI signatories; • all 10 UK based managers intend to be signatories to the revised UK Stewardship Code; • 9 of the 10 UK based managers have been assessed as Tier 1 under the Code;

	• 6 managers currently benchmark the carbon footprint of their portfolio. The outline specification for ESG/RI advice was noted, along with intention to use Lot 5 of the LGPS Stewardship framework. Following discussion, the Committee noted the report and agreed that Essex be designated as the lead authority for the procurement of ESG/RI advice.
Next meeting date	November 2020 – date to be confirmed.

ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Committee Room 1 - Islington Town Hall on Monday, 9th March, 2020.

PRESENT: Cllr Mark Kemp-Gee - Chair (Hampshire CC), Cllr Susan Barker – Vice-Chair (Essex CC), Cllr Adrian Axford (Isle of Wight), Cllr Jonathan Ekins (Northamptonshire CC), Mr Jeremy Hunt (West Sussex CC) Cllr Terry Rogers (Cambridgeshire CC), Cllr Judy Oliver (Norfolk), Cllr Ralph Sangster (Hertfordshire CC) and Mr Charlie Simkins (Kent CC).

ALSO PRESENT: Kevin McDonald (ASU Director), Mark Paget (ASU Contract Manager) Officer) and Clifford Sims (Squire Patton Boggs)

OFFICERS: Ian Gutsell (East Sussex), Michelle King (East Sussex) , Jody Evans (Essex), Andrew Boutflower (Hampshire), Patrick Towey (Hertfordshire), Jo Thistlewood (Isle of Wight), Paul Tysoe (Cambridgeshire), Mark Whitby (Northamptonshire), Alison Mings (Kent), Glenn Cossey (Norfolk), Paul Finbow (Suffolk) and Rachel Wood (West Sussex).

UNRESTRICTED ITEMS

176. Apologies/Substitutes.
(Item. 1)

Apologies were received from Cllr Gerard Fox (East Sussex) and Cllr Karen Soons (Suffolk).

177. Declaration of interests in items on the agenda.
(Item. 2)

No declarations made.

178. Minutes of the meeting held on 9 December 2019.
(Item. 3)

RESOLVED that the minutes were a correct record and that they be signed by the Chair.

179. Meeting dates - 2020/2021.
(Item. 4)

1. Members discussed meeting date and venue selection and it was confirmed that the Clerk would liaise with all Members about future arrangements, including reviewing any already agreed dates.

RESOLVED that the meeting in the published agenda be noted.

180. Governance Update.
(Item. 5)

1. Kevin McDonald (ASU) provided an update on the Governance workstream. This included detailing the current status of the Inter-Authority Agreement (IAA) review, clarifying that ACCESS's Legal Advisors were working with Authority Monitoring Officers. It was confirmed that an updated version of the IAA would be circulated to Members in due course. The Clerk advised that all Authorities should review their internal approval mechanisms and inform the Clerk of planned processes to assist in the eventual execution of the final document as a Deed.

2. Mr McDonald outlined the review on Officer sub-groups to confirm key workstreams and areas of Officer focus. This review work reflected the need to consider what the key issues were for ACCESS and Pooling as the landscape and ACCESS's establishment evolved.

RESOLVED that the following be noted:

- The revised timetable for completion of phase 3 governance deliverables.

- The revised IAA to take effect upon execution by all participating authorities and completion of this process to be confirmed in writing by the Clerk to the Committee.

- Recent discussions on the structure of officer sub-groups.

181. Communications.
(Item. 6)

1. Mr McDonald introduced the item, referring Members to previous discussions regarding Communications and the adoption of the ACCESS Communications Protocol in 2018. He advised that the issue was being reviewed in recognition of how things have changed since then, including personnel changes and the shifting Pooling landscape.

2. Members discussed options for handling Communications, in terms of pro-active stakeholder engagement and responsive communications activity. It was noted that key objectives of the Communications Strategy needed to be outlined and clarified as part of its development.

RESOLVED that the that the outline for ACCESS communications and relations and the initial planning for the ACCESS Annual Report be noted.

182. Business plan, budget & risk summary.
(Item. 7)

1. Mr McDonald introduced the report, providing an overview of the Business Plan and Budget, which had been agreed at the December meeting. He commented that the Plan was subject to review and that it may have to be updated throughout the year.

2. Mr McDonald highlighted various key points in the plan and budget such as the sub-fund updates and transition arrangements, the rollout of the Governance Training at administering authority level and the full implementation and embedding of the ASU.

3. Mr McDonald confirmed to Members that the projected outturn for 2019/20 was approximately £200k below the approved budget level and explained that this was due to reduced reliance on external consultancy support following the full establishment of the ASU.

RESOLVED that the updated business plan and revised outturn for 2019/20 and the summary risk register be noted.

183. Motion to Exclude the Press and Public.
(Item. 8)

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

184. Risk Register.
(Item. 9)

1. Mr McDonald provided an update on the risk register, outlining changes and additions as well as noting where risks remained unchanged and would be monitored.

