

**PENSION FUND COMMITTEE**

**Wednesday, 29th March, 2023**

**10.00 am**

**Council Chamber, Sessions House, County Hall,  
Maidstone**







## AGENDA

### PENSION FUND COMMITTEE

**Wednesday, 29th March, 2023**  
**at 10.00 am**  
**Council Chamber, Sessions House,**  
**County Hall, Maidstone**

Ask for: **Matt Dentten**  
Telephone: **03000 418381**

#### Membership

|                              |                                                                                                                                             |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Conservative (8):            | Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Mr P Bartlett, Mr P Cole, Mr P C Cooper, Mr J P McInroy, Mr S Webb and Mr J Wright |
| Labour (1):                  | Ms M Dawkins                                                                                                                                |
| Liberal Democrat (1):        | Mr D S Daley                                                                                                                                |
| Green and Independent (1):   | Mr P Stepto                                                                                                                                 |
| District Council (3)         | Cllr J Burden and two vacancies                                                                                                             |
| Medway Council (1)           | Cllr R Thorne                                                                                                                               |
| Pensioner Representative     | Mr P Doust                                                                                                                                  |
| Active Member Representative | Mr S Sim                                                                                                                                    |
| UNISON                       | vacancy                                                                                                                                     |

#### **UNRESTRICTED ITEMS**

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

- 1 Membership  
To note that Mr Webb has replaced Mrs Cole on the committee.
- 2 Apologies and Substitutes
- 3 Declarations of interest by Members in items on the agenda for this meeting

- 4 Minutes of the meeting held on 8 December 2022 (Pages 1 - 8)
- 5 Date of the next meeting  
The next meeting of the committee will be held on 22 June 2023, commencing at 10.00 am at Sessions House, Maidstone.
- 6 Committee Work Programme and Action Log (Pages 9 - 16)
- 7 Fund Employer Matters (Pages 17 - 48)
- 8 Actuarial Valuation results (Pages 49 - 50)
- 9 Funding Strategy Statement (Pages 51 - 116)
- 10 Pensions Administration (Pages 117 - 122)
- 11 McCloud Remedy Update (Pages 123 - 126)
- 12 Report from the Pension Board - To follow
- 13 Fund Position (Pages 127 - 130)
- 14 Investment Manager Monitoring (Pages 131 - 138)
- 15 Governance, Policies and Training (Pages 139 - 188)

**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)*

- 16 Investment Strategy (Pages 189 - 252)
- 17 Responsible Investment Update (Pages 253 - 260)
- 18 Administration System procurement (Pages 261 - 284)
- 19 ACCESS Update (Pages 285 - 300)
- 20 Employer Matters (Pages 301 - 302)
- 21 Business Plan (Pages 303 - 320)
- 22 Risk Register (Pages 321 - 328)

Benjamin Watts  
General Counsel  
03000 416814

**Tuesday, 21 March 2023**



**KENT COUNTY COUNCIL**

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**PENSION FUND COMMITTEE**

MINUTES of a meeting of the Pension Fund Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 8 December 2022.

PRESENT: Mr C Simkins (Chairman), Mr N J D Chard (Vice-Chairman), Cllr J Burden, Mrs P T Cole, Mr P Cole, Ms M Dawkins, Cllr N Eden-Green, Mr H Rayner (Substitute for Mr P C Cooper), Mr S Sim, Mr P Stepto, Cllr H Tejan (Substitute for Cllr R Thorne) and Mr J Wright.

ALSO PRESENT: Mr P J Oakford, Mr T English, Mr R Sinnott, Mr R J Thomas, Ms K Jamieson and Mr G Muir

IN ATTENDANCE: Mr N Buckland (Head of Pensions and Treasury), Mrs C Chambers (Pensions Administration Manager), Ms Z Cooke (Corporate Director of Finance), Mrs A Mings (Treasury and Pensions Strategic Advisor), Ms S Surana (Investments, Accounting and Pooling Manager), Miss T A Grayell (Democratic Services Officer) and Mr M Dentten (Democratic Services Officer).

**UNRESTRICTED ITEMS****93. Membership update**

*(Item 1)*

It was noted that Mr P Doust and Mr S Sim had joined the committee as Pensioner Rep and Active Member Rep, respectively. Mr Sim was present and was welcomed to the committee.

Cllr N Eden-Green advised that he would be standing down as a Canterbury City Cllr in May 2023 and so would leave the committee. He noted that the Kent fund had doubled in value during his time on the committee and had made great progress on issues such as ethical investment and ESG. He wished the committee well in its future work.

The Chairman thanked Cllr Eden-Green for his many years of service and contribution to the work of the committee.

**94. Apologies and Substitutes**

*(Item 2)*

Apologies for absence had been received from Mr P C Cooper, Mr D S Daley, Mr P Doust, Mr J McInroy and Cllr R Thorne.

Mr H Rayner was present as a substitute for Mr Cooper and Cllr H Tejan as a substitute for Cllr Thorne.

The committee noted that Mr P Bartlett was joining the meeting remotely.

**95. Declarations of interest by Members in items on the agenda for this meeting.**

*(Item 3)*

Mr P Bartlett declared that he was employed by the Bank of New York Mellon, the parent company of Insight, which was managing the equity downside protection programme.

**96. Minutes of the meeting held on 28 September 2022**

*(Item 4)*

It was RESOLVED that the minutes of the meeting held on 28 September 2022 are correctly recorded and that they be signed by the Chairman. There were no matters arising.

**97. Date of next meeting**

*(Item 5)*

It was noted that the next meeting of the committee would be held on Wednesday 29 March 2023, commencing at 10.00 am at Sessions House, Maidstone.

Thursday 2 February would be used instead as a training day.

**98. Committee work programme and Action Log**

*(Item 6)*

1. Mr Buckland introduced the report and responded to comments and questions from the committee, including the following:-

- a) paper copies of the agenda pack had not arrived in time for committee Members to use them to prepare. The DSO advised that the CC had a duty to publish and make available an agenda and papers five clear working days before a meeting but had no duty to produce and despatch paper copies of the agenda pack; this was offered as an extra as some Members preferred paper copies. Paper copies were produced and posted as soon as possible but then relied entirely on the postal service; postal strikes certainly would not help this;
- b) asked if papers could be published earlier, the DSO advised that the legal requirement was a minimum of five clear working days; material could in theory be published before that. However, to achieve this would rely on information (for instance, up to date market information) to be available earlier, and would place a heavy workload upon Mr Buckland and the pensions team to produce material earlier;
- c) another speaker pointed out that, the nearer the meeting the information was produced, the more current - and hence, more reliable – it would be; and
- d) a view was expressed that Members were sometimes given too much to read; papers could be more succinct and some information could be include in links rather than full reports.

2. It was RESOLVED that the work programme for the remainder of 2022/23, and the updated action log, be noted, with thanks.

**99. Fund Business Plan - 2022/23 - 2024/25**

*(Item 7)*

1. Mr Buckland introduced the report, about which there was no questions. He advised that, mindful of the request made in the previous discussion, the full Business Plan would be presented to the committee only once annually.
2. It was RESOLVED that the Business Plan for the Kent Pension Fund be noted, with thanks.

## **100. Fund Employer and Governance Matters** *(Item 8)*

1. Mr Tagg introduced the report, about which there were no questions.
2. It was RESOLVED that the committee note the report and agree that:
  - a) a deed of novation be entered into with Southern Housing, conditional on the receipt of any outstanding information and completion of due diligence by Invicta Law;
  - b) Skanska Construction UK Ltd be admitted to the Kent Pension Fund;
  - c) resolutions a) and b) be set out in a Record of Decision at the end of today's meeting; and
  - d) that, once legal agreements have been prepared for matters a) and b) above, the Kent County Council seal be affixed to the legal documents.

## **101. Pensions Administration** *(Item 9)*

1. Mrs C Chambers introduced the report and highlighted key challenges and areas of progress:-
  - staff recruitment had been successful, attracting candidates of a good standard;
  - a new way of working to support scheme member and employers had been established;
  - development of the member self-service portal had continued;
  - improvements in distributing mail and telephony services were expected to be completed by Christmas;
  - consultation for the admin strategy was due to commence after the Employer Forum on 9 December, with a deadline for responses by 31 January 2023.
2. The Chairman thanked Mrs Chambers for the great amount of improvement and design work she had led since joining the County Council in April 2022 and emphasised how aware Members were of the importance and complexity of the pensions admin role.
3. Mrs Chambers then responded to comments and questions from the committee, including the following:-
  - a) asked for a brief explanation of the Guaranteed Minimum Pension (GMP) rectification project, Mrs Chamber advised that this involved reconciling Fund data with DWP data and adjusting any over- or underpayment. This would involve a large scale project, which would be contracted out to an external

company, with work set to start on 1 February, to free up pensions staff to concentrate on other admin work;

- b) Regulations arising from the McCloud judgement on local authority pensions admin was still awaited from Central Government, so the impact on local authority pensions admin could not yet be identified. Kent Pension Fund were in the process of recruiting a programme manager to handle the project work relating to this (and other major projects), and an options paper to explore the likely impact of the new regulations and identify appropriate solutions would be prepared for the committee. Unfortunately, the intended timetable for issuing the new regulations had changed several times. Mr Buckland added that the team had started preparing in anticipation of receiving the new regulations, working through approximately 150,000 records. Once issued, the new regulations would have a deadline by which they would need to be introduced;
- c) asked if the team would need more resources to manage this work, Mrs Chamber advised that well qualified and capable administrators would be needed but that pensions teams all across the UK would be competing to recruit the same people to do the same work in response to the new regulations; and
- d) asked how the consultation on the new Admin Strategy was progressing, Mrs Chambers advised that the employers forum would meet on 9 December to start this and would then review the feedback and adjust work accordingly. It was hoped that the new Admin Strategy would be ready to be implemented on 1 April 2023. Mr Buckland added that a report on the new Admin Strategy would be presented to the committee's March meeting;
- e) asked what would happen to payment due to any of the 150,000 pensioners affected who had passed away since the McCloud judgement, Mrs Chambers confirmed that any payment due would be paid to their estate. Guidance on this would be included in the new Regs; and
- f) asked if Kent Pension Fund had considered re-employing retired pensions admin staff to help manage this and any other peaks of workload, Mrs Chambers advised that options were being examined.

2. It was RESOLVED that the update on work being undertaken by the pensions admin team be noted, and that the committee's thanks and appreciation be passed on to all staff.

## **102. Annual Report - verbal**

*(Item 10)*

1. Mr Buckland advised the committee that the Annual Report and draft accounts considered by the cttee at its previous meeting had been published on the Pension Fund website. The accounts would remain draft until they had been certified by the auditors.
2. The verbal update was noted, with thanks.

## **103. Report from the Pension Board - verbal**

*(Item 11)*

1. Mr R Thomas, chair of the Pension Board, gave a verbal update on the most recent meeting of the board. After having vacancies for some time, the board now had full membership and had been able to hold a quorate meeting on 24 November 2022 and welcome Cllr Rachel Carnac from Canterbury CC as a new DC rep. Since then, two additional new Members – Kelly King and Grahame Ward – had joined as Active Scheme Member Representative and Pensioner Representative, respectively, and Alison Mings would join the board in January 2023 to complete the membership.
2. The board had considered and noted updates on the governance review, for which they noted the great amount of work put into implementing Barnett Waddingham's recommendations, and Access, for which they noted that the Chair and Vice-Chair would attend and observe the March Access meeting. The board also considered the risk register.
3. Mr Thomas apologised that he had not produced a written update and suggested that, in advance of the next meeting, he circulate a written update. Mr Buckland undertook to liaise with Mr Thomas about how best to manage this.
4. The committee welcomed the advent of full membership for the board so it could meet as intended and fulfil its previous reciprocal relationship with the committee.
5. The verbal update was noted, with thanks.

#### **104. ACCESS update**

*(Item 12)*

1. Mr Buckland introduced the report and responded to comments and questions from the committee, including the following:-
  - a) asked about a ceiling for the percentage of the fund which could be pooled, Mr Buckland advised that, out of the 11 members of the Access pool, Kent had the lowest percentage – 40% - of its assets pooled. He advised that Government guidance on pooling, currently expected in spring 2023, was expected to encourage funds to increase the speed of pooling and to include the majority of their assets. The Kent Fund continued to investigate opportunities to pool further assets. The Chairman reminded the committee that one of the benefits of asset pooling was reduced management fees;
  - b) a view was expressed by several Members that it would be helpful for newer Members to have a briefing on the aims of and background to asset pooling. Mr Buckland undertook to include a section on pooling at the planned Committee training day. He also suggested that it would be helpful to arrange a separate training session in 2023, and the team would also draft a briefing paper; and
  - c) asked why, if pooling was considered beneficial, Kent had limited its pooling to only 40% of the Fund, and if greater pooling would mean relinquishing some control. The Chairman advised that the Kent Fund was keen to continue to pool assets, but there needed to be

appropriate vehicles available to implement the Investment Strategy of the Kent Fund. Under asset pooling investment manager selection became the responsibility of the Pool, however each fund retained sovereignty over their own investment strategy.

2. It was RESOLVED that the update report be noted, with thanks.

## **105. Fund Position**

*(Item 13)*

1. Mr Buckland introduced the report and, in response to a question about benchmarking and how this was set, advised that the benchmark for any asset class was a composite of the committee's investment strategy and asset managers' own benchmarks, divided by the percentage of the fund held in that asset class. If the fund's overall value exceeded the Actuarial valuation, the benchmark would be set slightly higher.
2. It was RESOLVED that the update report be noted, with thanks.

## **106. Governance review - update**

*(Item 14)*

1. The Chairman thanked Mrs Mings for the great amount of work she had put it into commissioning the governance review and actioning its recommendations.
2. Mrs Mings introduced the report and the four draft policies which the committee was being asked to approve. She responded to comments and questions from the committee, including the following:-
  - a) asked about the abatements policy, Mrs Chambers advised that this related to people returning to work after retiring and taking their pension, which the Government had tried to discontinue. Committee Members sought more detail and clarity around this policy before being asked to approve it (rec d)); and
  - b) problems with conflicts of interest (rec a)) which could arise in theory should not occur, given the way in which the Kent fund was run.
3. It was RESOLVED that the report be noted and that the committee approve the following draft policies, as appended to the report:
  - a) a Fund Conflicts of Interest Policy;
  - b) a policy for reporting breaches of the law; and
  - c) an administering authority discretions policy;and
  - d) an abatements policy, subject to the committee being given more detail and clarity around this policy.

4. The committee placed on record its thanks to Mrs Mings, on behalf of the fund and its members, for her many years' service in supporting and advising the fund and the committee.

#### **107. Motion to exclude the press and public for exempt business**

The committee 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 paragraph 3 of part 1 of Schedule 12A of the Act.

#### **EXEMPT BUSINESS**

Open access to minutes

#### **108. Pension Fund Risk Register**

*(Item 15)*

1. Mr Buckland introduced the report and advised that, in future, only changes to the register would be reported to the committee rather than the whole register. The register had been re-categorized to match the format of the Business Plan.
2. It was RESOLVED that the updated risk register be approved.

#### **109. Actuarial Valuation 2022 Update**

*(Item 16)*

*Graeme Muir and Karen Jamieson from Barnett Waddingham were present for this item at the invitation of the committee.*

1. Mr Muir and Ms Jamieson presented a series of slides setting out the purpose and process of the triennial valuation, the financial and demographic assumptions on which a valuation was based and the outstanding issues, for example, the Regs arising from the McCloud judgement, which would have a future bearing on the valuation.
2. The committee commended the clarity and extent of the information presented. Mr Muir and Ms Jamieson responded to comments and questions of detail from the committee, including about data sources used to inform assessment of climate risk, the method for monitoring the fund value between the formal triannual valuations and the current trend for people to take earlier retirement.
3. It was RESOLVED that the initial results of the 2022 Actuarial Valuation and the timeline, inclusion the review and revision of the Funding Strategy Statement, be noted.

#### **110. Investment Strategy**

*(Item 17)*

*A revised report on the Investment Strategy had been issued after the main agenda. This included an additional recommendation d) to take account of recommendations arising from a meeting of the Equity Protection Working Group which had taken place on the day of despatching the main agenda pack.*

1. Mr English and Mr Sinnott introduced the report and responded to comments and questions of detail from the committee, including issues which the committee wished to include in the training day planned for February.
2. The committee commended the clarity and extent of the information set out and agreed the expanded recommendations set out in the revised report.

#### **111. Responsible Investment update**

*(Item 18)*

1. Mr Buckland introduced the report, about which there were no questions.
2. It was RESOLVED that the update report be noted, with thanks.



From: Chairman Pension Fund Committee  
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: Committee work programme and Action Log

Classification: Unrestricted

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**Summary:**

To report on the updated Committee work programme for 2023/24, and note the action log from previous meetings.

**Recommendation:**

The Committee is recommended to note the work programme for 2023/24 and the updated action log.

**FOR INFORMATION**

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**1. Committee Work Programme**

- 1.1 Members will be aware that the established meeting pattern is 4 quarterly meetings plus 1 extra to allow for training.
- 1.2 Appendix 1 shows the plans for the formal Committee meetings in 2023/24.
- 1.3 This work programme is intended to inform the Committee of the key items that will be considered at those meetings. This programme will be subject to change as issues arise, and updates will be brought to every meeting.
- 1.4 The Committee agenda has been too full to allow for attendance by investment managers for the last three meetings, and officers have been working on a plan with the Chairman and Vice Chairman to formalise the manager monitoring and oversight arrangements. The proposed approach was discussed at the Committee away day at the start of March and a paper will be presented to the Committee later on today's agenda.

**2. Committee Action Log**

- 2.1 Since the start of 2022 Officers have kept a log of actions arising from the Committee meetings. This log enables the team to ensure that everything

raised at meetings and actions arising from this are not missed and followed up in a timely fashion.

- 2.2 Appendix 2 contains the log of actions for the meetings in 2022/23 with notes showing progress against these. This is shown in addition to the formal minutes as a way of the Committee monitoring progress.
- 2.3 Actions that are complete, that relate to a meeting before the previous one has been struck through and highlighted as such. The log will be updated after each meeting and run for each financial year, when it will reset, with any outstanding actions added to the start of the following year.

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**Nick Buckland, Head of Pensions and Treasury**

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**E: [nick.buckland@kent.gov.uk](mailto:nick.buckland@kent.gov.uk)**

**March 2023**

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## Draft Committee workplan

|                                                                                                                   | 22<br>June<br>2023 | 26<br>September<br>2023 | 12<br>December<br>2023 | 26<br>March<br>2024 |
|-------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------|------------------------|---------------------|
| Work programme update                                                                                             | Y                  | Y                       | Y                      | Y                   |
| Governance update including Fund policies due for review                                                          | Y                  | Y                       | Y                      | Y                   |
| Update from the Pensions Board meeting                                                                            | Y                  | Y                       | Y                      | Y                   |
| Pension Fund Business plan and budget update                                                                      | Y                  | Y                       | Y                      | Y                   |
| ACCESS update                                                                                                     | Y                  | Y                       | Y                      | Y                   |
| Fund Employer matters                                                                                             | Y                  | Y                       | Y                      | Y                   |
| Administration update <ul style="list-style-type: none"> <li>• McCloud</li> <li>• KPI reporting</li> </ul>        | Y                  | Y                       | Y                      | Y                   |
| Training update                                                                                                   | Y                  | -                       | Y                      | -                   |
| Fund Position Statement                                                                                           | Y                  | Y                       | Y                      | Y                   |
| Risk register update                                                                                              | Y                  | Y                       | Y                      | Y                   |
| Investment Strategy <ul style="list-style-type: none"> <li>• Rebalancing</li> <li>• Manager monitoring</li> </ul> | Y                  | Y                       | Y                      | Y                   |
| Review of Investment Strategy (b)                                                                                 | Y                  | Y                       |                        |                     |
| Investment Strategy Statement                                                                                     | Y                  | -                       | -                      | -                   |
| Investment Strategy Implementation                                                                                | -                  | Y                       | Y                      | Y                   |
| Responsible Investment (b)                                                                                        | Y                  | Y                       | Y                      | Y                   |

## Notes

- (a) Investment Strategy will be presented to Committee for approval in June 2023. This was originally planned for March but due to the away day being moved, this has been moved to June. Further work on Equity protection and implementation will take place at future meetings.
- (b) RI working group to meet monthly.