2. Members discussed the risks and received relevant reassurances from Authority Officers and the ASU of appropriate risk management activity.

3. Members considered the potential for additional risks relating to the COVID-19 situation and were reassured that work was ongoing to explore options for managing normal business remotely if required. It was recognised that any COVID-19 related market volatility risks were likely but this was mainly a matter for the administering authorities. It was noted that without legislative change, formal ACCESS meetings could not take place remotely.

RESOLVED that the report be noted and the additions to the Risk Register as set out in the report be approved.

185. Investment update.
(Item. 10)

1. Sharon Tan (Suffolk) presented the Investment performance update. The positive update was welcomed by Members.

RESOLVED that the report be noted.

186. Sub-fund progress.
(Item. 11)

1. Andrew Boutflower (Hampshire) provided the regular update on Sub-fund progress. He advised the committee on the status of recent launches and highlighting where additional funds were required.

RESOLVED that;

- the asset allocations of ACCESS authorities and the progress in launching the ACS investment sub-funds and providing specific 'transition' sub-funds be noted.
- the request to Link to search for a fund manager(s) for the balanced mandate (Two sub-funds: Fixed Income and Global Equities) be approved.

187. Contract Management update.
(Item. 12)

1. Mark Paget (ASU) provided an update on contract management, highlighting key developments and progress made.

2. Members discussed the planned development of KPI monitoring around business as usual and noted the mitigations that had been put in place where issues had been identified.

RESOLVED that the report be noted.

188. Link presentation (to follow).
(Item. 13)

Karl Midl and James Zealander from Link Fund Solutions were present for this item.

1. Mr Midl and Mr Zealander delivered a presentation, outlining recent activity and key issues. They provided reassurances that preparations were in progress to manage business continuity in the event of emergency issues related to the COVID-19 situation.

2. Members asked questions and discussed performance issues and progress with relevant sub-fund launches.

RESOLVED that the presentation be noted and that a letter be sent to LINK from the Chairman, outlining the views of the Joint Committee on various matters discussed.

189. SAB engagement.
(Item. 14)

1. Mr McDonald introduced the update on Scheme Advisory Board (SAB) engagement, with particular reference to discussions of responsible investment and fiduciary duty.

RESOLVED that the report be noted.

190. Alternatives update.
(Item. 15)

1. Mr McDonald provided an update on progress made with the Alternatives workstream. He advised that further work was being undertaken prior to any firm recommendations being proposed for consideration by the Committee.

RESOLVED that the update be noted.

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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Virtual on Friday, 17th July, 2020.

PRESENT: Cllr Mark Kemp-Gee - Chair (Hampshire CC), Cllr Susan Barker – Vice-Chair (Essex CC) Cllr Jonathan Ekins (Northamptonshire CC), Cllr Gerrard Fox (East Sussex CC), Cllr Adrian Axford (Isle of Wight), Cllr Terry Rogers (Cambridgeshire CC), Cllr Judy Oliver (Norfolk), Cllr Ralph Sangster (Hertfordshire CC), Mr Charlie Simkins – (Kent CC) and Cllr Karen Soons (Suffolk CC)

ALSO PRESENT: Kevin McDonald (ASU Director), Mark Paget (ASU Contract Manager) and Dawn Butler (ASU Support Officer).

OFFICERS: Andrew Boutflower (Hampshire), Jody Evans (Essex), Alison Mings (Kent), Michelle King (East Sussex), Richard Perry (Cambridgeshire), Sharon Tan (Suffolk), Jo Thistlewood (Isle of Wight), Mark Whitby (Northamptonshire), Rachel Wood (West Sussex), George Simon (Norfolk s151 Officer) and Joel Cook (Kent - Clerk)

UNRESTRICTED ITEMS

191. Apologies/Substitutes.
(Item. 1)

1. Apologies were received from Mr Jeremy Hunt (West Sussex)

RESOLVED that the apologies be noted.

192. Virtual Meeting Protocols.
(Item. 2)

1. The Clerk explained the virtual protocols, which were based on the Kent County Council approach to managing virtual formal meetings in according with the COVID-19 legislation, confirming that subject to agreement of the Committee, the protocols would apply to all future virtual meetings of the Joint Committee. He advised the committee on the appropriate processes for indicating to speak, microphone and video discipline and clarified the voting and resolution arrangements. The Clerk explained that where no objections were raised by Members, the Chair would take general agreement to the recommendations and the clerk would record the Committee's decision accordingly.

RESOLVED that the virtual protocols be approved.

193. Declaration of interests in items on the agenda.
(Item. 3)

1. No declarations of interest were made.

194. Minutes of the meeting held on 9 March 2020.
(Item. 4)

RESOLVED that the minutes of the meeting held on 9 March 2020 were an accurate record and that they be signed by the Chair.