## Pension Fund Committee Action Log – 2022-23

| Date of Meeting | Agenda Item                         | Action/Question                                                                                                                                           | Outcome                                                                                                                                                                                      | Complete (Y/N)                     |
|-----------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| 03/02/2022      | LAPFF Membership                    | Membership agreed                                                                                                                                         | KPF joined LAPFF                                                                                                                                                                             | Y                                  |
| 03/02/2022      | RI Training                         | RI working group has progressed workplan                                                                                                                  | RI integration and review of RI Policy considered in 2023. Workplan for 2023 agreed by RI working group in February 2023                                                                     | Remains ongoing                    |
| 22/06/2022      | Fund Employer and Governance matter | How does Kent compare to other Funds in Funding level and contribution rates?                                                                             | 2019 position shared as part of Valuation exercise. This will be updated when 2022 results are known                                                                                         | N                                  |
| 22/06/2022      | 6 - Pensions Administration         | Pensions Administration Strategy - can one be put in place ASAP including penalties if employers do not provide information in a timely manner as agreed. | Draft Administration Strategy agreed by Committee in September. Employers consulted, final version to be presented to Committee for approval 29 March 2023, for implementation 1 April 2023. | Due to be complete by 1 April 2023 |
| 22/06/2022      | 12 - Risk Register                  | Should we add in Geopolitical risk to the risk register                                                                                                   | Has been added as part of investment risk in updated RR                                                                                                                                      | Y                                  |
| 22/06/2022      | 15 - Investment Strategy            | Should we limit our exposure to a single manager?                                                                                                         | To be considered as part of implementation of the Strategy                                                                                                                                   | N                                  |

|            |                                     |                                                                                                 |                                                                                                                                                    |                 |
|------------|-------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
|            |                                     |                                                                                                 | review                                                                                                                                             |                 |
| 28/09/2022 | 6 – Employer and Governance matters | Admission of Apleona UK and Cater Link agreed                                                   | Admission documents agreed.                                                                                                                        | ✓               |
| 28/09/2022 | 6 - Employer and Governance matters | Concern re impact of inflation on pension payments. Potential for 10% increase from April 2023. | Cashflow regularly monitored. This will have a negative impact, but overall Fund remains cashflow positive. Will be monitored on an ongoing basis. | Remains ongoing |
| 28/09/2022 | 8 - Pensions Admin                  | Plans for review of workload of administration team ahead of significant workload.              | Team has been reviewed, and recruitment plans commenced. Committee to be updated regularly.                                                        | Remains ongoing |
| 28/09/2022 | 9 - Training update                 | National Knowledge Assessment launched                                                          | Results of Hymans Robertson assessment to be presented to March 2023 Committee with plan developed ahead of June 2023 meeting.                     | Ongoing         |
| 28/09/2022 | 11 - report from the Pension Board  | Board to agree terms of conduct at next meeting                                                 | Board agreed updates at meeting in November                                                                                                        | ✓               |
| 28/09/2022 | 12 – ACCESS update                  | Kent reps to attend March 2023 ACCESS JC meeting                                                | Reps agreed by Board at meeting in November                                                                                                        | ✓               |
| 28/09/2022 | 14 – Governance review update       | Governance policy and compliance statement agreed                                               | Updated document published on website                                                                                                              | ✓               |
| 28/09/2022 | 17 – Investment Strategy            | Commitment of £20m to YFM and delegation to Corp FD to implement                                | Commitment progressed with YFM                                                                                                                     | ✓               |

|            |                                     |                                                                                                             |                                                                                                                                                                                  |         |
|------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| 28/09/2022 | 17 - Investment Strategy            | Delegation to Chair and Corp FD re appointment of investment consultant                                     | Appointment of Mercer confirmed                                                                                                                                                  | Y       |
| 28/09/2022 | 18 - Actuarial valuation            | Delegation to Chair and Corp FD - whole Fund results                                                        | Agreed at meeting 3 November                                                                                                                                                     | Y       |
| 28/09/2022 | 19 - RI update                      | Delegation to RI working group re submission to climate change risk consultation                            | Submission drafted and submitted 24 November                                                                                                                                     | Y       |
| 8/12/2022  | 1 - Membership update               | Mr Eden-Green resigned his membership of the Committee                                                      | NB to contact district councils, via KFOs and Kent Leaders to request replacements for Mr Eden-Green and Mr Clokie. Will make additional contact after the elections in May 2023 | Ongoing |
| 8/12/2022  | 6 - Employer and Governance matters | Admission of Skanska agreed                                                                                 | Admission documents agreed.                                                                                                                                                      | Y       |
| 8/12/2022  | 6 - Employer and Governance matters | Deed of novation be entered into with Southern Housing in relation to Optivo                                | Legal agreement agreed                                                                                                                                                           | Y       |
| 8/12/2022  | 12 - ACCESS update                  | Training/briefing note on pooling and ACCESS requested                                                      | Committee away day would cover pooling, and briefing paper and separate training session to be arranged/prepared                                                                 | Ongoing |
| 8/12/2022  | 14 - Governance                     | Conflicts of Interest policy, breaches of law policy and Administering authority discretions policy agreed. | Policies agreed and published on website                                                                                                                                         | Y       |

|           |                 |                    |                                                                                             |         |
|-----------|-----------------|--------------------|---------------------------------------------------------------------------------------------|---------|
| 8/12/2022 | 14 - Governance | Policies presented | Abatements Policy agreed subject to more clarity – Further explanation given in March 2023. | Ongoing |
|-----------|-----------------|--------------------|---------------------------------------------------------------------------------------------|---------|

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To: Kent Pension Fund Committee – 29 March 2023

From: Chairman Pension Fund Committee  
Corporate Director of Finance

Subject: Fund Employer Matters

Classification: Unrestricted

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**Summary:**

This report provides information on Fund employers for the 9 months ending 31 December 2022. The report also proposes one employer admission and requests approval for the treatment of surpluses related to two exiting employers. Finally, the report also covers a potential regulatory initiative known as “deemed employer status”, which officers have identified as a development that could benefit the Fund and its stakeholders.

**Recommendations:**

The Committee are asked to note the report and to resolve to agree:

- a) to the admission to the Kent Pension Fund of Cater Link Ltd re Future Schools Trust;
- b) that the Kier surplus is allocated to KCC’s notional share of the Fund;
- c) that the Sopra Steria surplus is allocated to Folkestone and Hythe District Councils’ notional share of the Fund;
- d) that the Fund writes to DLUHC asking for an update on the matter of deemed employer status;
- e) that the Chairman may add recommendations a) to d) to the Record of Decision at the end of today’s meeting; and
- f) that once legal agreements have been prepared for a) above the Kent County Council seal can be affixed to the legal documents.

**FOR DECISION**

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**Summary:****1. Introduction**

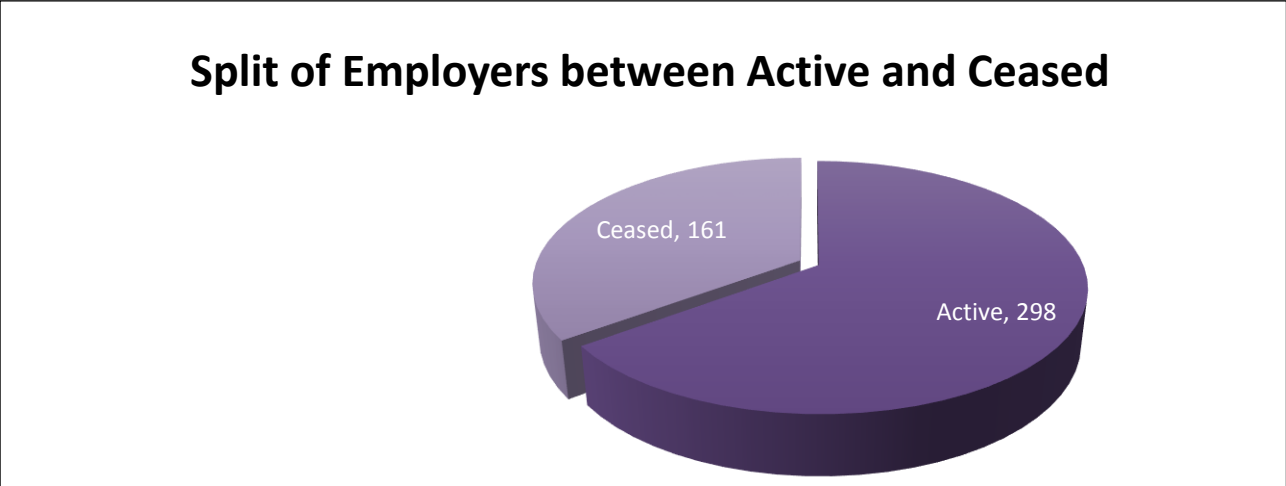
This report provides information on Fund employers for the 9 months ending 31 December 2022. The report also proposes one employer admission and

requests approval for the treatment of surpluses related to two exiting employers. Finally, the report also covers a potential regulatory initiative known as “deemed employer status”, which officers have identified as a development that could benefit the Fund and its stakeholders.

**2. Employer Update for the 9 months to 31 December 2022**

2.1 This report provides information on Fund employers for the first 9 months of the current financial year ending 31 December 2022.

2.2 At its last meeting the Committee received an update on employer numbers as at 30 September 2022, when there were 457 employers in the Fund. This number increased by 2 over the final quarter of 2022 and therefore there were 459 employers in the Fund on 31 December 2022. During this 3-month period 2 new employers joined the Fund. In addition, 3 employers changed from being active to ceased although this does not affect the overall number of 459.



2.3 The following table lists employers who joined the Fund as well as those who ceased to have active members in the Fund during the 9 months to 31 December 2022.

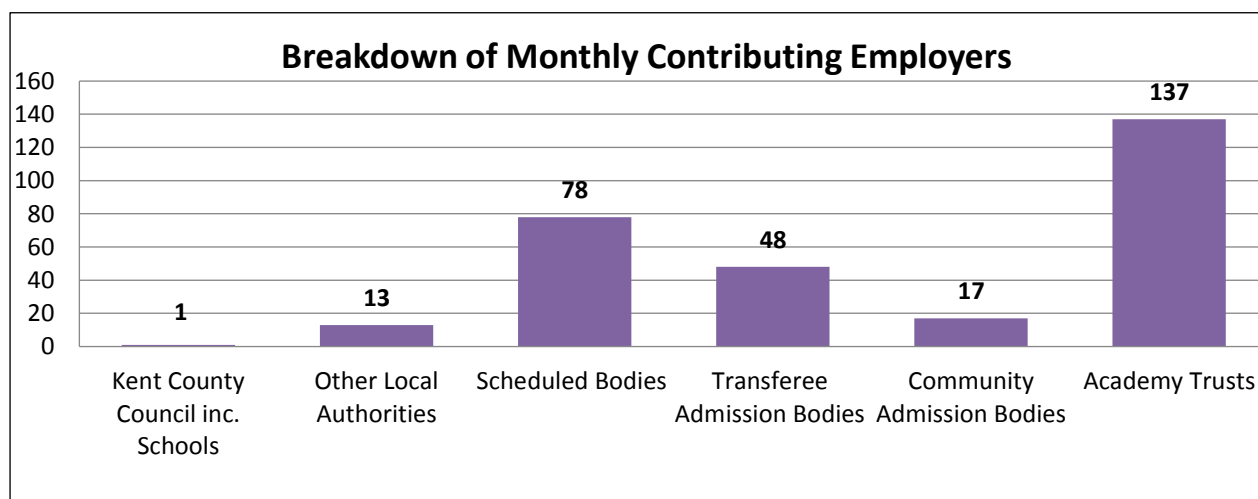
| <b>New Employers</b>                                                                      | <b>Effective Date</b>                   |
|-------------------------------------------------------------------------------------------|-----------------------------------------|
| <b>Admission Bodies</b>                                                                   |                                         |
| Olive Dining                                                                              | 1 May 2019 (backdated admission)        |
| Independent Catering Management Ltd (re Robert Napier Fort Pitt Thomas Aveling Academies) | 1 August 2020 (backdated admission)     |
| Pabulum Ltd -Tenterden Schools Trust                                                      | 1 December 2020 (backdated admission)   |
| Town and County Cleaners Ltd (re The Stour Academy Trust)                                 | 1 August 2021 (backdated admission)     |
| Churchill Contract Services Ltd (re Lordswood School)                                     | 1 August 2014 (backdated admission)     |
| Sports and Leisure Management Ltd                                                         | 14 January 2022 (backdated admission)   |
| <b>Scheduled Bodies</b>                                                                   |                                         |
| Leybourne Parish Council                                                                  | 1 September 2021 (backdated resolution) |
| <b>Academy Trusts</b>                                                                     |                                         |
| Hornchurch Academy Trust                                                                  | 1 July 2022                             |
| Bourne Alliance Trust                                                                     | 1 September 2022                        |
| Character Education Trust                                                                 | 1 September 2022                        |

| <b>Ceased Employers</b>                         | <b>Effective Date</b>                 |
|-------------------------------------------------|---------------------------------------|
| <b>Admission Bodies</b>                         |                                       |
| Olive Dining                                    | 31 October 2020 (backdated admission) |
| Capita Managed IT Solutions (St Georges School) | 31 March 2022                         |
| Nourish Contract Catering Ltd (re Stour)        | 31 July 2022                          |
| Amey Community Ltd                              | 31 October 2022                       |
| Skanska Construction UK Ltd                     | 31 October 2022                       |
| Churchill Contract Services Ltd (re Skanska)    | 31 October 2022                       |
| <b>Scheduled Bodies</b>                         |                                       |
| Higham Parish Council                           | 5 October 2021                        |

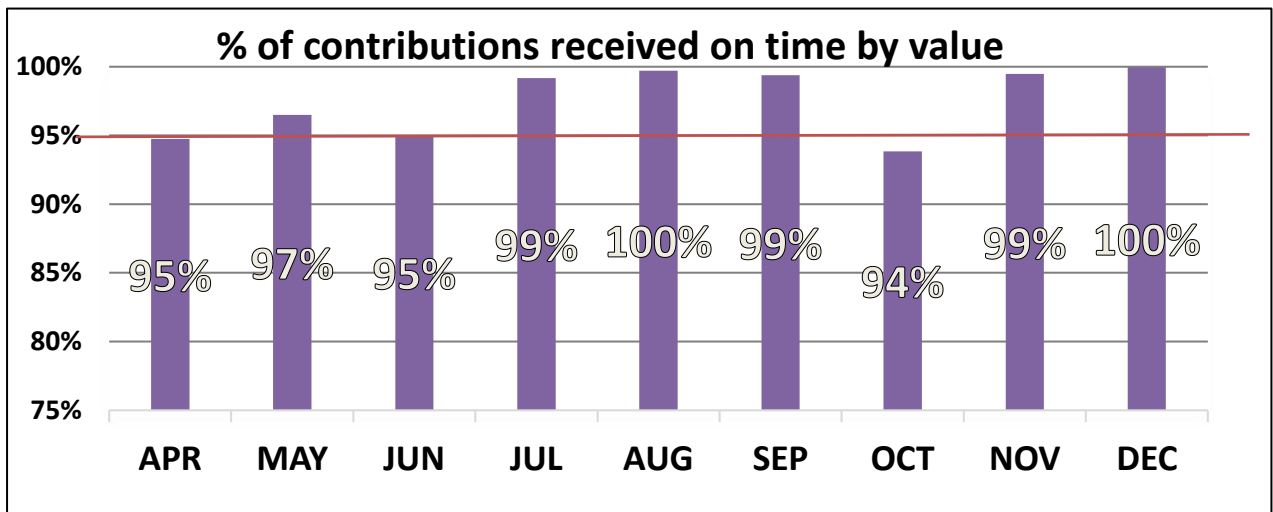
2.4 In the 9 months to 31 December 2022 the Fund received £217.6m from employers in respect of their monthly contributions (employer and employee) as follows:

|              | <b>Received Early</b> | <b>Cash on 19th</b> | <b>Received Late</b> | <b>Total</b>       |
|--------------|-----------------------|---------------------|----------------------|--------------------|
|              | <b>£</b>              | <b>£</b>            | <b>£</b>             | <b>£</b>           |
| April        | 14,004,162            | 9,506,182           | 614,797              | 24,125,141         |
| May          | 13,974,463            | 9,213,109           | 557,288              | 23,744,860         |
| June         | 14,119,396            | 9,108,759           | 977,114              | 24,205,269         |
| July         | 13,907,081            | 9,647,067           | 197,479              | 23,751,627         |
| August       | 21,675,848            | 1,860,797           | 65,812               | 23,602,457         |
| September    | 14,919,959            | 8,617,175           | 146,780              | 23,683,914         |
| October      | 14,080,940            | 8,711,941           | 1,497,137            | 24,290,018         |
| November     | 15,990,610            | 8,946,270           | 133,711              | 25,070,591         |
| December     | 15,782,874            | 9,379,261           | 6,132                | 25,168,267         |
| <b>Total</b> | <b>138,455,333</b>    | <b>74,990,561</b>   | <b>4,196,250</b>     | <b>217,642,144</b> |

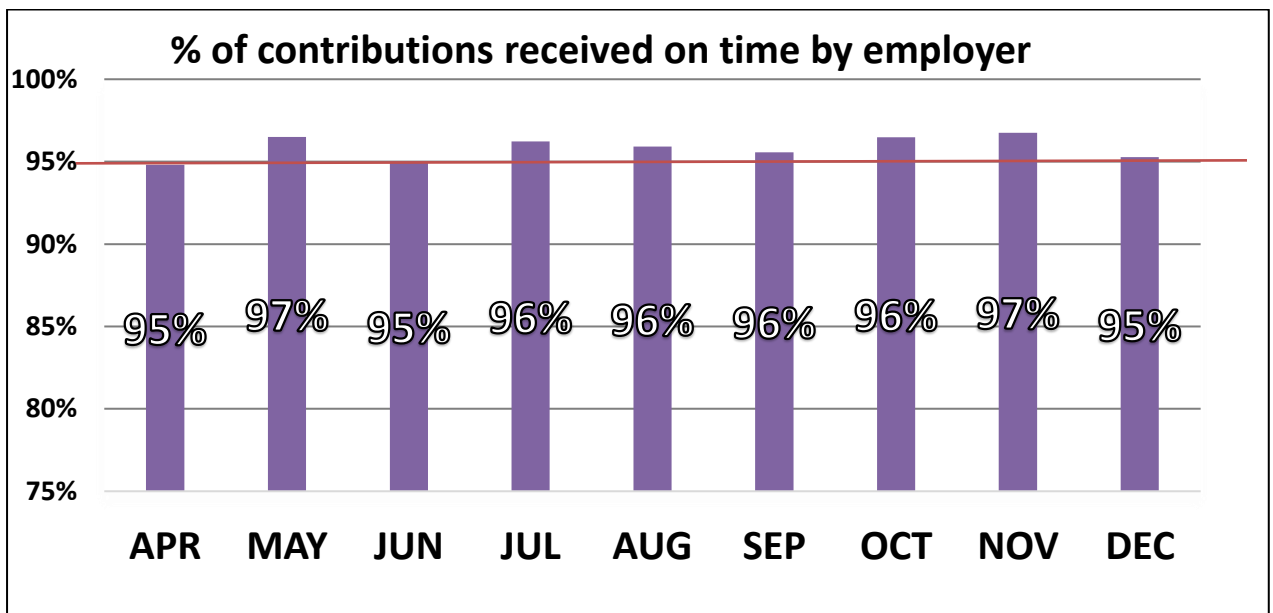
2.5 The following table shows employers from whom the Fund receives monthly contributions by Employer Group, 4 less than the pie chart at 2.2 above because these employers have no active members and pay their secondary employer contributions annually or half yearly.



2.6 The Key Performance Indicator (KPI) of 95% for % of contributions was met every month April to December 2022 bar October 2022, when Medway Council paid late on 23 November 2022 following chasing from officers.



2.7 The Key Performance Indicator (KPI) of 95% for % employers was met every month April to December 2022.



### 3. Cater Link Ltd (re Future Schools Trust)

3.1 Future Schools Trust has awarded a 4-year and 10-month contract for catering services from 1 November 2022 and this involved the transfer of 12 employees to Cater Link Ltd.

3.2 Cater Link Ltd has applied retrospectively for admission to the Pension Fund to ensure the continuity of pension arrangements for staff.

3.3 The admission application has been made under Schedule 2 Part 3 1(d) (i) of the LGPS Regulations 2013, as amended, and under this regulation the admitted body is required to provide some form of security.

- 3.4 The Fund actuary has assessed the employer contribution rate as 24.0% for a closed agreement and the bond for the first year as £52,000.
- 3.5 The completed questionnaires and supporting documents provided by Cater Link Ltd have been examined by officers to ensure compliance with the LGPS regulations, and Invicta Law has given a favourable opinion.
- 3.6 The Committee is asked to agree that Cater Link Ltd (re Future Schools Trust) be admitted to the Fund.

#### **4. Exiting Employers in Surplus**

- 4.1 At their meeting on 13 June 2018 Committee were advised the LGPS regulations were amended on 14 May 2018 to allow for a surplus to be returned to an exiting employer or for the surplus to be notionally allocated to the letting authorities' share of the Fund in the case of a contractor's exit.
- 4.2 Commercial contracts and associated admission agreements that predate the May 2018 LGPS regulation changes are often silent on the treatment of a surplus on exit.
- 4.3 At their meeting on 12 June 2019 Committee agreed that termination letters regarding returns of surplus up to £20k and notifications re deficits as described in the actuary's reports be delegated to officers.
- 4.4 In September 2021 the Committee agreed to the existing Funding Strategy Statement.
- 4.5 Kier Facilities Services Ltd (2)
  - 4.5.1 Kier Facilities Services Ltd (2) (Kier) joined the Fund on 21 January 2015 as an admission body and exited on 20 January 2020. KCC is the scheme employer.
  - 4.5.2 The admission agreement makes Kier responsible for any deficit although is silent on the treatment of any surplus.
  - 4.5.3 Kiers cessation report shows a surplus of £143k.
  - 4.5.4 As per the LGPS regulations, any surplus paid is capped at the total employer contributions received which were £126k and representations from Kier and KCC have been sought in consideration of the surplus.
  - 4.5.5 Officers have established with Kier that under their commercial contract it is KCC who were exposed to any underfunding risk on the cessation of their agreement which has been confirmed by KCC.
  - 4.5.6 The Committee is asked to agree the surplus is allocated to KCC's notional Share of the Fund, capped at the total employer contributions

paid by Kier (being £126k) less £16k of outstanding fees and strain costs payable by Kier as advised by Barnett Waddingham.

#### 4.6 Sopra Steria Ltd

- 4.6.1 Sopra Steria Ltd joined the Fund on 1 April 2012 as an admission body and exited on 31 March 2020. Folkestone and Hythe District Council (FHDC) is the scheme employer.
- 4.6.2 The admission agreement makes Sopra Steria Ltd responsible for any deficit although is silent on the treatment of any surplus.
- 4.6.3 The Sopra Steria cessation report shows a surplus of £278k.
- 4.6.4 As per the LGPS regulations, any surplus paid is capped at the total employer contributions received which were more than the above £278k surplus and representations from Sopra Steria Ltd and FHDC have been sought in consideration of the surplus.
- 4.6.5 Officers have established with Sopra Steria Ltd that under their commercial contract it is FHDC who were exposed to any underfunding risk on the cessation of their agreement which has been confirmed by FHDC.
- 4.6.6 The Committee are asked to agree the surplus is allocated to FHDC's notional share of the Fund.

#### 5. **2019 Government Consultation - deemed employer route**

- 5.1 In May 2018 the LGPS regulations were amended to allow LGPS legal documents to be given retrospective effect back to the staff transfer date. Whilst this has provided welcome flexibility for the Fund, letting authorities and contractors it also causes practical difficulties for the employees involved in a staff transfer who may wish to retire etc before the legal documents are completed, leading to a delay in processing their LGPS benefits.
- 5.2 At their meeting on 21 June 2019 Committee were advised the then Ministry of Housing, Communities & Local Government (MHCLG) ran a consultation from January to April 2019 called *Fair Deal – strengthening pension protection*. Officers did not respond to the consultation on behalf of the Fund although broadly welcomed the proposals. This consultation is attached at Appendix one.
- 5.3 The consultation proposed that service providers do not necessarily need to become admission bodies in the LGPS to participate in the scheme. Instead 'deemed employer status' could be used, with LGPS risk retained by the letting authority, whilst the LGPS contributions are paid by the contractor potentially at the same rate as the letting authority.

- 5.4 Officers anticipate the deemed employer route for entry to the Fund would reduce costs and delays by potentially minimising the involvement of the actuary and the need for a legal admission agreement and associated security.
- 5.5 There has been no further update on the deemed employer route following the 2019 consultation and it is recommended the Chair of the Committee write to The Department of Levelling Up, Housing and Communities (DLUHC) to express the Fund's support for it and to ask for amendments to the LGPS regulations to be made as soon as possible.

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**E: [Steve.Tagg@kent.gov.uk](mailto:Steve.Tagg@kent.gov.uk)      March 2023**

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Ministry of Housing,  
Communities &  
Local Government

# Local Government Pension Scheme: Fair Deal – Strengthening pension protection

Policy consultation



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# Scope of the consultation

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Topic of this consultation:</p> | <p>This consultation seeks views on proposals to amend the rules of the Local Government Pension Scheme in England and Wales, as set out in the draft Local Government Pension Scheme (Amendment) Regulations 2019 (Annex A). It covers the following areas:</p> <ol style="list-style-type: none"> <li>1. Amendments that would require service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer (and remove the option of a broadly comparable scheme).</li> <li>2. Proposals that would automatically transfer LGPS assets and liabilities when employers in the scheme are involved in a merger or takeover.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p>Scope of this consultation:</p> | <p>MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p>Geographical scope:</p>         | <p>These proposals relate to the Local Government Pension Scheme in England and Wales only.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p>Impact Assessment:</p>          | <p>Our Fair Deal proposals will strengthen the pensions protections that apply following an outsourcing and it is intended that all transferred staff of relevant LGPS employers will benefit equally from the new provisions. We do not believe our proposals will have an adverse impact on any section of the LGPS employer workforce, and believe they will have equal positive impacts on groups with and without particular protected characteristics. This is including in relation to staff who work flexibly, part-time or who have taken career breaks. This is because our reforms are intended to equalise pensions rights between those who have and have not been outsourced from their LGPS employer, with them all having continued access to membership of the LGPS.</p> <p>None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015. Our Fair Deal proposals will require bodies who provide services to LGPS employers to provide employees with continued access to the LGPS following a transfer. For a small number of transfers, there may be some additional costs associated with outsourcing staff under the new provisions. This may be the case where an LGPS employer is not currently subject to the 2007 or 2012 Directions (see paragraph 8), but it is proposed they would be subject to our new regulations. Nevertheless, we expect this to apply in a minority of situations and only to outsourcings from public bodies or publicly owned companies.</p> |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>Additionally our proposals to introduce a new way for contractors to participate in the LGPS (the 'deemed employer' approach) are intended to give greater flexibility to outsourcing employers which will potentially help them obtain better value from their contracts. For contractors, the proposals are intended to give them greater certainty on the pensions costs they will face over the life of the contract.</p> <p>The proposals in chapter 3 that provide for the automatic transfer of assets and liabilities where an employer is subject of a merger or takeover are intended to protect LGPS funds from the unintended consequences of organisational changes. They are also intended to give greater certainty to all parties about the responsibility for pensions liabilities after such events.</p> |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Basic Information

|                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>To:</p>                                           | <p>This consultation is particularly aimed at those with an interest in the obligations that apply when a service or function is outsourced from an LGPS employer, including employees, outsourcing employers, and service providers.</p> <p>Any change to the LGPS is likely to be of interest to other stakeholders as well, such as local pension administrators, those who advise them, other LGPS employers and local taxpayers.</p>                                                   |
| <p>Body/bodies responsible for the consultation:</p> | <p>Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government</p>                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>Duration:</p>                                     | <p>This consultation will last for 12 weeks from Thursday 10 January 2019 to Thursday 4 April 2019.</p>                                                                                                                                                                                                                                                                                                                                                                                     |
| <p>Enquiries:</p>                                    | <p>For any enquiries about the consultation please contact <a href="mailto:LGpensions@communities.gov.uk">LGpensions@communities.gov.uk</a>.</p>                                                                                                                                                                                                                                                                                                                                            |
| <p>How to respond:</p>                               | <p>Please respond by email to:</p> <p><a href="mailto:LGpensions@communities.gov.uk">LGpensions@communities.gov.uk</a></p> <p>Alternatively, please send postal responses to:</p> <p>LGF Reform and Pensions Team<br/> Ministry of Housing, Communities and Local Government<br/> 2nd Floor, Fry Building<br/> 2 Marsham Street<br/> London<br/> SW1P 4DF</p> <p>When you reply it would be very useful if you could make it clear which questions you are responding to. Additionally,</p> |

|  |                                                                                                                                              |
|--|----------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:</p> |
|--|----------------------------------------------------------------------------------------------------------------------------------------------|

- your name,
- your position (if applicable),
- the name of organisation (if applicable),
- an address (including post-code),
- an email address, and
- a contact telephone number.

# Chapter 1 – Introduction

1. The Ministry of Housing, Communities and Local Government (MHCLG) consulted in May 2016<sup>1</sup> on the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The 2016 consultation proposed that, in line with the Government's Fair Deal guidance of October 2013<sup>2</sup>, most LGPS members in this position should have continued access to the LGPS in their employment with the service provider. In doing so, it was proposed that the option to provide transferring staff with access to a broadly comparable scheme should be removed.
2. On 19 April 2018, the Government response to the consultation confirmed our commitment to introduce the strengthened Fair Deal in the LGPS but noted that respondents to the 2016 consultation had raised a number of concerns regarding the specific approach we proposed to adopt. We said we would give full consideration to the points raised and committed to consult on new proposals by the end of the year.
3. Chapter 2 of this document sets out our new policy proposals for introducing Fair Deal in the LGPS, which will enable LGPS employers to obtain better value from outsourced service contracts, and ensure that transferred employees retain the security which comes with membership of the LGPS, a statutory scheme with benefits set out in law. We welcome comments from respondents on our questions.
4. We are also taking this opportunity to consult on another change to the rules of the LGPS (as set out in more detail in Chapter 3). This change would provide for the automatic transfer of LGPS assets and liabilities to a successor body when an exiting LGPS employer is taken over or is part of a merger.
5. Your comments are invited on the questions contained in chapters 2 and 3 and the set of draft regulations at Annex A.
6. **The closing date for responses on the draft regulations at Annex A, and the related questions in Chapters 2 and 3, is Thursday 4 April 2019.**

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<sup>1</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

<sup>2</sup> <https://www.gov.uk/government/publications/fair-deal-guidance>

## Chapter 2 – Fair Deal

7. The Government's 'Fair Deal' policy was introduced in 1999 and sets out how pensions issues should be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. Under the original Fair Deal guidance, transferred staff had to be given access to a scheme certified as being 'broadly comparable' to their previous public service pension scheme.
8. Following the publication of the Government's original Fair Deal guidance, pensions protection for local government employees in England and Wales was provided through:
  - the Best Value Staff Transfers (Pensions Direction) 2007 ('the 2007 Direction' - covering employees of English best value authorities and Welsh Police authorities), and
  - the Welsh Authorities Staff Transfers (Pensions) Direction 2012 ('the 2012 Welsh Direction' - covering employees of Welsh improvement authorities and community councils).
9. Under these Directions, protected employees who are contracted out to a new employer following the transfer of a service or function must be given either continued access to the LGPS by their new employer, or access to a scheme certified by an actuary as 'broadly comparable' to the LGPS.
10. The Government announced in July 2012 that the Fair Deal policy would be reformed. Under the 'new' Fair Deal policy, staff transferring from the public sector would have continued access to their public service pension scheme rather than being offered a broadly comparable private pension scheme, as was previously the case.
11. HM Treasury published its revised Fair Deal guidance in October 2013<sup>3</sup>. It covers central government departments and their agencies, the NHS, schools that are not local authority maintained (such as academies), and any other parts of the public sector under the control of Ministers where staff are eligible to be members of a public service pension scheme.
12. As set out in the Introduction, the Government now intends to introduce the strengthened Fair Deal in the LGPS. The proposed reforms will mean that independent providers will no longer have the option of providing transferred staff with access to a broadly comparable scheme. Instead, employees will always have continued access to the LGPS. This strengthens existing protections significantly. Protected employees will have increased confidence and security in knowing that, despite their transfer, they will retain a right to all the benefits that come with membership of the LGPS, not least that it is a statutory scheme with benefits set out in law. Moreover, so long as the protected employees remain wholly or mainly employed on the delivery of the service or function

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<sup>3</sup> <https://www.gov.uk/government/publications/fair-deal-guidance>



transferred, they will continue to have that protection even if the service is subsequently sub-contracted or transferred out again.

13. Responses to the 2016 consultation were mixed. Whilst many respondents were supportive of our aims in providing transferred staff with continued access to the LGPS, there were a variety of concerns on the detail of the proposals. More detail on the issues raised are contained in the Government's April 2018 response, but they can be summarised as concerns:

- regarding the employers to which our Fair Deal regulations would apply.
- that those already transferred out under the 2007 Direction would not have continued protection.
- that the proposals did not refer to the protections that apply in Wales (i.e. the 2012 Welsh Direction).
- that the regulations were a missed opportunity to consider introducing more explicit risk sharing provisions.
- that continued use of the admitted body framework could lead to a growing administrative burden for LGPS administrators.
- the lack of guidance.

14. In the following sections, we set out the detail of new proposals which are intended to address each of those concerns in turn and provide the framework for a workable, efficient system of pension protection.

## The basics of Fair Deal in the LGPS

### Protected transferees

15. The draft regulations apply in both England and Wales. They provide for the introduction of a new regulation 3B in the LGPS Regulations 2013<sup>4</sup>. Under this, an LGPS employer must ensure that protected transferees are given access to membership of the LGPS for so long as they remain a protected transferee and have an entitlement to membership of the scheme. A protected transferee is an individual who:

- a. is an active member or is eligible to be an active member of the LGPS,
- b. was employed by a Fair Deal employer (as defined) immediately before that person's employment was compulsorily transferred under a contract to a service provider in relation to the delivery of a service or a function of the Fair Deal employer.

16. A protected transferee will remain a protected transferee for so long as they remain wholly or mainly employed on the delivery of the service or function transferred, even if the service is subsequently sub-contracted or otherwise transferred to a different service provider.

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<sup>4</sup> S.I. 2013/2356 (as amended)

17. Where an employee is transferred out to an employer which offers membership of another public service pension scheme, the draft regulations provide that they would not be eligible for the LGPS but that they would remain a protected transferee. This ensures that if, following a re-tender, they are subsequently transferred to a new provider which does not offer a public service pension scheme, they do not lose their protection.
18. Service providers and Fair Deal employers may wish to consider offering the same status and protection to all staff who are providing a service as part of contract negotiations, whether or not they were previously employed by the Fair Deal employer. The draft regulations therefore also provide that an employee who is working wholly or mainly on the delivery of the service or function transferred may be treated as a protected transferee even if they were not formerly in the employment of the Fair Deal employer. However, protection for additional staff who are not covered by Fair Deal will remain subject to contract terms. The draft regulations therefore provide that protected transferee status for staff will require the agreement of both the Fair Deal employer and the service provider and it is proposed either party can determine at any time that such an individual is no longer a protected transferee.

### **Question 1 – Do you agree with this definition?**

#### **Fair Deal employers**

19. The draft regulations define a new type of scheme employer, a 'Fair Deal employer'. As defined, Fair Deal employers are those LGPS employers whose employees will have protected access to the LGPS following a compulsory transfer of the type outlined above.
20. Some respondents to the 2016 consultation queried our approach on the employers covered by Fair Deal. One concern raised was regarding consistency. It was suggested that it was inconsistent for further and higher education institutions who participate in the LGPS to be excluded on the grounds that they are non-public sector bodies<sup>5</sup>, whilst admission bodies, the majority of whom are also non-public sector bodies, would be covered by the requirements. Aside from those admission bodies who participate in the LGPS in relation to the transfer of a service or function ('transferee' admission bodies), admission bodies are bodies who normally participate in the LGPS because of close links with a local authority or because they provide a public service ('community' admission bodies). They include charities, housing associations and other non-public sector bodies, and are not required to participate in the LGPS.
21. In light of the concerns raised, it is proposed that admission bodies which undertake an outsourcing will have the option of requiring service providers to offer continued access to the LGPS as they do now, but will not be obliged to do so. Whilst we are committed to ensuring that public sector workers who are eligible for the LGPS are protected after being outsourced, we do not wish to limit the freedom that non-public sector

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<sup>5</sup> In the terms set out by the Office for National Statistics, <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/publicsectorclassificationguide>

organisations can reasonably expect in the total package they offer to their staff, including pay and pension.

22. Other respondents felt that the employees of police and crime commissioners (PCCs) worked in the public sector and should be protected under our Fair Deal regulations. In the 2016 consultation, we said that PCCs should not be required to follow Fair Deal because they are not best value authorities. However, in order to be consistent with the approach we are taking for local government and noting the concerns made by respondents to our previous consultation, it is now proposed that employees of PCCs are in the scope of the new regulations, in the same way as is proposed for employees of chief constables.
23. In light of the points noted above, under our draft regulations all LGPS scheme employers will be Fair Deal employers with the exception of:
- further education corporations, sixth form college corporations and higher education corporations (i.e. post-1992 universities), and
  - admission bodies.

As they do now, contractors providing services to the organisations listed above will be able to provide access to the LGPS to transferred staff via entering into an admission agreement with the pension fund (subject to meeting requirements and with the agreement of the contracting employer), but there would be no obligation for them to do so under scheme regulations.

## **Question 2 – Do you agree with this definition of a Fair Deal employer?**

### **Transitional arrangements**

24. It is important to the Government that those who have previously worked in local government and who are protected under either the 2007 Direction or 2012 Welsh Direction do not lose out from the changes we are making. Our draft regulations therefore provide that when contracts that fall under the 2007 Direction or 2012 Welsh Direction are next re-tendered, protected staff will become protected transferees under the LGPS Regulations 2013 and gain a right to membership of the LGPS.
25. This level of protection goes beyond the current requirements of the 2007 and 2012 Directions, which provide that service providers have the option of providing staff with access to a broadly comparable scheme instead. It is our intention to take the necessary steps to ensure that staff who were transferred out under the 2007 Direction or under the 2012 Welsh Direction gain the improved protections the next time a contract is re-tendered. We will work with the Welsh Government on transitional arrangements to deliver this in relation to transfers that have taken place under the 2012 Direction.
26. Transferred employees who were entitled to pension protection under the 2007 Direction or the 2012 Direction and were given access to a scheme certified as broadly comparable to the LGPS will have a right to transfer their benefits from that scheme to the LGPS if the fund receives a request. Under our draft regulations, such transfers would be treated as individual transfers under existing provisions contained in

regulations 100 and 101 of the LGPS Regulations 2013. We propose that the value of transfers be calculated using Cash Equivalent Transfer Value (CETV) factors contained in actuarial guidance issued by the Secretary of State. CETV factors are issued to convert the transfer value received by an LGPS fund to an amount of career average pension on an actuarially neutral basis. This approach is intended to ensure that inward transfers are calculated using an established process that is fair to scheme members, scheme employers and local taxpayers.