195. Business Plan, Budget & Risk Summary.
(Item. 5)

1. Mr McDonald (ASU Director) provided an update on the Business Plan, Budget and Risk summary. He confirmed that the outturn for 2019/20 was £391,792 below the approved budget level, representing a significant underspend. Mr McDonald advised that this was due in part to the successful embedding of the ASU and consequent reduction in reliance on external support but he commented that this underspend was also due to the delayed commencement of procuring alternatives solutions. This meant that some of the forecast spend would still be required but it would be taken from the 2020/21 budget.

2. Mr McDonald provided a brief update of the risk situation, noting that further detailed information of additional risks would be provided in a later agenda item due to commercial and legal exemption.

RESOLVED that the business plan update, the 2019/20 outturn and 2020/21 budget and the summary risk register be noted.

196. Joint Committee Secretariat.
(Item. 6)

1. Mr McDonald advised the Joint Committee that it was proposed that the arrangements for clerking ACCESS meetings, whereby Kent County Council provide the Clerk and secretariat support, be extended again for one year. The Clerk thanked Essex County Council staff for their assistance in preparing for and supporting the meeting in a virtual format.

RESOLVED that the extension to the existing Clerking arrangements supplied by Kent County Council be approved.

197. Environment, Social & Governance / Responsible Investment position statement.
(Item. 7)

1. Mr McDonald provided an update on the ongoing activity in relation to Environmental, Social and Governance & Responsible Investment (ESG/RI) matters. He highlighted key workstreams and key points including:
   - Expert advice being commissioned to assist in developing shared guidelines.
   - Link had run a survey with Fund Managers regarding climate change and other ESG considerations (based on survey approach developed by Norfolk Council). The results of this activity. remained under review for incorporation in further work.

- The appointment of Mr McDonald as the ACCESS Officer representative on the SAB / LGA editorial board working the development of the SAB Responsible Investment Guide.

2. Members discussed the varying pressures facing administering authorities to make progress on ESG/RI. Mr McDonald highlighted that while ACCESS was focused on developing shared guidelines, it should be remembered that the administering authorities would retain sovereignty over their own core policies. Members debated the importance of balancing the desire to make swift progress with the need to ensure any proposals or approaches are realistic, appropriate and deliverable, The Chair suggested seeking to develop more detailed proposals for consideration at the next meeting to better explore the options.

3. Mr McDonald advised that the ASU would work with OWG to ensure all authorities were equally sighted on the current situation with ESG/RI and reports on progress would feature at future meetings.

RESOLVED that the report and the discussion of potential future activity be noted.

198. Supreme Court Judgement.
(Item. 8)

1. Kevin McDonald provided an update on the recent Supreme Court Judgement on Palestine Solidarity Campaign: LGPS investment guidance on foreign policy and defence issues. This judgment had raised concerns regarding fiduciary duty, particularly with the Scheme Advisory Board and the Local Government Association. He highlighted that SAB was pleased that the judgment supported the principle of sovereign investment decision-making but he commented that Government may wish to legislate on the issue at a later date.

2. Cllr Oliver suggested that a paper be developed that confirmed the Norfolk position on Fiduciary Duty which could then be shared with the rest of ACCESS.

RESOLVED that the report be noted.

199. Motion to Exclude the Press and Public.
(Item. 9)

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

200. Investment performance update & Annual Report.
(Item. 10)

1. Sharon Tan (Suffolk) provided an update on Investment performance and an overview of the draft Annual Plan.

2. Members discussed the draft Annual Plan and it was noted that the draft remained subject to financial updates from administering authorities. Ms Tan also confirmed that the intention was for all authorities to publish the Annual Report as part of their own Pension Committee arrangements.

RESOLVED that the performance update be noted and the draft Annual Plan be recommended to the administering authorities (subject to minor clarifications and amendments by Officers).

201. Sub-fund implementation.
(Item. 11)

1. Andrew Boutflower (Hampshire) provided an update on progress with sub-fund launches, allocation of assets for the ACCESS Authorities.

RESOLVED that the report be noted.

202. Contract Management update.
(Item. 12)

1. Mark Paget (ASU Contract Manager) provided a detailed update on contract management activity and ongoing engagement with Link as the contracted Operator. He highlighted relevant KPI information and management activity, answered Members' questions and provided relevant assurances to the Joint Committee.

RESOLVED that;
- the contract management update be noted; and
- the proposed amendment to the Operator agreement related to Change Controls be recommended to the administering authorities.

203. Risk Register detail.
(Item. 13)

1. Mr McDonald (ASU) provided an update on the risk register detail, highlighting where new risks had been added and any significant changes to existing risks. Assurances were provided as to the appropriate management of these risks and that workstreams were in place to address these.

RESOLVED that the risk register update be noted.

204. Link presentation (to follow).
(Item. 14)

1. Karl Midl (Link) and James Zealander (Link) attended the meeting to deliver a presentation updating ACCESS on key activity and workstreams during lockdown including an overview of remote working arrangements and related COVID-19 response matters.

RESOLVED that the presentation from Link be noted.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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