### **Question 3 – Do you agree with these transitional measures?**

### **Question 4 – Do you agree with our proposals regarding the calculation of inward transfer values?**

## **Risk sharing**

27. A significant issue highlighted by respondents to the 2016 consultation was in relation to risk sharing, sometimes known as ‘pass-through’. Pass-through is a mechanism for limiting a service provider’s exposure to pensions risk as a scheme employer. As the LGPS is a funded, defined benefit pension scheme there are a number of risks which scheme employers are exposed to, in particular:

- Contributions risk – employer contribution rates are assessed every three years via a funding valuation. If the valuation shows that the financial or demographic position of the employer, or both, has changed since the previous valuation, contribution rates can go up or down.
- Funding risk – when an employer’s last active member leaves the LGPS, any deficit that has built up in relation to the employer’s liabilities has to be paid to the LGPS fund by the scheme employer. For service providers, these deficits can be quite large, even by reference to the total value of the contract.

Under pass-through, a service provider may pay a fixed contribution rate for the life of the contract, or pay the contributions within a certain range. The outsourcing employer may retain the responsibility for any shortfall in contributions, as well as the benefit of any surplus.

28. There are a number of benefits to using a pass-through approach:

- For the service provider, they do not necessarily bear the risks listed above. This makes their cost/benefit analysis when considering bidding or a contract more straightforward. We are aware that for small and medium service providers in particular, pensions risk is a significant barrier, and can mean they do not bid for contracts they otherwise would, because they cannot bear the risk of significant contribution rate increases or of the risk of a large exit payment being required at the end of the contract.
- For the Fair Deal employer they do not have to pay the ‘risk premium’ which service providers sometimes build into their contract prices. Because of contributions risk and funding risk, we understand that service providers often build a buffer into their prices to ensure that it is still profitable for them to operate a contract even if, for example, LGPS contributions end up being much higher than originally stated.

Using pass-through removes the need for such a buffer (and should therefore mean Fair Deal employers get better value for money).

### **The 'deemed employer' approach**

29. We are aware that some LGPS employers already use pass-through arrangements with their service providers where greater flexibility assists outsourcing. However, in light of the views expressed in the responses to the 2016 consultation we want to ensure that Fair Deal employers actively consider the potential benefits of including risk sharing provisions in their service contracts. To achieve this, we are proposing that service providers do not necessarily need to become admission bodies in the LGPS to participate in the scheme. Instead, 'deemed employer' status could be used instead.
30. Deemed employer status is available under the LGPS Regulations 2013 already (see the table in part 4 of schedule 2). It means that, for specific groups of employees, their 'scheme employer' in the LGPS is not their employer in employment law, but is the 'deemed employer' instead. For example, under the LGPS Regulations 2013, the 'deemed employer' for the employees of voluntary schools is the associated local authority.
31. Under our proposals, when an employee is compulsorily transferred from their Fair Deal employer to a service provider, their former employer will have the option of remaining the deemed employer for the transferred staff.
32. Using this approach, the service provider would not have full scheme employer responsibilities under the LGPS Regulations 2013. Instead, the default position would be that the Fair Deal employer would retain the majority of scheme employer responsibilities (including contributions and funding risk). However, we envisage that this would only be a starting point, and the service contract between the parties would cover the detail of the pensions relationship, including the sharing of risk.
33. With appropriate provisions in the service contract, deemed employer status will give Fair Deal employers like local authorities greater flexibility when transferring services and functions to external providers. This will enable them to achieve the benefits of pass-through while enabling flexibility for negotiations around price and risk sharing between the two parties.
34. In addition, a major benefit of this approach is that it will provide a more seamless transition for LGPS members. A frequent issue under the current system is that a contract commences before the admission agreement is signed, leaving members in limbo for long periods of time. Under the deemed employer approach, members would continue in the section of their Fair Deal employer and there would be no uncertainty regarding their pension rights. Administering authorities would also benefit from not having to backdate admission agreements or seek to enforce these retrospectively.
35. The deemed employer approach will also help to tackle a growing issue in the LGPS; the large and rising number of scheme employers (over 16,000 across the scheme in England and Wales), which causes administrative issues at a local level. Making use of deemed employer status would slow the rate of increase and could therefore have administrative benefits for LGPS pension funds.

36. Using deemed employer status may also give greater flexibility to contractors in how they account for their pensions obligations. Currently, contractors who participate in the LGPS via an admission agreement but who have entered into pass-through arrangements may have to account for their liabilities on a defined benefit basis (even though their obligations are more akin to defined contribution liabilities). The deemed employer approach may enable a different accounting treatment because the legal responsibility would remain with the Fair Deal employer.
37. Using deemed employer status in this way has potential risks for Fair Deal employers because it means they are, by default, responsible for the pension liabilities which would, under an admission agreement, automatically be the responsibility of the service provider. However, the Fair Deal employer would be able to protect itself from these risks by including detailed provisions on the pensions relationship between the Fair Deal employer and the service provider in the service contract.
38. The draft regulations state that advice will be issued by the LGPS Scheme Advisory Board (SAB) to help Fair Deal employers put in place service contracts which give them flexibility and protect them from potential risks. We will want to ensure that this advice gives Fair Deal employers the knowledge and confidence they need to outsource services in a way that provides them with value and gives increased certainty to service providers. We will work closely with the SAB on the development of this advice, and expect that it will be issued before or at the same time the Fair Deal regulations are issued.
39. The draft regulations also provide that the deemed employer approach can only be used by the proprietor of an academy where that proprietor has followed guidance on the use of the deemed employer approach given by the Department for Education. Guidance issued by the Department for Education will set out the provisions that must be included in the service contract between a proprietor of an academy and a service provider to protect the proprietor, and ultimately the Department for Education, from pensions risks which should in all cases be met by the service provider.

**Question 5 – Do you agree with our proposals on deemed employer status?**

**Question 6 – What should advice from the scheme advisory board contain to ensure that deemed employer status works effectively?**

**Responsibilities for employers**

40. In practice, even where the deemed employer approach is used, the service provider will retain an administrative role in relation to the pensions of their employees. As the legal employer, they will be responsible for deducting employee contributions and providing information to the pension fund (for example, for end of year processing). To ensure that the actions of the service provider do not prevent the Fair Deal employer from meeting their responsibilities, the draft regulations state that the service provider must provide sufficient and timely information to enable the Fair Deal employer to meet its scheme functions. We anticipate that this point will be addressed in more detail in advice issued by the Scheme Advisory Board.

41. We are also keen to ensure that, unless service contracts explicitly provide otherwise, responsibility for certain decisions that may give rise to costs arising is retained by the service provider, as well as the responsibility for meeting those costs. In particular, the draft regulations provide that the service provider shall retain the decision-making responsibility for decisions where costs may be payable under regulation 68 of the LGPS Regulations 2013. This covers a variety of costs, including ill-health, redundancy, flexible retirement and the award of additional pension.

**Question 7 – Should the LGPS Regulations 2013 specify other costs and responsibilities for the service provider where deemed employer status is used?**

**Existing arrangements**

42. Whilst we believe there are significant advantages of making use of deemed employer status, we propose that the admission body option is retained so that Fair Deal employers can choose to require their service providers to become full scheme employers in the LGPS if they wish. This approach may be more appropriate for larger, longer term contracts where it is more fitting for a service provider to have full employer responsibilities under the LGPS regulations.

43. To make clear that risk sharing practices can also be used where the admission body option is used, our draft regulations insert a paragraph into part 3 of schedule 2 of the LGPS Regulations 2013 confirming that admission agreements may also contain details of risk sharing arrangements agreed between the Fair Deal employer and the service provider. We anticipate that advice issued by the SAB will contain detail on the provisions that may be put into an admission agreement on risk sharing between the parties involved.

**Question 8 – Is this the right approach?**

**Timely consideration of pensions issues**

44. An issue that is frequently raised with regard to outsourcing by LGPS employers is the lack of priority given to pensions issues. Often admission agreements are not signed before the contract takes effect leading to periods of limbo for members. This can be a barrier to the parties to a contract sharing risk effectively. Indeed, lack of consideration of pensions issues at the contract negotiation stage could be damaging to those Fair Deal employers using the deemed employer approach. In our April 2018 response to the 2016 consultation, we said we would consider the issues around this further.

45. The draft regulations we are consulting on require that the service contract between a Fair Deal employer and the service provider state whether continued access to the LGPS will be provided via the deemed employer route or via the admission body route. We intend that this requirement will ensure consideration is given to pensions issues at an early stage, and the substantive differences between the two options are fully appreciated.

46. We also expect timely consideration of pensions issues to be covered in the SAB advice, with the benefits of doing so. For example, to ensure that the best value can be obtained from outsourcing exercises, Fair Deal employers should confirm the approach

they intend to adopt at the point they are inviting bids from potential service providers. We welcome views from consultees on other ways in which we can encourage early consideration of pensions issues.

**Question 9 – What further steps can be taken to encourage pensions issues to be given full and timely consideration by Fair Deal employers when services or functions are outsourced?**

**Public sector equality duty**

47. Our Fair Deal proposals will strengthen the pensions protections that apply following an outsourcing and it is intended that all transferred staff of relevant LGPS employers will benefit equally from the new provisions. We do not believe our proposals will have an adverse impact on any section of the LGPS employer workforce, and believe they will have equal positive impacts on groups with and without particular protected characteristics.

**Question 10 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by our Fair Deal proposals?**



# Chapter 3 – Transferring pension assets and liabilities

48. In recent years, the frequency with which LGPS scheme employers have been involved in mergers or takeovers has increased. This increase is partly a consequence of reforms within the public sector (including local authority schools becoming academies, whose proprietors have employer responsibilities in their own right), and of new organisational structures being used by LGPS employers for the delivery of services and functions.
49. When the last active member of an LGPS scheme employer leaves the scheme, the regulations provide that an exit payment usually needs to be paid to the LGPS fund. This means the exiting employer becomes liable for the payment of an amount which is intended to cover the costs of their entire pensions liability, and which is calculated on a low-risk basis. Because of this, the exit payment is often high, particularly in relation to the size of the ceasing employer.
50. Where an LGPS scheme employer merges into, or is taken over by, another organisation this exit payment can sometimes be triggered unintentionally and potentially leave the ceding organisation with a liability they cannot meet. If they cannot do so, the liability will be met by the other employers in the fund (and ultimately the local taxpayer).
51. To address these concerns we propose to amend the regulations to provide that when an LGPS scheme employer is merged into or taken over by another organisation, the responsibility for that pensions liability automatically transfers to the successor body, unless specific legislative provisions require otherwise. This is intended to ensure that normal business activities, such as mergers and takeovers, can take place effectively and efficiently without unintended consequences occurring in respect of an employer's LGPS liabilities.
52. In addition, we propose that where the successor body is also an LGPS employer with active members in another fund, the assets and liabilities must be automatically transferred to that fund and combined with the successor body's assets and liabilities.
53. We propose that the Secretary of State should issue guidance on this area and that, in particular, guidance should cover the terms of transfers of assets and liabilities between pension funds.

**Question 11 – Is this the right approach?**

**Question 12 – Do the draft regulations effectively achieve our aims?**

**Question 13 – What should guidance issued by the Secretary of State state regarding the terms of asset and liability transfers?**

## 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 B.

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 – Draft regulations

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## STATUTORY INSTRUMENTS

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**2019 No.**

### **PUBLIC SERVICE PENSIONS, ENGLAND AND WALES**

#### **The Local Government Pension Scheme (Amendment) Regulations 2019**

|                               |     |
|-------------------------------|-----|
| <i>Made</i> - - - -           | *** |
| <i>Laid before Parliament</i> | *** |
| <i>Coming into force</i> - -  | *** |

These Regulations are made in exercise of the powers conferred by sections 1, 3 and 25 of, and Schedule 3 to the Public Service Pensions Act 2013<sup>(a)</sup>.

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

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 2019.

(2) These Regulations come into force on [xxx] but have effect as follows [xxx].

(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<sup>(b)</sup> are amended in accordance with regulations 3 to 6.

3. After Regulation 3A<sup>(c)</sup> (civil servants etc engaged in probation provision) insert the following regulations—

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<sup>(a)</sup> 2013 c. 25.

<sup>(b)</sup> 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 and by S.I. 2018/493.

<sup>(c)</sup> Regulation 3A was inserted by S.I. 2014/1146.

### **“Pensions protection following a compulsory transfer**

**3B.**—(1) A protected transferee for the purposes of these Regulations is an active member or a person who is eligible to be an active member who was employed by a Fair Deal employer immediately before that person’s employment was compulsorily transferred to a service provider under an ongoing contract in relation to the delivery of a service or a function of the Fair Deal employer on or after [xxx: the date on which the Local Government Pension Scheme (Amendment) Regulations come into force].

(2) The employer of a protected transferee must ensure that the protected transferee has access to membership of the Scheme for so long as that person remains a protected transferee and is entitled to be an active member of the Scheme.

(3) If the employer of a protected transferee is not a Scheme employer under Part 1 or Part 2 of Schedule 2 who designates the protected transferee as being eligible for the LGPS, the Fair Deal employer must provide in their contract with the service provider that a protected transferee must be provided with access to the Scheme either by—

- (a) the service provider entering into an admission agreement under paragraph 1(d) of Part 3 of Schedule 2 to these Regulations; or
- (b) subject to sub-paragraph (4), the Fair Deal employer determining to act as the deemed employer in respect of the protected transferee.

(4) Any determination under sub-paragraph (3)(b) by a Fair Deal employer listed in paragraph 20 of Part 1 of Schedule 2 must be made in accordance with guidance issued by the Secretary of State.

(5) A person remains a protected transferee for so long as that person is wholly or mainly employed on the delivery of the service or function transferred, even if the service or function is subsequently sub-contracted or otherwise transferred to a different service provider.

(6) A person remains a protected transferee even if for a period they are not entitled to be a member of the Scheme because they are entitled to membership of another public service pension scheme in relation to the employment transferred from their Fair Deal employer.

(7) An employee of a service provider who is working wholly or mainly on the delivery of the service or function transferred from a Fair Deal employer other than by a compulsory transfer under sub-paragraph (1) may be treated as a protected transferee with the written agreement of the Fair Deal employer and the service provider.

(8) An agreement under sub-paragraph (7) may be terminated by either the Fair Deal employer or the service provider at any time.

(9) A person who is a former employee of a best value authority or a police authority in Wales<sup>(a)</sup> and who is entitled to pension protection or would be entitled to pension protection following a subsequent transfer under the Best Value Authorities Staff Transfers (Pensions) Direction 2007 is to be—

- (a) regarded as being a protected transferee when the contract is next renewed with the same contractor, or the contract passes to a new service provider, and
- (b) shall remain so regarded for such period as that person is—
  - (i) entitled to membership of the Scheme; and
  - (ii) remains wholly or mainly employed on the delivery of the service or function transferred from the best value authority or police authority in Wales.

(10) A person who is a former employee of a Welsh improvement authority<sup>(b)</sup> or a community council who is entitled to pension protection or would be entitled to pension protection following a subsequent transfer under the Welsh Authorities Staff Transfers (Pensions) Direction 2012 is to be—

- (a) regarded as being a protected transferee when the contract is next renewed with the same contractor, or the contract passes to a new service provider, and
- (b) shall remain so regarded for such period as that person is—

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<sup>(a)</sup> Section 1 of the Local Government Act 1999 (c. 27) designates the bodies which are best value authorities.

<sup>(b)</sup> Section 1 of the Local Government (Wales) Measure 2009 (c. 02) designates the bodies which are Welsh improvement authorities.

(i) entitled to membership of the Scheme, and

(ii) remains wholly or mainly employed on the delivery of the service or function transferred from the Welsh improvement authority or community council.

(11) A person who is an employee of a service provider working on the delivery of a service or function transferred from a Fair Deal employer who has not been compulsorily transferred to the provider from that Fair Deal employer in relation to the delivery of that service or function is not a protected transferee for the purposes of these Regulations.

(12) Where a transfer is requested under regulation 100(1) (inward transfers of pension rights), the administering authority must grant that request if the request relates to the transfer of a protected transferee's pension rights accrued in a pension scheme to which they had access under the Best Value Authorities Staff Transfers (Pensions) Direction 2007 or the Welsh Authorities Staff Transfers (Pensions) Direction 2012.

(13) A Fair Deal employer must have regard to advice issued by the Scheme Advisory Board on the matters to be considered in regard to the provision of pensions protection to a protected transferee or persons who may be regarded as protected transferees, including the sharing of risk.

(14) The employer of a protected transferee must—

- (a) provide sufficient and timely information to enable the Fair Deal employer to meet its Scheme functions under these Regulations; and
- (b) be responsible for, and meet any costs arising from, decisions taken by the employer which may give rise to payments under regulation 68 (employer's further payments) in the absence of express provision to the contrary in the service contract between the Fair Deal employer and the service provider.

(15) In this regulation "employer of a protected transferee" means a service provider who employs a protected transferee who is provided with access to the LGPS under this regulation."

4. In regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained), after sub-paragraph (10) insert—

"(11) Where a Scheme employer becomes an exiting employer as a consequence of the Scheme employer being merged into, or taken over by, another organisation—

- (a) the successor body becomes responsible for the exiting employer's assets and liabilities, in the absence of any express legislative provision to the contrary; and
- (b) shall be treated for the purpose of these Regulations as the Scheme employer in relation to the employees and former employees of the exiting employer.

(12) Where the successor body is a Scheme employer with active members in that administering authority or another administering authority, the assets and liabilities of the exiting employer must be automatically transferred to the administering authority of the successor body and combined with the successor body's assets and liabilities.

(13) A transfer of assets and liabilities under sub-paragraph (12) must be determined in accordance with guidance issued by the Secretary of State."

5.—(1) Schedule 1<sup>(a)</sup>(interpretation) is amended as follows.

(2) After the definition of "European pensions institution" insert—

"“Fair Deal employer” means a Scheme employer listed in paragraphs 1 to 13 and 15 to 25 of Part 1 of Schedule 2 or in paragraphs 1 to 3 and 5 to 15 of Part 2 of Schedule 2;”.

(3) After the definition of "permanently incapable" insert—

"“protected transferee” has the meaning given in regulation 3B(1);”.

(4) After the definition of "Scheme year", insert—

"“service provider” means a body contracted to deliver a service or a function of a Fair Deal employer;”.

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(a) There are amendments to Schedule 1 which are not relevant to these Regulations.

(5) After the definition of “statutory pay” insert—

““successor body” means a body which either—

(a) takes over a Scheme employer, causing that employer to become an exiting employer; or

(b) takes on the functions of a Scheme employer following a merger between that employer and one or more organisations, and which causes that employer to become an exiting employer;”.

6.—(1) Schedule 2 (Scheme employers) is amended as follows.

(2) In Part 3, after paragraph 5 insert—

“5A. An admission agreement made under paragraph 1(d)(i) may include details of risk sharing arrangements between the Scheme employer and the admission body, provided that the Scheme employer has had regard to any advice issued by the Local Government Pension Scheme Advisory Board.”.

(3) In Part 4, in the table insert at the end—

|                                                                                                                                                                                                                                     |                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|
| “An employee of a service provider who is a protected transferee, where the Fair Deal employer has determined under regulation 3B(3)(b)) that the protected transferee should be deemed to be an employee of the Fair Deal employer | The Fair Deal employer referred to in column 1” |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|

We consent to the making of these Regulations.

*Names*

Date Two of the Lords Commissioners of Her Majesty’s Treasury  
Signed by authority of the Secretary of State for Housing, Communities and Local Government.

*Minister*

Minister of State

Date Ministry of Housing, Communities and Local Government

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”).

Regulations 3, 5 and 6 implement the Government’s “Fair Deal” policy for local government workers with the effect that most members of the Local Government Pension Scheme who are compulsorily transferred to another employer will retain the right to membership of the Scheme.

Regulation 4 provides that where a Scheme employer becomes an exiting employer as a consequence of a takeover or a merger, the assets and liabilities of that employer automatically transfer to the successor body.

# Annex B

## 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](mailto: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

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.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty.

### 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.**



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|                 |                                                                  |
|-----------------|------------------------------------------------------------------|
| From:           | Chairman Pension Fund Committee<br>Corporate Director of Finance |
| To:             | Pension Fund Committee – 29 March 2023                           |
| Subject:        | Actuarial Valuation 2022 Update                                  |
| Classification: | Unrestricted                                                     |

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### Summary:

To provide an update on progress of the 2022 Actuarial Valuation

### Recommendation:

The Committee is asked to:

- Note and comment on the outcomes of the 2022 Actuarial Valuation

### FOR INFORMATION

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#### 1. Background

- 1.1 Members will be aware that the latest triennial Actuarial valuation of the Kent Pension Fund is due as at 31 March 2022. The Fund's actuary Barnett Waddingham has concluded the process of analysing the Fund data with a view to assessing the level of funding, and employer contributions for the 3 years starting 1 April 2023.
- 1.2 At the Committee meeting in September 2022, Barnett Waddingham presented a summary of the assumptions to be used in the valuation, which had been agreed by the Corporate Director of Finance in consultation with the Chairman ahead of discussions with Kent Finance Officer Group on 9 September 2022.
- 1.3 At the Committee meeting in December 2022, Barnett Waddingham presented the final results of the valuation at the total Fund level. This was ahead of the results being circulated to the individual employers, and the Fund's Employer Forum the following day.

#### 2. Valuation timeline

- 2.1 Barnett Waddingham have a deadline of 31 March 2023 to formally certify the Valuation and employers' contribution rates. However, in reality the work will be concluded well before then as the outcome is needed to inform the 2023/24 budgets for the Fund's employers. The timeline is shown below:

### **2022 Actuarial Valuation Timeline**

| <b><u>Date</u></b> | <b><u>Title</u></b>                    | <b><u>Agenda</u></b>                                   |
|--------------------|----------------------------------------|--------------------------------------------------------|
| 26 August 2022     | Meeting with Fund (Officers and Chair) | To discuss draft assumptions                           |
| 09 September 2022  | Kent Finance Officers Group            | To discuss draft assumptions                           |
| 28 September 2022  | Pension Fund Committee                 | To present draft assumptions                           |
| 03 November 2022   | Meeting with Fund (Officers and Chair) | To present initial Whole Fund results/larger employers |
| 11 November 2022   | Kent Finance Officers Group            | To present initial Whole Fund results/larger employers |
| 24 November 2022   | Pension Board                          | Consider Whole Fund results                            |
| 08 December 2022   | Pension Fund Committee                 | Formally consider results                              |
| 09 December 2022   | Employers Forum                        | Present results to all employers                       |

- 2.2 Individual results were presented to the members of the Kent Finance Officers group and will be presented to all employers at the Forum on 9 December 2022.
- 2.3 Since the Committee's meeting in December, Barnett Waddingham have concluded discussions with individual employers, and have had a number of meetings with Fund officers and employers to fine tune the results (where possible).
- 2.4 Barnett Waddingham will present a summary of this work, and the latest position at the meeting of the Committee. The valuation will then be formally signed off and the rates and adjustments certificate issued at the end of March 2023.

### **3. Funding Strategy Statement**

- 3.1 As part of the Valuation exercise officers have been reviewing the Funding Strategy with a view to ensuring that it remains fair to all employers and that the Fund is looking to manage risk in a sensible way. The Fund's employers have been consulted on the updated strategy and the final version is elsewhere on today's agenda for approval.

---

**Nick Buckland**  
**Head of Pensions and Treasury**  
**Kent Pension Fund**

03000 413984  
[nick.buckland@kent.gov.uk](mailto:nick.buckland@kent.gov.uk)

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From: Chairman Pension Fund Committee  
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: Funding Strategy Statement

Classification: Unrestricted

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**Summary:**

This report presents the revised Funding Strategy Statement (FSS) and associated policies for approval by the Committee. The FSS is one of the Kent Pension Fund's key policies, establishing how employers' pension liabilities are best met going forward. The FSS has been reviewed as part of the triennial valuation exercise and updated to ensure the Fund can continue to manage employers' liabilities effectively. The FSS has two associated policies (the Contribution Review Policy and the Deferred Debt and Debt Spreading Agreement Policies) which have also been reviewed. The Fund ran a consultation, open to all employers, between January and March on the FSS and associated policies and has taken account of responses in finalising the policies presented to the Committee for approval.

**Recommendation:**

The Pension Fund Committee is recommended to note this report and to:

- a) agree the revised Funding Strategy Statement at Appendix 1;
- b) agree the revised Contribution Review Policy at Appendix 2; and
- c) agree the revised Deferred Debt and Debt Spreading Agreement Policies at Appendix 3

**FOR DECISION**

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**1 Background**

- 1.1 The Funding Strategy Statement (FSS) is one of the Kent Pension Fund's key policies, establishing how employers' pension liabilities are best met going forward. The current version of the FSS was approved by the Committee on 8 September 2021.
- 1.2 Kent County Council as administering authority of the Fund is obligated to maintain and publish a funding strategy under the LGPS Regulations (2013).
- 1.3 The FSS has been prepared on the basis of prevailing guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and reviewed by the Fund Actuary.

## 2 Key Changes

- 2.1 The FSS has been reviewed and updated to reflect changes in the regulations and actuarial advice received as part of the 2022 triennial valuation exercise. Although the statement has been updated throughout, there are several proposed key changes summarised below:

### Contribution prepayments (page 13)

- 2.2 The revised FSS confirms that employers are able to prepay their employer contributions with agreement from the administering authority but that they will not be offered any discount in exchange for early payment of either primary or secondary contributions.

### Cessation valuations methodology (page 17)

- 2.3 Further clarity has been introduced around the methodology for calculating cessation valuations in situations where an employer exits the Fund and where there is no other employer in the Fund willing to accept responsibility for the residual liabilities of the exiting employer. In this scenario, liabilities are valued on a so-called “full cessation” basis, which contrasts with the “ongoing cessation” valuation basis used for setting contribution rates for active employers. The FSS now specifies that in such circumstances the Fund will value such liabilities on a *prudent ongoing* basis:

“The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.” *Funding Strategy Statement*

- 2.4 The proposed change means that the Fund Actuary will no longer calculate minimum risk cessation valuations with reference to gilt yields, an approach which can introduce instability into the cessation valuation process, particularly during periods where gilt yields are volatile. A reliance on gilt yields (which is not directly related to Fund’s actual investment strategy) can make it harder to achieve stable exit positions, and can therefore obstruct the ambition to ensure sufficient resources are available to meet all liabilities (including residual liabilities following an employer’s exit from the Fund) as they fall due.
- 2.5 In contrast, under the proposed methodology, the link to the Fund’s actual investment strategy would be maintained by applying a constant margin for prudence to the Fund’s discount rate, meaning that assets and liabilities should move in similar directions leading to more stable full cessation positions.
- 2.6 Officers have asked the Fund Actuary to undertake a stochastic modelling exercise (a form of probability analysis) to determine an appropriate level of

prudence to incorporate within full cessation valuations. The results of the assessment are shown below, contrasted with the results for the current (gilts-based) full cessation approach and the ongoing cessation valuation approach. The outcome of the stochastic modelling exercise indicates that the Fund could use a prudence level of 4.0%, for a success probability of 90%.

| <b>Valuation Basis</b>    | <b>Best estimate return p.a.</b> | <b>Prudence level</b> | <b>Discount rate p.a.</b> | <b>Success probability</b> |
|---------------------------|----------------------------------|-----------------------|---------------------------|----------------------------|
| Ongoing                   | 6.0%                             | 1.5%                  | 4.5%                      | 71%                        |
| Full cessation (current)  | 6.0%                             | 4.2%                  | 1.8%                      | 91%                        |
| Full cessation (proposed) | 6.0%                             | 4.0%                  | 2.0%                      | 90%                        |

#### Demographic risks – self-insurance (page 22)

- 2.7 The FSS now includes a self-insurance arrangement to cover ill-health retirement and death-in-service benefits for all individual employers not a government body (i.e., councils, police, fire) and/or not involved in a pooling arrangement.
- 2.8 Self-insurance has been identified as a cost effective and efficient method for mitigating ill-health requirement and death-in-service risk, which can be significant and have serious financial implications for individual employers. In essence a pool of assets is created from employers' existing contributions which will recompense participating employers for any additional strain costs associated with these events. As such a self-insurance policy removes the risk of an individual employer failing as a result of an unaffordable strain cost arising from ill-health retirement and/or death-in-service, and it does so without increasing employers' contribution rates (which already reflect the expected cost of such risks).

#### Climate risk (page 23)

- 2.9 A new section has been added to the FSS to address climate risk. Institutional investors have traditionally examined climate risk from the perspective of an asset owner, but climate change can also have profound impacts on the value of pension liabilities (e.g. via inflation, or by changes to mortality).
- 2.10 The Fund Actuary has carried out an initial climate scenario analysis on the assets and liabilities of the Fund in line with key principles agreed with the Government Actuary's Department for the purposes of the 2022 LGPS Valuation. Based on the results of the scenario testing, the Fund Actuary is comfortable with the current level of prudence included in our proposed funding assumptions. The Fund will continue to assess this risk on a regular basis.

### **3 Consultation**

- 3.1 The Fund ran a consultation on the revised FSS (including the proposed changes outlined above) and associated policies from 19 January to 3 March

2023. This consultation period followed on from the briefing surrounding the actuarial valuation exercise itself, which was made available to all employers via the Employer Forum held on 9 December 2022.

- 3.2 The Fund received three responses to the consultation during the consultation window. Officers have carefully considered the responses received, taking advice from the Fund Actuary as necessary, and following on from this process there have been no material changes to the FSS as initially consulted upon, although minor presentation and readability changes have been incorporated in response to feedback.
- 3.3 The Committee is asked to approve the updated Funding Strategy Statement at Appendix 1.

#### **4 Associated Policies**

- 4.1 The FSS contains two sub-policies which augment the main FSS by providing further detail on how the Fund will manage specific funding matters.
- 4.2 The **Contribution Review Policy** establishes the Fund's approach for amending contribution rates payable by employers between formal (triennial) funding valuations. The policy has been updated following actuarial and legal advice to further clarify under what conditions a contribution review may, and may not, take place as well as further information on the appeals process.
- 4.3 The **Deferred Debt and Debt Spreading Agreement Policies** sets out the Fund's approach to entering into, monitoring and terminating, agreements with exiting employers to defer and spread (respectively) cessation debts. Minor updates clarifying how these arrangements will be managed have been made following actuarial and legal advice.
- 4.4 The Committee is asked to approve the revised Contribution Review Policy at Appendix 2 and the revised Deferred Debt and Debt Spreading Agreement Policies at Appendix 3.

#### **5 Conclusion**

- 5.1 This report has presented the updated Funding Strategy Statement (FSS) and associated policies for approval by the Committee. The FSS is one of the Kent Pension Fund's key policies, establishing how employers' pension liabilities are best met going forward. The FSS has been reviewed as part of the triennial valuation exercise and updated to ensure the Fund can continue to manage employers' liabilities effectively.

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**March 2023**

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## **Appendices**

Appendix 1 – Funding Strategy Statement

Appendix 2 – Contribution Review Policy

Appendix 3 – Deferred Debt and Debt Spreading Agreement Policies

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**Kent Pension Fund  
Funding Strategy Statement  
1 April 2023**

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## Introduction

This is the Funding Strategy Statement for the Kent Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the [Local Government Pension Scheme Regulations 2013](#) as amended (the Regulations) and describes Kent County Council's strategy, in its capacity as administering authority, for the funding of the Kent Pension Fund.

The Fund's employers, and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's [Investment Strategy Statement \(ISS\)](#) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition*) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Local Government Pension Scheme (LGPS) Regulations.
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities, aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

## Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and

- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

## Key parties

The key parties involved in the funding process and their responsibilities are set out below.

### The administering authority

The administering authority for the Fund is Kent County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;

- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

## Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

## Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

| 2022 valuation results |       |
|------------------------|-------|
| Surplus (Deficit)      | £181m |
| Funding level          | 102%  |

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 20.5% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

## Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

## Valuation assumptions and funding model

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20-year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20-year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20-year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.



## Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is therefore made to the RPI assumption to derive the CPI assumption.

## Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

## Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2022 valuation is set out in the table below:

| Financial assumptions as at 31 March 2022               |                            |
|---------------------------------------------------------|----------------------------|
| RPI inflation                                           | 3.9% p.a.                  |
| CPI inflation                                           | 2.9% p.a.                  |
| Pension/deferred pension increases and CARE revaluation | In line with CPI inflation |
| Pay increases                                           | CPI inflation + 1.0% p.a.  |
| Discount rate                                           | 4.5% p.a.                  |

## Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

### Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

### McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2022 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of this can be found below in the Regulatory risks section.

### Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: <https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation>.

The 2022 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

## Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a period of 0 to 11 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over an appropriate period.

The deficit recovery periods adopted at the 2022 valuation varied amongst individual 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. The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding three years.

## Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

| Pool                | Type of pooling                 | Notes                                                                                          |
|---------------------|---------------------------------|------------------------------------------------------------------------------------------------|
| Kent County Council | Past and future service pooling | All employers in the pool pay the same total contribution rate and have the same funding level |
| Colleges            | Past and future service pooling | All employers in the pool pay the same total contribution rate and have the same funding level |
| Academies           | Past and future service pooling | All employers in the pool pay the same total contribution rate and have the same funding level |

There are also a number of connected employers within the Fund. Connected employers are those where we understand that the organisation controls all of the employers or has responsibility for all the pension obligations. Examples include parent/subsidiaries or former Transferee Admission Bodies who have ceased to participate where the legacy liabilities have been passed back to the Letting Authority. In these instances, the contribution rate has been determined as a pooled rate.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

### Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

### Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

## Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate, but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority.

No discount will be offered in exchange for early payment of either primary or secondary contributions.

## New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

### Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically, these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

### Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

### Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

### Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

## Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

## New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

## Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

## Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

## Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy (see attached). This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.



## Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

*If there is no other employer in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a prudent "ongoing" basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future*

## Exit credit policy

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out in writing why the arrangements make payment of an exit credit appropriate.

- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing/long-term funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

## Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document (See attached). This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA

## Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

## Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

## Consolidation of Multi Academy Trusts (MATs)

Where an academy is transferring into or out of the Fund as part of a MAT consolidation exercise, the Fund generally expects that this will proceed through a Direction Order from the Secretary of State. In these situations and subject to the terms agreed between the Fund Actuary to both LGPS Funds, typically all the assets attributable to the academy in the ceding Fund are transferred to the receiving Fund.

Where the academy is transferring out of the Fund, the Fund requires a Direction Order to be sought such that all associated deferred and pensioner liabilities are also transferred out of the Fund.

Where the academy is transferring into the Fund, where appropriate, the academy will become part of the Fund's Academy pool. If the funding level of the transfer in to the Fund is substantially lower than the funding level of the academy pool then the Fund may require additional contributions to be paid by the academy to protect the other academies in the pool from an increased funding cost as a result of the transfer terms. There may be some instances where it is not deemed appropriate for the academy to join the Academy pool, or at least not immediately. For example if a large number of academies from a MAT transfer into the Fund at one time, then it may be more appropriate to initiate a separate funding pool for these academies until their funding position is in line with the main Academy pool, at which point it can then be merged into the Academy pool.

## Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

## Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

### Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past three funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

From 1 April 2023, the administering authority shall put in place a self-insurance arrangement to cover ill-health retirement and death-in-service benefits for all individual employers not a government body (i.e., councils, police, fire) and/or not involved in a pooling arrangement (see the Pooling of individual employers' section for a list of all pooling arrangements).

When an ill-health retirement or death-in-service occurs a funding strain (i.e. the difference between the value of the benefits payable to the member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance arrangement, a reserve will be created based on the existing implicit assumption for ill-health and death-in-service liability exposure adopted by the Fund actuary. The reserve will be funded by a defined percentage of contributions or "premiums" paid by eligible employers and will be tracked separately by the Fund actuary at successive valuation. The premiums will be included within the employer's primary rate certified by the Fund actuary. Should a funding strain arise from an ill-health retirement or death-in-service, assets equal to the funding strain will be transferred from the reserve to the employer's section of the Fund.

The premiums are set with the expectation that they will be sufficient to cover the costs in the three years following the valuation date. The reserve will be reset to zero at each valuation. Any surplus or deficit of assets in the reserve would be redistributed in proportion to payroll (in total over the intervalation period). Therefore, if there was a shortfall (more assets have been transferred to individual employers than contributions paid in) then we would make a deduction to all the participating employers' asset pots (in proportion to payroll). If there was a surplus (fewer assets have been transferred to individual employers than contributions paid in) then we would refund all the participating employers by increasing their asset pots (in proportion to payroll).

The self-insurance arrangement is subject to review at subsequent valuations depending on experience and the expected ill-health and death-in-service trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

The Fund reserves the right to preclude the use of the self-insurance reserve where there is evidence to suggest a higher than anticipated ill-health experience for an individual employer. The Fund also reserves the right to enforce Regulation 36(3) of the Regulations as appropriate.

## Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

## Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

## Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments, the cost control mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

## McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to



be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

## Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

## Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited.

So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

### Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the

national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

### **Changes to employers required to offer LGPS membership**

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. As these types of employer participate in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

## **Employer risks**

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

## **Governance risks**

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

## Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

This version of the FSS was presented to the Pension Fund Committee on 29 March 2023 for their approval.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

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**Kent Pension Fund**  
**Contribution review policy**  
**1 April 2023**

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## Introduction

This document sets out the Kent Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

Kent Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, Kent County Council, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

## The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

### Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 calendar days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 calendar months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

### Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide a response to the Scheme employer within 28 calendar days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.



## Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

## Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

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

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It is the administering authority's policy that the administering authority will not accept a request for a review from the Scheme employer under condition (iii), unless the administering authority agrees that either condition (i) or (ii) are also met. If neither condition is met, the employer's contribution rate determined at the last formal actuarial valuation remains appropriate. When considering whether condition (i) or (ii) have been met for the purpose of considering an application by the Scheme employer pursuant to (iii) the administering authority shall take into account its policy that save in very exceptional circumstances contributions are not reviewable between formal actuarial valuations. This is because short term variation in asset values do not vary the valuations arrived at during the triennial review cycle and accordingly any such review would be pointless.

### (i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

## (ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority will commission an employer risk review report from the Fund Actuary on a regular basis. Through this analysis, the administering authority can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

## (iii) request from the Scheme employer for a contribution review

Save in exceptional circumstances a request made by a Scheme employer for a review of contribution rates outside of the formal actuarial process will only be accepted by the administering authority where the administering authority agrees that one of the following two conditions has been met:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

As explained above, requests arising from the Scheme employer under either of these conditions will not, save in very exceptional circumstances, be considered by the administering authority. This is because short term variation in asset values do not vary the valuations arrived at during the triennial review cycle and accordingly any such review would be pointless. In most cases, requests by a Scheme employer are limited to one review per calendar year.

Save for exceptional cases the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored into the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. Ordinarily If a request is made with an effective date within the 12 months preceding the

next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

### Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
  - Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
  - The most recent annual report and accounts for the Scheme employer
  - The most recent management accounts
  - Financial forecasts for a minimum of three years
  - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

## Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required, and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document.

### Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

### Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist
- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

## Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

|                                                    | General approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Member data                                        | <p>In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point.</p> <p>In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment.</p> <p>Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.</p> |
| Approach to setting assumptions                    | This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Market conditions underlying financial assumptions | Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Conditions underlying demographic assumptions      | Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Funding target                                     | The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

|                                 |                                                                                                                                                                                                                                                                                   |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                 | Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.                                                                                                                        |
| Surplus/deficit recovery period | The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances. |

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.



## Appeals process

The final decision as to whether a change in contributions is to be implemented will rest with the administering authority after, if necessary, taking advice from the Fund Actuary. In the event of any dispute from an employer, the Fund will seek to engage with the employer and a further 28 calendar days will be granted in which further discussions can take place to seek a resolution. Any further dispute or appeal should be raised with the Pension Fund Committee

In raising any dispute or appeal, an employer is required to evidence at least one of the following:

(i) A deviation from the published policy or process by the administering authority

And/or

(ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the administering authority)

An appeal will be considered within 28 calendar days of receipt of all required information. Any review of a decision will be considered independently from those directly involved in the original decision.

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# **Kent Pension Fund**

## **Deferred debt and debt spreading agreement policies**

**1 April 2023**

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## Introduction

This document sets out the Kent Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

Kent Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, or a compelling reason that this is undesirable there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the cessation debt is crystallised and spread, where the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit is crystallised although the contributions may change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

## Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a revised rates and adjustments certificate in the form of a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's Funding Strategy Statement (FSS).

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so or there are compelling reasons why they should not do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 28 calendar days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 30 days as per "Employer Responsibilities" when you become a Fund employer.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

## Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case.

Under Regulation 64(7B) An administering authority may enter into a deferred debt agreement with an exiting Scheme

employer where—

- (a) the last active member in respect of that Scheme employer has left the Scheme;
- (b) the funding strategy mentioned in regulation 58 (funding strategy statements) has set out the administering authority's policy on deferred debt agreements; and
- (c) the administering authority has—
  - (i) consulted the exiting Scheme employer; and
  - (ii) had regard to the views of an actuary appointed by the administering authority

64B. (Debt Spreading Agreement) — Revision of actuarial certificates: exit payments

(1) Where the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on spreading exit payments, that administering authority may

obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable.

(2) In revising the certificate, an administering authority must—

- (a) consult the exiting Scheme employer; and
- (b) have regard to the views of an actuary appointed by the administering authority

A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to pay the exit payment by becoming an exiting employer. In this case the administering authority may be willing to defer payment (but not crystallization) of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future ; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;
- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pension risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

### Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

### Internal dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from an employer, the Fund will seek to engage with the employer and a further 28 calendar days will be granted in which further discussions can take place to seek a resolution. Any further dispute or appeal should be raised with the Pension Fund Committee.



## Deferred Debt Agreements (DDAs)

### Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

### Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately or a compelling reason that this is undesirable and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

### Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 28 calendar days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following

circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

### Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 calendar months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;

- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

## Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

The administering authority will monitor a DDA in the following ways:

### Changing funding position

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

### Changing employer covenant

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. In particular, the administering authority commissions an employer risk review report from the Fund Actuary each actuarial valuation cycle which includes obtaining credit ratings from credit rating agencies.

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

## Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

## Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

## Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

## Terminating a DDA

### Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- an actuary appointed by the administering authority assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date. An actuary may be appointed either under the Kent Pension Fund Contribution Review Policy or as part of a triennial rates and adjustments certificate review. For the purposes of this paragraph the calculation date is the date when the actuarial calculation was completed by the actuary for purposes of assessing the cessation debt, which if not for the DDA would have been the exit payment due

for the purposes of Regulation 64(1)...

The DDA can only be terminated by the deferred employer or by Kent Pension Fund in limited circumstances. Those circumstances will be included in the formal DDA legal agreement.

## Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

### **Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.**

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable.

# Debt Spreading Agreements (DSAs)

## Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

## Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

## Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 28 calendar days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.



The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;

- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

## Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 28 calendar days of agreeing the structure of the schedule of payments with the exiting employer.

## Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments

certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

## **Changing employer covenant**

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

## **Timeliness of payments**

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

## **Strength of guarantee or security**

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

## **Notifiable events from the exiting employer**

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

# Terminating a DSA

## Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

## Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

## Appeals process

The final decision as to whether a change in contributions is to be implemented will rest with the administering authority after, if necessary, taking advice from the Fund Actuary. In the event of any dispute from an employer, the Fund will seek to engage with the employer and a further 28 calendar days will be granted in which further discussions can take place to seek a resolution. Any further dispute or appeal should be raised with the Pension Fund Committee

In raising any dispute or appeal, an employer is required to evidence at least one of the following:

(i) A deviation from the published policy or process by the administering authority

And/or

(ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the administering authority)

An appeal will be considered within 28 calendar days of receipt of all required information. Any review of a decision will be considered independently from those directly involved in the original decision.

|                 |                                                                  |
|-----------------|------------------------------------------------------------------|
| From:           | Chairman Pension Fund Committee<br>Corporate Director of Finance |
| To:             | Pension Fund Committee – 29 March 2023                           |
| Subject:        | Pensions Administration                                          |
| Classification: | Unrestricted                                                     |

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**Summary:**

This report brings members up to date with a range of issues concerning the administration of the Kent Local Government Pension Scheme (LGPS) for the period 1 November 2022 to 31 January 2023.

**Recommendations:**

The Committee is recommended to note the report.

**REPORT SUMMARY**

1. Performance Update
2. Recruitment
3. Guaranteed Minimum Pension (GMP) Reconciliation
4. Pensions Dashboard
5. Change to CARE Revaluation Date
6. Internal Audit
7. Communications Policy
8. Judicial review on cost cap process and McCloud
9. Spring Budget 2023

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**For Information****1. Performance**

- 1.1 During the period 1 November 2022 to 31 January 2023 a total of 14,777 new cases were received by the Pensions Administration Team, with 11,878 cases completed during the same period.
- 1.2 Of the 2,899 cases not completed, some of these could be due to the date due completion being after 31 January 2023 or the cases could be on 'hold' awaiting further information (from members, employers or third parties). It is anticipated that developments to the performance reporting going forward will allow for a breakdown of these types of cases.

- 1.3 Due to the team carrying a number of vacancies at present (circa 13FTE), priority is being given to processing Death, Retirement and Refund cases.
- 1.4 Performance on these case types was of a good standard during the period (Deaths – 86%+, Retirements – 98%, Refunds – 88%).
- 1.5 For the lower priority areas (high volume, low complexity), the team are investigating the bulk automation of these processes in order to reduce the number of cases not being completed within the Service Level Agreement (SLA).
- 1.6 The team are also continuing to focus on clearing overdue cases during set 'backlog' days each month and increasing the use of member self-service (with particular focus on online retirements and payment of refunds).

## **2. Recruitment**

- 2.1 Phase 1 of the recruitment campaign has now been completed. Highlights include the introduction of two permanent Training Officers, an additional Technical Consultant, a Business Support Officer and a Senior Pensions Programme Manager who will support the management of the significant programme of works anticipated in the coming months and years.
- 2.2 In addition, resource on the Communications & Support Team has been increased so that the team can focus on the drive towards increased self-service for members and employers.
- 2.3 Phase 2 of the recruitment campaign has commenced. This will aim to fill current vacancies, plus the vacancies created from phase 1 (backfilling for successful, internal promotions) and includes a number of new roles including a Continuous Service Improvement Officer.

## **3 Guaranteed Minimum Pension (GMP) Rectification**

- 3.1 Following the conclusion of a full procurement exercise, ITM Ltd were successful in securing the contract for the GMP Rectification project, awarded under the National LGPS Framework for Pensions Administration Operational Support Services.
- 3.2 Decisions on correcting and paying underpaid pensions and correcting and recovering overpaid pensions will be brought to the Pension Fund Committee at a future meeting for consideration as the project progresses.

## **4 Pensions Dashboard**

- 4.1 On 2 March 2023, the Pensions Minister issued a written statement announcing delays to the delivery of Pensions Dashboards. The Pensions Dashboard requires additional time to ensure that the infrastructure that is being built is safe, secure and works for both pensions schemes and the end users of the service.
- 4.2 It is not clear at this stage if all the connection deadlines will be pushed back or if just the earlier ones will change and the later ones will remain the same.
- 4.3 The team will continue to prepare for the Dashboard with the main focus being on the development of a Data Improvement Plan (scheduled in the Business Plan to be delivered in 2023/24).

## **5 Change to CARE Revaluation Date**

- 5.1 On 9 March 2023, the Department for Levelling Up, Housing and Communities (DLUHC) laid the LGPS (Amendment) Regulations 2023. The regulations move the annual revaluation date from 1 April to 6 April. The regulations are effective from 31 March 2023.
- 5.2 The regulations remove the impact of inflation on the annual allowance calculation. They do so by changing the annual revaluation date from 1 to 6 April 2023, and thereafter on each 6 April, for all members.
- 5.3 There is no change in the outcome for all members whose benefits in payment would have increased on 1 April or death grants of deferred and pensioner members who die in the period 1 to 5 April.
- 5.4 The scheme year is not changing, it remains 1 April to 31 March. The revaluation that applies on 6 April applies on the CARE balance at 31 March in the previous scheme year.
- 5.5 In the view of the Local Government Association (LGA) the change to the annual revaluation date is not a material change under regulation 8 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The change is about when the revaluation increase is applied. It does not change the method of the calculation; therefore, there is no material change to the information listed in Part 1 of Schedule 2 of the Disclosure regulations.
- 5.6 Legal advice has also been sought by LGA and it is agreed that the change is not a material change. However, it is good practice to let members and beneficiaries know about the change so this will be included in a member newsletter to be issued later this year.

## **6 Internal Audit**

- 6.1 Internal Audit have been reviewing a number of administrative processes in key areas in order to provide assurance on the key controls that are in place. This includes, but not limited to, new joiners, transfers out, deaths and retirements.
- 6.2 The approach also included a review of governance and oversight arrangements, policies/procedures and staff training, system access/data security and data quality, compliance with scheme rules and regulations, and capacity and resourcing of the administration team.
- 6.3 The fieldwork commenced on 20 February with the draft report due by 31 March. The Committee will be given an update on recommendations and actions at the meeting in June 2023.

## **7 Communications Policy**

- 7.1 A review has commenced of the Fund's Communications Policy with a view to planning how the team will deliver a 'digital by default' approach to communications with members and employers.
- 7.2 Consideration will be given to how to promote the use of and adopt additional functionality on Member Self Service and iConnect in order to encourage customers to self-serve and to ensure they have access to accurate pensions information 24/7 to help them make well informed decisions.
- 7.3 The team will also be developing ideas for increasing member and employer engagement and education.

## **8 Judicial review on cost cap process and McCloud**

- 8.1 The cost cap process was introduced as part of the reform of public service pension schemes as a means of controlling costs to employers and taxpayers. The mechanism was designed as a cap and a floor, so employers would be protected where costs had risen but members could benefit where costs had fallen.
- 8.2 The 2016 cost cap process initially found that employer costs had fallen by more than 2% of pay and therefore would have required an increase to member benefits and/or reductions to member contributions.
- 8.3 Following the McCloud judgement in 2018/19, the 2016 cost cap process was paused. The process was subsequently re-started and the 2016 valuations were re-run with McCloud costs allocated to members as required by HM Treasury Directions.



- 8.4 This led to the change in costs falling within the +/-2% corridor and so no changes to member benefits or contributions were then required.
- 8.5 The Fire Brigade Union (FBU) and British Medical Association (BMA) applied for a judicial review of the Government's decision. On 10 March 2023 the application for a judicial review of the Government's decision was dismissed on all grounds. It is understood that the unions are seeking permission to appeal.
- 8.6 At this stage this is just for information and requires no action.

## **9 Spring Budget 2023**

- 9.1 The Chancellor of the Exchequer presented his Spring Budget 2023 to Parliament on 15 March. This included announcements affecting pensions taxation.
- 9.2 Currently, there are limits placed on the total tax-relieved pension savings an individual can make each year and over their lifetime, these include Lifetime Allowance (LTA) which is the maximum amount of tax relievable pension savings an individual can benefit from over the course of their lifetime and Annual Allowance (AA) which is the maximum amount of pension savings an individual can make each year with tax relief. A taper applies for people with income above set levels.
- 9.3 The LTA and AA mainly affect higher paid and/or longer serving individuals. The proposed reforms to these limits will help ensure that high skilled individuals are not disincentivised from remaining in the workforce.
- 9.4 The LTA was introduced in 2006 and has been maintained at £1,073,100 since April 2020. Individuals may contribute to their pension(s) over this limit, but they will be subject to tax on the amount above the LTA. The excess is taxed either at 55% where benefits are taken as a lump sum, or at 25% where taken as a pension.
- 9.5 Spring Budget 2023 announced that the LTA charge will be removed from April 2023, before the LTA is abolished entirely from April 2024. Lump sums above the LTA will, in future, typically be taxed at an individual's marginal rate of income tax.
- 9.6 Individuals may be able to receive a tax-free lump sum when they become entitled to their pension benefits. Currently, the maximum is typically 25% of the capital value of the benefits coming into payment, or 25% of the LTA if lower.
- 9.7 Spring Budget 2023 sets a lump sum monetary cap of £268,275, which is 25% of the current LTA. This cap will take effect on 6 April 2023 and be frozen

thereafter. Exceptions to these reforms will apply to individuals who hold valid LTA or lump sum protection.

9.8 The AA was introduced in 2006 and has been maintained at £40,000 since April 2014. Spring Budget 2023 announced that the government will increase the AA to £60,000 from April 2023.

9.9 First introduced with effect from April 2016, individuals with high incomes are subject to a Tapered Annual Allowance (TAA). Currently an individual's AA is reduced by £1 for every £2 increase in 'Adjusted Income', down to a minimum AA of £4,000. The Chancellor announced this minimum reduced AA would increase to £10,000 from April 2023. The 'Adjusted Income' level required for the TAA to apply with increase in April 2023 from £240,000 to £260,000.

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**March 2023**

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|                 |                                                                  |
|-----------------|------------------------------------------------------------------|
| From:           | Chairman Pension Fund Committee<br>Corporate Director of Finance |
| To:             | Pension Fund Committee – 29 March 2023                           |
| Subject:        | McCloud Remedy - Planning                                        |
| Classification: | Unrestricted                                                     |

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**Summary:**

This report brings the Committee up to date with the planning for the McCloud Remedy and the various options being considered to successfully implement the requirements of the legislation.

**REPORT SUMMARY**

1. Background
2. Data Collection
3. Data Validation
4. Costs – Data Collection and Validation
5. Costs - Rectification
6. Recommendations

**Recommendations:**

The Committee is recommended to note the report.

**FOR INFORMATION**

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**For Information****1. Background**

- 1.1 The LGPS changed from a final salary scheme to a career average re-valued earnings scheme on 1 April 2014. From that date, administering authorities were no longer required to collect certain data that used to be needed to calculate benefits built up in a final salary scheme.
- 1.2 The protections introduced for older members of other public service pension schemes when those schemes were reformed in 2015 (2014 for LGPS) were judged to be unlawful on the grounds of age discrimination in 2018. The Government confirmed that it will make changes to all public service pension schemes, including the LGPS, to remove the discrimination.
- 1.3 The Department for Levelling Up, Housing and Communities (DLUHC) has already consulted on proposals to extend the current underpin to younger

members and remove the requirement to have an immediate entitlement to benefits on leaving to qualify for underpin protection.

- 1.4 DLUHC has also proposed other amendments to ensure that the underpin is applied consistently and fulfils its purpose of providing a meaningful comparison of career average benefits and the benefits that would have built up in the final salary scheme.
- 1.5 Administering authorities will need to re-create notional final salary membership in the remedy period for those members in scope of protection by the new underpin. The remedy period runs from 1 April 2014 to 31 March 2022 or, if earlier, to a member's normal pension age under the 2008 scheme or date of leaving.
- 1.6 The proposed changes would mean that a revised underpin will apply to all members, regardless of their age, who were active on 31 March 2012, build up benefits in the 2014 Scheme and do not have a disqualifying break.
- 1.7 Under the proposals, in order to calculate if an underpin addition applies, Administering Authorities will need hours and service break data for all qualifying members for the period from 1 April 2014 to the earliest of 31 March 2022, the member's 2008 Scheme normal pension age (NPA) or the date the member left active membership of the Scheme.
- 1.8 Members in scope will be retirements, survivors, divorces, transfers, annual allowance and aggregations.

## **2. Data Collection**

- 2.1 Use the McCloud LGPS Data Collection template to request hours and service break data, plus Final Salary at age 65 and at 31 March each year for all members who have been active since 1 April 2014, and to continue providing this data on a regular basis going forward.
- 2.2 Include the 'Key bullet points for employers', 'FAQ's for employers' and 'McCloud data collection template notes'.
- 2.3 Use the Scheme Advisory Board (SAB) guidance on what the options are if employers no longer exist, do not respond, do not hold the data or there is reason to believe the data is inaccurate.

## **3 Data Validation**

- 3.1 Validate the completeness, consistency and format of employer data spreadsheets.

- 3.2 Compare the validated data with the member Altair records and analyse mismatches.
- 3.3 Apply pre-agreed tolerances and assumptions to determine which data to accept and upload to Altair.
- 3.4 Consider the approach (using SAB guidance) where the expected data items cannot be provided.
- 3.5 Where data cannot be validated or assumptions/tolerances applied, send data queries to employers and support with resolution.

#### **4 Costs – Data Collection and Validation**

- 4.1 **In House** – based on circa 617 employers and a timeframe of 12-18 months = £37,326 for x1 Communication & Support Officer. Based on the resource requirement for dealing with data submissions at year end, it is anticipated x6 Communications & Support Officers would be required for this part of the project. **Estimated cost - £335,934.**
- 4.2 **Outsourced** - based on a draft proposal received by a third-party provider, therefore subject to change dependant on successful bidder)  
**Estimated Cost - £168,500.**

#### **5 Costs - Rectification**

- 5.1 **In House** - As at August 2021 it was determined that there were 43,295 members in scope for the statutory underpin check. Due to the passage of time, this number is subject to change. However, based on analysis of data by Heywood's for authorities who have collected data, it is anticipated that there will be circa 75 recalculations/corrections to benefits required. Taking approximately 5 hours per case if processed manually at Pensions Officer level – **Estimated cost = £7,256.25.**
- 5.2 **Outsourced – (based on £47.50 per case) = £3,562.50**
- 5.3 The Fund would also need to factor in costs for Project Management and Communication.

#### **6 Initial Conclusions**

- 6.1 Due to the complexity and anticipated length of time to complete this project, plus the demand from members once final Regulations are laid, it is likely that this project will be outsourced in full on completion of a full tender exercise to procure a third-party provider.

- 6.2 By outsourcing this project in full, the Kent Pension Fund will be able to continue at pace with its development and improvement plans. If resource has to be re-directed to deal with McCloud internally it is anticipated that there will be a minimum 2-year delay in the delivery of service improvements and efficiencies.
- 6.3 In addition, there will be reduced scope to focus on data improvement in preparation for Pensions Dashboard. It is envisaged that resource will still be required to support the McCloud project in some capacity and the additional resource currently being recruited will be able to assist with items that fall out of scope of the third-party provider service provision.
- 6.4 Officers will full assess the options available to the Fund, and report progress to the Committee at its next meeting.

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**March 2023**

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|                 |                                                                  |
|-----------------|------------------------------------------------------------------|
| From:           | Chairman Pension Fund Committee<br>Corporate Director of Finance |
| To:             | Pension Fund Committee – 29 March 2023                           |
| Subject:        | Fund Position 31 December 2022                                   |
| Classification: | Unrestricted                                                     |

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**Summary:**

To provide a summary of the Fund's asset allocation and performance.

**Recommendation:**

The Committee to note the Fund's asset allocation and performance as of 31 December 2022

**FOR INFORMATION**

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**1. Introduction**

- 1.1 This report provides an update on the Fund's asset allocation and performance.
- 1.2 A copy of the Fund Position Statement is at Appendix 1

**2. Fund value and asset allocation**

- 2.1 As of 31 December 2022, the Fund's value was £7.74bn, an increase of £94m over the quarter.
- 2.2 All asset classes remain within their target allocation ranges and therefore no rebalancing is required.

**3. Investment performance quarter to 31 December 2022**

- 3.1 UK equities performed strongly over the final quarter of the year with the FTSE All-Share index returning +8.80% in the three months to 31 December. UK equities reacted positively to the new government's reversal of many of the unfunded tax cuts introduced by the short-lived Truss administration. The UK index also benefited from a weak sterling as well as from a large allocation to Financials, which typically benefit from rising interest rates.
- 3.2 Global equities and bonds generally improved on signs that inflation may have peaked and expectations that central banks might be able to ease interest rate rises. European markets in particular, had a strong quarter as a mild start to overwinter eased concerns about energy supplies and costs, and the reopening of China's economy and slowing pace of the US rate hikes aided positive sentiment.

- 3.3 Against this backdrop, the Fund's active equity as well as fixed income managers returned above benchmark performance except for the Baillie Gifford Global Equity Core Fund and the Schroders Bond fund.
- 3.4 Rising interest rates, and prospects of slowing economic growth continued to have a negative impact on the property markets which fell drastically by -14.5% in the quarter, although the fund's property mandates fell by less than the index.
- 3.5 A rise in the global equities meant that the equity protection program lost £36m during the quarter, but the fall was offset by the rise in physical equities held by the Fund.
- 3.6 Both the absolute return managers underperformed the RPI linked benchmark whilst the private equity and Infrastructure mandates had mixed returns.
- 3.7 Overall, during the quarter, the Fund returned 1.12%, a little short of its benchmark return of 1.27%.

#### **4. Longer term performance**

- 4.1 For the year ended December 2022, the Fund achieved a return of -0.31% against a benchmark return of -1.99%, an outperformance of 1.68%.
- 4.2 The year has been one of two halves. Whilst the first six months saw asset prices buffeted by a number of challenges including the escalation of the Ukraine conflict and resultant energy crisis, soaring of inflation, rising interest rates, and slowing economic growth prospects, the second half of the year saw some calm being restored by a sense of peaking of inflation, easing of central banks' monetary tightening policies, and a less severe winter providing relief from the energy crisis. Despite the late recovery, global equity valuations failed to recover the earlier losses and have fallen by 8.08% during the one-year period.
- 4.3 Against this backdrop of economic uncertainty, value style investors have outperformed growth stocks, which have struggled. Baillie Gifford, the Fund's global equities manager with a growth style had a severe fall of 33%, although this followed on from a period of exceptional outperformance coming into 2022. In contrast, both the Fund's value managers, Schroders GAV and M&G global dividend fund outperformed the benchmark significantly.
- 4.4 The bond markets similarly experienced reversing fortunes between the first and second half of the year. Despite the recovery in the last quarter, the bond managers recorded a negative return for the year, with GSAM recording the worst performance of -11% for the year and M&G MAC fund the best of -0.02%.
- 4.5 After recording strong growth recovering from post covid lockdown in the first half of the year, property assets have continued to fall in the face of rising interest rates and have recorded a net fall of over 10% for the year. The fund's property managers have however outperformed the property index, in particular portfolios with less exposure to industrial property assets such as the M&G residential property fund.
- 4.6 The Fund operates a diversified asset allocation, across a range of asset classes and styles, together with an equity protection programme, in order to manage risk and meet its investment objectives.



4.7 Over three years, the Fund has outperformed with a return of 5.3% per annum compared to the benchmark return of 4.6% p.a.

## **5. Outlook**

5.1 The investment outlook remains uncertain. Whilst there seems to be a general view that inflation might have peaked, this is far from guaranteed. Market sentiment remains highly sensitive to economic news and there is limited consensus on the how long it will take to normalise. Against this backdrop our managers continue to focus on stock-picking and look for companies with strong balance sheets and good long-term prospects. The Fund aims to limit volatility by diversifying sources of return within the portfolio. The Fund will be reviewing its investment strategy over the next few months to take advantage of the revised valuation results.

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**March 2023**

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From: Chairman Pension Fund Committee  
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: Investment Manager Monitoring

Classification: Unrestricted

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**Summary:**

This report summarises the governance arrangements surrounding the oversight and ongoing monitoring of the Fund's appointed investment managers. The purpose of the paper is twofold:

- 1) to provide information around and to clarify the current manager monitoring arrangements; and
- 2) to propose the establishment of an investment manager monitoring strategy consistent with those arrangements.

The central feature of the proposed monitoring strategy is the introduction of a structured informal manager meeting cycle to support the Committee's oversight over investment managers and inform investment decisions making.

**Recommendation:**

The Pension Fund Committee is recommended to note this report and to endorse the monitoring strategy set out at section 3.

**FOR DECISION**

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**1. Background**

- 1.1 In common with most institutional investors, the Kent Pension Fund implements its investment strategy via specialist external investment managers who are appointed to manage the day-to-day investment of the Fund's assets. The Fund needs to maintain assurance that its investment assets are being managed effectively, and in line with the Fund's overall investment strategy, which necessitates the development and implementation of proper investment manager monitoring arrangements.

1.2 Although the asset pooling regime in the LGPS means that, increasingly, investment manager monitoring is undertaken by pools rather than by administering authorities, most LGPS pension funds (including Kent) are still in the process of transitioning assets to pools.<sup>1</sup> As at 31 December 2022, approximately 60% of the Fund's assets are invested outside of the ACCESS asset pool, and while officers expect this proportion to decrease over time (as transition plans progress and suitable investment products become available), there remains an ongoing requirement to monitor investment managers (especially for any assets that are held locally on a permanent basis, or where governance requirements dictate). In addition, whilst ACCESS will co-ordinate monitoring of the pool's asset managers, individual funds are still likely to maintain regular contact to give themselves necessary assurance.

## 2. Investment Manager Monitoring Governance

2.1. Responsibility for investment manager monitoring is located in various areas:

2.1.1. **Pension Fund Committee:** as the senior decision-making body under the Fund's governance arrangements, the Committee has a strategic role focused on the oversight of the Fund's appointed investment managers. The Committee receives and considers relevant information to enable it to undertake informed strategic investment decisions, such as asset allocation; the transition of assets to the ACCESS Pool; or the appointment and termination of investment manager relationships.

2.1.2. **Investment Consultant (Mercer):** the Investment Consultant advises the Committee on the ongoing suitability of the Fund's investment managers. Mercer maintains individual manager ratings and manager ESG ratings, built upon a qualitative assessment of the managers' investment process. This information is principally communicated via a quarterly manager monitoring report to the Committee, highlighting any material developments. Mercer maintains an extensive global research function, which carries out periodic deep-dive assessments of individual managers' investment strategies, and which is available to the Fund.

2.1.3. **Officers:** the treasury and investments team monitor and evaluate investment performance at both the whole Fund and manager level using data from the custodian, Northern Trust, combined with investment managers' own reports and advice from the Investment Consultant. Officers also maintain ongoing dialogue with the investment managers' client relations teams, which is a key communication channel for understanding material manager developments (such as a change in senior investment team personnel) or for requesting additional information to support monitoring (on engagement activities or carbon

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<sup>1</sup> A key founding objective of ACCESS is that the pool will provide a range of asset types necessary to enable participating authorities to execute their locally decided investment strategies as far as possible. Whilst administering authorities retain the key decision-making power over investment strategy, responsibility for the appointment of asset managers passes to the pool. This is consistent with the statutory guidance underpinning the pooling regime in the LGPS in England and Wales.

emissions, for instance). Officers also periodically meet with investment managers to review investment performance and strategy.

2.1.4. **Custodian (Northern Trust):** The custodian is the principal source for the Fund's investment performance information, which is provided on a monthly basis at manager and fund level. The custodian has also historically been responsible for safeguarding and accounting for individual securities. Although this function is still carried out by the custodian for the Fund's two remaining segregated account mandates (Sarasin and Goldman Sachs), as the Fund is now generally invested in mutual funds, custodian activities are largely carried out elsewhere.

2.1.5. **ACCESS Support Unit and Pool Operator (Link):** for pooled assets, additional investment monitoring activities are carried out at a pool level. The ACCESS Support Unit convenes regular monitoring meetings with investment managers including monthly investment user group meetings (led by the pool operator and attended by officers) and investor days. The pool operator also provides quarterly performance monitoring alongside an annual "Assessment of Value" report which evaluates where funds provide value to investors based on criteria outlined by the FCA.

2.2. It can be noted from the above, that there is a clear split between the strategic oversight carried out by the Committee and the more frequent and granular ongoing assessment of the continuing suitability of investment managers performed by others.

### 3. Monitoring strategy

3.1 As pooling of assets continues, it is proposed that the Fund introduces a investment manager monitoring strategy centred on the roles and responsibilities outlined in section 2 above.

#### Manager Meetings

3.2 Historically, investment managers have been invited to present to each formal meeting of the Pension Fund Committee. Whilst this arrangement has its advantages, Committee meeting agendas have become increasingly full and do not always allow adequate time for fund manager presentations, which means that Members may not fully benefit from the interaction. In addition to this the number of investment managers engaged by the Fund has increased so managing attendance has become challenging.

3.3 It is proposed that the Fund creates an investment manager meeting schedule outside of formal committee meetings. Provisionally these meetings would be held on the basis of two manager meetings per quarter and would be accessible to all Committee Members and relevant officers.

3.4 The inclusion of a short pre-briefing and a standardised agenda would enable the Fund to drive the dialogue, ensure interactions are consistent and cover key areas

of interest, and support continuous improvement. A summary of the proposed features is shown in Table 1.

**Table 1: Summary of Manager Meeting Proposals**

| <b>Item</b>   | <b>Description</b>                                                                                                                                 |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Frequency     | 2 per quarter (8 per year)                                                                                                                         |
| Attendance    | Committee Members, officers, investment manager (portfolio manager plus client relations), Investment Consultant (by exception)                    |
| Format        | Pre-briefing, presentation plus Q&A                                                                                                                |
| Agenda        | 1. Business/team update<br>2. Strategy recap<br>3. Performance review<br>4. Portfolio activity<br>5. Responsible investment activity<br>6. Outlook |
| Expected time | 1 hour (maximum) each                                                                                                                              |
| Evidence      | Recording and one page meeting note circulated to Committee Members                                                                                |
| Outputs       | Informed investment decision making and effective asset allocation                                                                                 |

- 3.5 An indicative meeting rota has been developed with reference to such criteria as mandate size and current performance and is included at the Appendix.

#### Escalation

- 3.6 The creation of an informal manager meeting schedule does not negate the requirement for investment manager attendance at the formal Committee meetings, but rather such interactions would be as a result of escalation or due to urgency and would therefore be by exception.
- 3.7 Ongoing monitoring will proceed in accordance with the roles and responsibilities outlined in section 2. Possible reasons for escalating manager interactions to either an informal meeting with officers and Members or to a full Committee meeting include:

- severe or persistent underperformance.
- a change in the Investment Consultant’s opinion of the manager.
- a change in key personnel, or
- a change in or deviation from the manager’s stated, original investment thesis.

#### Reporting

- 3.8 A key component of ongoing investment manager monitoring is regular reporting. The Committee currently receives ongoing monitoring information via several items including the Fund Position Statement and the Quarterly Manager Ratings Report. It is likely that the Fund’s reporting needs will evolve over time and officers intend to periodically review the reporting arrangements to ensure they remain

appropriate. An initial review will explore the inclusion of risk-adjusted return information and climate-related data.

#### **4. Other ACCESS funds**

4.1 To establish how the other 10 ACCESS partner funds monitor their asset managers a brief survey was undertaken by officers. A summary of this is shown below:

- 3/10 of the Funds have regular attendance at Pension Fund Committee meetings by asset managers. 2 of these commented that they were looking to change due to the agenda demands, and administrative burden.
- 3/10 had established Investment Sub-Committees that had responsibility for manager monitoring and other investment activity.
- 4/10 had informal sub-groups on manager monitoring briefing calls to ensure elected members had the opportunity to meet managers on a regular basis (generally monthly/quarterly).
- All commented that managers could still attend formal Committee meetings by exception.

4.2 It seems clear from this that the general trend has moved away from investment managers attending meetings as standard, due to other demands on agenda time, but that other arrangements have been put in place to ensure that effective monitoring continues.

#### **5. Conclusion**

This report has provided a recap of the governance arrangements surrounding the Fund's investment manager monitoring activities and proposed the introduction of a monitoring strategy centred on a structured manager meeting schedule to support the Committee's ongoing oversight role and inform investment decision making.

#### **Appendices**

Appendix – Manager Meeting Rota

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**March 2023**

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## Appendix – Manager Meeting Rota

### Fund Manager Review Rota

| Quarters ended                             | Manager         | Format    | Mandate            | Dec 22 AUM (£m) |
|--------------------------------------------|-----------------|-----------|--------------------|-----------------|
| Jun-23                                     | Baillie Gifford | MS Teams  | Global Equity      | 1074            |
|                                            | Sarasin         | In Person | Global Equity      | 383             |
| Sep-23                                     | DTZ             | MS Teams  | Direct Property    | 542             |
|                                            | Schroders       | In Person | UK Equity          | 1189            |
| Dec-23                                     | M&G             | TBC       | Global Equity      | 536             |
|                                            | Schroders       | TBC       | Global Equity      | 412             |
| Mar-24                                     | GSAM            | TBC       | Fixed Income       | 387             |
|                                            | Schroders       | TBC       | Fixed Income       | 412             |
| Jun-24                                     | Partners Group  | TBC       | Infrastructure     | 247             |
|                                            | HarbourVest     | TBC       | Private equity     | 254             |
| Sep-24                                     | Pyrford         | TBC       | Absolute Return    | 381             |
|                                            | Ruffer          | TBC       | Absolute Return    | 192             |
| Dec-24                                     | M&G             | TBC       | Multi Asset Credit | 247             |
|                                            | CQS             | TBC       | Multi Asset Credit | 230             |
| Mar-25                                     | Baillie Gifford | TBC       | Global Equity      | 1074            |
|                                            | Sarasin         | TBC       | Global Equity      | 383             |
| Jun-25                                     | DTZ             | TBC       | Direct Property    | 542             |
|                                            | Schroders       | TBC       | UK Equity          | 1189            |
| Managers also monitored on ACCESS platform |                 |           |                    |                 |

| Other smaller mandates to be covered by officers: |                        |     |
|---------------------------------------------------|------------------------|-----|
| Fidelity                                          | Property Residential   | 142 |
| M&G                                               | Property Environmental | 69  |
| Impax                                             | Equity                 | 75  |
| YFM                                               | Private Equity         | 68  |
| UKAV (DTZ)                                        | Property               | 32  |





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From: Chairperson – Pension Fund Committee  
Corporate Director of Finance

To: Pension Fund Committee – 29 March 2023

Subject: Governance & Policy update

Classification: Unrestricted

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**Summary:**

To report to the Committee on the progress made with the implementation of the recommendations arising from the Barnett Waddingham review. This report also advises the Committee on the current position of the Fund policies in line with LGPS regulations and tPR code of practice.

**Recommendation:**

The Committee is recommended to note the report and to resolve to approve the Fund's Administration Strategy for publication and implementation from 1 April 2023.

**FOR DECISION**

---

**Introduction**

1. As previously agreed, the Committee will be updated at each meeting on the progress made on the implementation of the Barnett Waddingham recommendations.
2. Members are reminded that Barnett Waddingham made 139 Recommendations and some 116 have been implemented or are in progress.
3. The Committee will be aware that Alison Mings had been supporting the Head of Treasury and Pensions in project managing the review of the Fund's governance prior to her retiring in December 2022.
4. As part of a wider review of the Fund's structure and governance arrangements Emma Green has been appointed to the role of Senior Pensions Programme Manager. Emma's role is a broad one across all aspect of the Fund and will be specifically focussed on programme managing the range of projects that we have planned in the coming months and years. Emma started with the Pensions and Treasury service on 1<sup>st</sup> March and is a member of the Senior Management team for the Service. Emma will also lead for the Fund on Governance, and will, amongst other things, manage progress on the Barnett Waddingham recommendations, and will provide members with regular updates.

## Pension Board membership

5. One of the areas that the Barnett Waddingham review focussed on was the effectiveness of the Local Pension Board. As part of the implementation of the review's recommendations, the terms of reference of the Board were revised and now include 4 scheme members representing Unison, active and pensioner members. As discussed at the previous meeting Joe Parsons has left his role on the Committee to focus on the work of the Board.
6. As previously reported a recruitment exercise was undertaken to recruit to the vacant scheme member positions on the Board. It is pleasing to report that all positions are now filled, and the revised membership is shown in the table below:

| Kent Pension Fund - Local Board |                                                          |
|---------------------------------|----------------------------------------------------------|
| <b>Membership - March 2023</b>  |                                                          |
| Employer Representatives        |                                                          |
| Robert Thomas                   | Kent County Council - Chairperson                        |
| Dylan Jeffrey                   | Kent County Council                                      |
| Rachel Carnac                   | Canterbury City Council - Representing Non KCC employers |
| Alison Kilpatrick               | Kent and Medway Fire - Representing non KCC employers    |
| Scheme Member Representatives   |                                                          |
| Joe Parsons                     | Representing Unions                                      |
| Kelly King                      | Representing scheme members - Active                     |
| Alison Mings                    | Representing scheme members - Deferred                   |
| Grahame Ward                    | Representing scheme members - Retired                    |
|                                 |                                                          |
|                                 |                                                          |

7. The revised Board membership met for the first time on 14 March 2023, and the Chairman will update the Committee on the meeting, elsewhere on today's agenda.

## Fund policies

### 8. Administration Strategy

- 8.1 At the meeting of the Committee in September 2022, the draft Administration Strategy was presented and approved as a basis for consultation with Scheme Employers. As a reminder, the document has been created to bring together the employer and pensions team performance expectations in one document.
- 8.2 At the Employer Forum on 9 December 2022 the draft Administration Strategy was presented to those employers in attendance. On 22 December 2022 this was followed up with an e-mail to all scheme employers with the Draft Administration Strategy. Employers were asked to review the new strategy and to provide any comments and feedback by 31 January 2023.
- 8.2 Responses were received from Kent County Council and Folkestone & Hythe District Council. These responses have been reviewed, and any necessary alterations made to the strategy. There are not any fundamental changes made but certain points have been clarified in our response to the feedback from these employers.
- 8.3 The Committee are asked to approve this final version of the strategy, with a view to implementing from 1 April 2023. The Strategy is attached as **Appendix 1**.
- 8.4 Planning is underway to consider how the strategy will be monitored, managed and reported on which will involve some form of an Employers Escalation Policy.

### 9. Funding Strategy Statement

- 9.1 The **Funding Strategy Statement (FSS)** has been prepared as part of the actuarial valuation exercise and Fund employers have been consulted on its content. The consultation closed on 28 February 2023, and the final version of the **FSS** is presented elsewhere on today's agenda for approval.

9. The following table sets out the current status of the Fund’s policies:

| <b>Policy</b>                              | <b>Last reviewed by the Committee</b>        | <b>Next update and review due</b>                           | <b>Responsibility</b> |
|--------------------------------------------|----------------------------------------------|-------------------------------------------------------------|-----------------------|
| Funding Strategy Statement                 | September 2022                               | March 2023 as part of the 2022 actuarial valuation exercise | Nick Buckland         |
| Investment Strategy Statement              | September 2022                               | June 2023 after review of Investment Strategy               | Nick Buckland         |
| Governance policy and compliance statement | September 2022                               | September 2023                                              | James Graham          |
| Responsible Investment policy              | September 2022                               | June 2023 – linked to Investment Strategy review            | James Graham          |
| Communications policy                      | March 2018                                   | June 2023                                                   | Clare Chambers        |
| Administration Strategy                    | Draft, ahead of consultation - December 2022 | Final version for approval - March 2023                     | Clare Chambers        |
| Conflicts of Interests Policy              | December 2022                                | December 2024                                               | Nick Buckland         |
| Breaches of the Law policy                 | December 2022                                | December 2024                                               | Nick Buckland         |
| Discretions policy                         | December 2022                                | December 2024                                               | Clare Chambers        |
| Abatements policy                          | December 2022                                | December 2024                                               | Clare Chambers        |
| Training Strategy                          | March 2022                                   | March 2024                                                  | James Graham          |
| Personal Data Retention policy             | December 2019                                | June 2023                                                   | Clare Chambers        |
| Data Quality policy                        | n/a                                          | New policy, tbc                                             | Clare Chambers        |
| Escalations policy                         | n/a                                          | New policy, tbc                                             | Clare Chambers        |
| Privacy Notice                             | n/a                                          | New policy, tbc                                             | Clare Chambers        |

**Kent Pension Fund compliance with the Pensions Regulator’s (tPR’s) code of practice and Scheme Advisory Board Good Governance recommendations**

10. When Barnett Waddingham published their report in October 2021 it was anticipated that a final version of the tPR single code of practice published in draft in March 2021, would shortly be published, and the good governance recommendations published in February 2021 would also be finalised in early 2022.
11. At the last meeting of the Committee it was reported that it was expected that both would be published in the first quarter of 2023, however at the time of writing neither document has been.

12. Officers will continue to monitor the situation and will review the Fund's position when guidance/regulation/codes of practice are published.

### **Board and Committee Knowledge - National Knowledge Assessment**

13. The results of the National Knowledge Assessment were received in December 2022 and officers are currently in the process of designing a refreshed training plan for Board and Committee members, taking into account the outcomes of the assessment. This revised plan will be presented to the Committee for approval at the meeting in June 2023.
14. A copy of the results can be found in **Appendix 2**.

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**March 2023**

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# Kent Pension Fund

## Administration Strategy

### Effective from April 2023

### Version 1.2

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# 1. Introduction

- 1.1 Kent County Council is the Administering Authority for the Local Government Pension Scheme (LGPS) on behalf of the scheme employers participating in the LGPS through the Kent Pension Fund (“the Fund”).
- 1.2 The strategy is kept under review and revised to reflect changes to the LGPS Regulations and Fund policies. This document sets out a framework by way of outlining the policies and performance standards to be achieved to enable provision of a cost-effective and high-quality administration service.
- 1.3 Regulation 59 of the LGPS Regulations 2013 allows Administering Authorities to prepare an Administration Strategy (“the Strategy”) for the purpose of improving the administrative processes within their LGPS Fund. In discharging their roles and responsibilities under these regulations, the Fund and Scheme Employers (“Employers” or “Employer”) are also required to comply with any relevant overriding legislation and take appropriate recognition of any regulatory guidance or Code of Practice issued by The Pensions Regulator (“TPR”).
- 1.4 TPR plays a key role in overseeing Public Service Pension Schemes, including setting standards of administration and governance on all administrative aspects of the Scheme. Local Pensions Boards also provide an independent role to ‘assist’ the Fund to achieve regulatory compliance, and effective and efficient administration and governance.
- 1.5 The Strategy is a statement of the authority’s policies in relation to matters such as communicating with scheme employers, establishing levels of performance which the administering authority and its scheme employers are expected to achieve, procedures which aim to secure compliance with statutory requirements, and other matters as appear to the administering authority after consulting with scheme employers to be suitable for inclusion in the strategy.
- 1.6 The Administration Strategy applies to all employers in the Fund. Employers must have regard to the strategy when undertaking their role.
- 1.6 The Strategy will be formally reviewed annually and updated at least every three years, if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

# 2. Purpose

- 2.1 The administration objective of the Fund is to:
  - deliver a high-quality service to all beneficiaries and employers at the point of need

- ensure we are paying the correct benefits to the correct people at the correct time
- ensure contribution income is collected from the right people at the right time and in the right amount
- ensure the scheme employers are aware of and understand their roles and responsibilities, and carry out their functions in line with legislation, guidance and the Fund's agreed policies and procedures
- ensure all stakeholders have easy access to relevant information to enable informed decision making.

## 2.2 The purpose of the strategy is to

- provide clarity on the roles and responsibilities of the Fund and its scheme employers under the LGPS regulations
- set and measure the targets that both the Fund and its scheme employers should be working to
- ensure the Fund operates in accordance with LGPS Regulations and is aligned with TPR in demonstrating compliance and Scheme governance
- promote good working relationships between the Fund and its scheme employers
- ensure that the Fund and its scheme employers have appropriate skills, and that guidance/training is in place, to deliver a high-quality service
- ensure the Fund is delivering a high-quality service to its stakeholders whilst maintaining the accuracy, security and integrity of the data held

## 2.3 The Fund continually strives to improve:

- The procedure guidance for employers
- All publicity material, forms and letters
- Training for all employers
- Communications with employers and scheme members
- The member experience
- The collection of data in respect of starters, the amendment of a member's personal data and the posting of scheme member contributions by electronic means

### 3. Role of Scheme Employers

- 3.1 Scheme employers have distinct decision making and administrative duties under the LGPS Regulations and other relevant legislation. Employer performance has a significant impact on the overall level and quality of service provided to scheme members.
- 3.2 It is the employer's responsibility to ensure that contact details held by the Fund are correct, and to notify the Fund of changes immediately.
- 3.3 The employer must ensure it is aware of its scheme employer duties and keeps up to date with guidance issued by the Fund.
- 3.4 The employer must ensure it retains a good level of LGPS knowledge and has a succession plan in place.
- 3.5 During the year the employer should provide the required correct data and notifications to the Fund as per the targets set out below. Persistent failure by an employer to meet the required performance standards could result in any additional costs to the Fund being recovered from the employer.
- 3.6 The employer must comply with its obligations under Data Protection Law including the secure transfer of members' personal data.

### 4. Responsibilities for employers that have outsourced their HR and / or payroll function

- 4.1 Where an employer has outsourced the HR and/or payroll function or allowed schools to do so, the responsibilities detailed in the strategy continue to fall on the employer, together with any subsequent fines or penalties.
- 4.2 It is the employer's responsibility therefore to ensure that they have a robust contract in place with their service provider and that they monitor the contract accordingly to ensure they meet all the requirements regarding pension arrangements for members.
- 4.3 In the event that an employer changes their service provider they continue to be responsible for responding to any queries regarding their employee's pension arrangements. It is therefore essential that the employer retains copies of payments made to members, what they represent, whether they were pensionable, the post to which they relate and what section of the scheme the member paid into.

## 5. General Responsibilities

Appendix 1 sets out the key legislative and regulatory responsibilities of an employer. The Fund recommends that employers also refer to the LGPS Regulations directly when undertaking their role and assessing their LGPS responsibilities. Providing accurate data in a timely way is vital to ensure compliance with the law and statutory guidance. All employer forms can be found on the [Kent Pension Fund website](#).

## 6. Supply of information via i-Connect

i-Connect is a secure platform which automates the submission of pension data on a monthly basis, by generating an extract directly from payroll systems. All employers in the Fund will transition to i-Connect in due course.

If you are an employer using i-Connect, you should submit all the information and data as set out in appendix 1 using i-Connect, with the exception of estimate requests, retirements, tier 3 ill health reviews and death in service.

## 7. Access to the Fund's Employer Portal

To access the links contained within this document, employers will be required to log into the [Kent Pension Fund Employer Portal](#) using their employer Username and Password. The nominated Pension Contact within each employer should have access to these details. Alternatively, they can be obtained from the Communications & Support Officer assigned to the employer.

# Appendix 1 Scheme Employer Responsibilities

## Governance

| General responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Action to take                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Notify the Fund of a nominated representative to receive information from the Fund and to take responsibility for circulating it within the organisation via the submission of the 'Employer changes form'.</p>                                                                                                                                                                                                                                                                                                                                                                     | <p>Within 30 days of change or becoming a Scheme Employer.</p> <p>Completion and submission of the <a href="#">'Employer changes form'</a> 7 days prior to change</p> |
| <p>Inform the Fund of the personnel and payroll providers for the organisation via the submission of the 'Employer changes form'.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>Within 30 days of change or becoming a Scheme Employer.</p> <p>Completion and submission of the <a href="#">'Employer changes form'</a> 7 days prior to change</p> |
| <p>Create, publish and update (as necessary) policies in relation to all areas where the employer may exercise a discretion within the LGPS regulations.</p>                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>A copy of the policy document to be provided to the Fund within 30 working days of it being agreed by the employer.</p>                                            |
| <p>Appoint a person (the adjudicator) to consider disputes under Stage 1 of the pension Internal Dispute Resolution Procedure (IDRP) and provide contact details to the Fund.</p>                                                                                                                                                                                                                                                                                                                                                                                                      | <p>Within 30 days of becoming a Scheme Employer or following the resignation of the current adjudicator</p>                                                           |
| <p>Distribute any information provided by the Fund to Scheme Members/potential Scheme Members</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <p>In a timely manner as required</p>                                                                                                                                 |
| <p>Notify the Fund of any Notifiable Events including, but not restricted to, the following:</p> <ul style="list-style-type: none"> <li>• Material change in LGPS membership</li> <li>• Material change in Employer payroll and/or pensionable pay</li> <li>• Change in Employer's legal status or constitution</li> <li>• A decision which will restrict the Employer's active membership in the Fund in future</li> <li>• Any restructuring or other event which could materially affect the membership in the Fund in future</li> <li>• Confirmation of wrongful trading</li> </ul> | <p>Within 30 days of becoming aware of such an event</p>                                                                                                              |

| General responsibilities                                                                                                                                       | Action to take |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <ul style="list-style-type: none"> <li>• Conviction of senior personnel</li> <li>• Decision to cease business</li> <li>• Breach of banking covenant</li> </ul> |                |

## New starters

| New starter responsibilities                                                                                                                                                                               | Action to take                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Provide each new employee with a 'joiner pack' and a 'Brief guide to LGPS' either in the form of a hard copy or links to the documents on the website.</p>                                              | <p>Provide each new employee with a <a href="#">joiner pack</a> and a <a href="#">Brief guide to LGPS</a></p> <p>Within 2 weeks of commencing employment.</p>                                                             |
| <p>Decide who is eligible for LGPS membership (and the date from which membership of the LGPS starts), including Auto Enrolment</p>                                                                        | <p>On joining (or at point becomes eligible if later)</p>                                                                                                                                                                 |
| <p>Provide the Fund with details of all new entrants to the LGPS by completing the 'New starters spreadsheet'.</p>                                                                                         | <p>Complete the 'New starters spreadsheet' (<a href="#">single</a> or <a href="#">multiple</a>) and supply to the Fund by the 10<sup>th</sup> of the month following entry via the online upload form on the website.</p> |
| <p>Determine each Scheme member's pensionable pay and arrange for the correct deduction of employee contributions in accordance with the LGPS contribution bandings.</p>                                   | <p>For the first pay period in which the employee joins the LGPS</p>                                                                                                                                                      |
| <p>Assist the Fund in ensuring that all new starters complete a 'Personal details declaration form' (contained in the <a href="#">Joiner pack</a>) to ensure timely administration of transfer values.</p> |                                                                                                                                                                                                                           |
| <p>Where there is more than one contract of employment with the same employer each membership shall be maintained separately and allocated a unique pension reference.</p>                                 |                                                                                                                                                                                                                           |



## Changes during membership

| General responsibilities                                                                                                                                                                                                                                                                                                         | Action to take                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Employer must inform the Fund about changes during membership. They include:</p> <ul style="list-style-type: none"> <li>• name</li> <li>• address</li> <li>• National Insurance number</li> <li>• hours (where applicable)</li> <li>• pension reference</li> <li>• change of academy within a multi academy trust.</li> </ul> | <p>Employers must provide the Fund with details of changes of:</p> <ul style="list-style-type: none"> <li>• name, address, National Insurance number, hours (where applicable) using the '<a href="#">Changes spreadsheet</a>'</li> <li>• pension reference using '<a href="#">Change of pension reference spreadsheet</a>'</li> <li>• academy within multi academy trust using '<a href="#">Change of pension reference (Academy trust)</a>' form.</li> </ul> <p>By the last day of the month submit all information using the online upload form.</p> |
| <p>Move employees into the 50:50 section or Main section</p>                                                                                                                                                                                                                                                                     | <p>Notification can be sent to the Fund at year end or via the iConnect submission</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>Move employees back into the Main section</p>                                                                                                                                                                                                                                                                                 | <p>If the employee is in the 50:50 section and either goes onto no pay due to sickness or injury or passes the Member's automatic re-enrolment date, the employee must be moved back into the main section from the beginning of the next pay period if they are still on nil pay at that time.</p> <p>Notification can be sent to the Fund at year end or via the iConnect submission</p>                                                                                                                                                              |

| Early Leavers responsibilities                                                               | Action to take                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Notify the Fund of any member's decision to leave including opting out of the Scheme.</p> | <p>Complete a '<a href="#">Pension leavers details</a> (PLD). They must be submitted via the online upload form by the end of the calendar month following the last contribution deducted.</p> |

## Retirement

| Retirement responsibilities                                                                                                                                                                                           | Action to take                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Leaving employment after age 55</b><br/>obtain an estimate of pension benefits and find out from the member whether they wish to receive immediately payable reduced pension benefits or deferred benefits.</p> | <p>Inform the Fund either by completing the:</p> <ul style="list-style-type: none"> <li>• relevant '<a href="#">Pension leavers details</a>' if the member is not taking immediate payment of benefits, or</li> <li>• '<a href="#">Retirement notification form</a>' along with the rest of the retirement package (Pension Leaver Details (PLD) Retirement Form and completed Retirement Declaration Form and any certificates from the member) if the member is taking immediate payment of benefits.</li> <li>• For Flexible Retirement, employers must have a policy in place under regulation 30 (6) and the member must reduce either their hours or grade in their employment, in line with your policy. Employers also have discretion to waive reductions to benefits under Regulation 30(8).</li> </ul> <p>Submit via the online upload form no later than 1 calendar month after the date of leaving</p> |
| <p><b>Retirement estimates</b><br/>Obtain an estimate of pension benefits for those members considering retiring in the next 6 months.</p>                                                                            | <p>Between 3-6 months before proposed date of retirement upload an '<a href="#">Estimate request form</a>' via the online upload form.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>Notify the Fund when a member is due to retire including an accurate assessment of final pay details and notification of the reason for retirement.</p>                                                            | <p>Notify the Fund when a member is due to retire as soon as final earnings are known, typically 20 days prior to date of retirement and no later than 2 weeks after the final payment is made to the member by the submission of a retirement package via the online upload form.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p>To determine based on medical opinion and advice of an approved Independent Registered Medical Practitioner (IRMP), whether an ill health award is to be made and determine the tier to be awarded.</p>            | <p>In addition to the retirement package supply a copy of IRMP's certificate together with the '<a href="#">Retirement notification form</a> stating tier of ill health pension to be awarded. To be submitted via the online upload form either 20 days prior to date of retirement or no later than 2 weeks after the final payment is made to the member.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

## Ill Health Retirement

| General responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Action to take                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Keep a record of all tier 3 ill health retirements, particularly in relation to the 18-month review regarding gainful employment and any subsequent review by an IRMP.</p>                                                                                                                                                                                                                                                                                                                    | <p>To inform the Fund immediately if the pension should cease.</p>                                                                                                                                                                                                                                                             |
| <p>To review all tier 3 ill health retirement cases prior to stopping at 3 years and notify the Scheme member if applicable.</p>                                                                                                                                                                                                                                                                                                                                                                 | <p>Notify the Fund where pensions should cease.</p>                                                                                                                                                                                                                                                                            |
| <p>Where the reason for leaving is ill-health retirement, arrange for the member to be assessed by an IRMP that has been certified by the Administering Authority, provide confirmation that the employee meets all the conditions for ill-health retirement, as defined by the relevant LGPS regulations, provide confirmation of which tier of benefits is to be awarded, and enclose a copy of the notice letter and a complete and correct ill-health certificate completed by the IRMP.</p> | <p>Confirmation should accompany the Retirement Notification if not previously submitted</p>                                                                                                                                                                                                                                   |
| <p>Where the member is in receipt of an ill health pension made under Tier 3, arrange for the member to be reassessed by an IRMP after 18 months and determine whether the pension should continue, or be subject to an uplift.</p>                                                                                                                                                                                                                                                              | <p>Scheme employers should notify the Fund of the outcome of a Tier 3 Ill Health Review within 5 working days of the determination</p>                                                                                                                                                                                         |
| <p>On application from the former employee to have their deferred benefits paid early on ill health grounds, seek a medical opinion from an approved Independent Registered Medical Practitioner (IRMP) and make a determination regarding payment. Determine whether benefits should be released early on compassionate grounds and whether any early retirement reductions should be waived.</p>                                                                                               | <p>Notify the Fund of the decision regarding the early payment of deferred benefits and where necessary request an estimate of the pension benefits payable. Notify the Scheme member of the outcome of their application and if this is rejected, explain the outcome and provide details of the right of appeal process.</p> |

## Death in service

| General responsibilities                                                                                                                                                                                                                                         | Action to take                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Notify the Fund immediately of the death of a scheme member.</p>                                                                                                                                                                                              | <p>Submit '<a href="#">Pension Leaver Details (PLD) Death in service</a>' via the online upload form no later than 1 calendar month after the date of death.</p> |
| <p>Liaise with the <a href="#">Communication and Support Officer (CSO)</a> about what actions are needed to be taken by the employer.</p> <p>Provide regular updates regarding progress of liaising with next of kin and possible beneficiaries to the fund.</p> |                                                                                                                                                                  |

## Contributions

| Contributions responsibilities                                                                                                                                                                                                                                                                                                                                                                                               | Action to take                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Implement changes to Employer contribution rates as instructed by the Fund at the date specified by the Fund's Actuary.</p>                                                                                                                                                                                                                                                                                               | <p>In line with the Rates &amp; Adjustment Certificate as per the Valuation or on commencement as a Scheme Employer.</p>                                                                 |
| <p>Arrange for the correct deduction of employee contributions from a Scheme member's actual pensionable pay (including overtime) and apply the correct employee contribution rate according to the Fund of the Scheme the member is in – either Main or 50:50. Reassess employee contribution rate in line with employer's policy on adjusting employee contribution rates and notify the member of the change in rate.</p> | <p>Immediately on joining the Scheme, opting in or change in circumstances.</p>                                                                                                          |
| <p>Remit Employer and employee contributions to the Fund and complete monthly remittance form containing detail of the contributions payment.</p>                                                                                                                                                                                                                                                                            | <p>Payment by 19<sup>th</sup> of the following calendar month.</p> <p>Complete and submit the employer monthly return via the website by the last day of the current calendar month.</p> |
| <p>Refund via payroll any employee contributions that have been deducted in</p>                                                                                                                                                                                                                                                                                                                                              | <p>Contributions to be refunded in the month following the incorrect deduction.</p>                                                                                                      |

| Contributions responsibilities | Action to take |
|--------------------------------|----------------|
| error.                         |                |

| Other Contributions responsibilities                                                                                                                                                                                                                                                                                                                      | Action to take                                                                                                                                                                                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Arrange for the deduction of Additional Voluntary Contributions (AVCs) via payroll and the payment over of contributions to the approved AVC provider(s). Start deduction of AVCs in the month following the month of election. Pay over contributions to the AVC provider(s) by the 19<sup>th</sup> of the month following the month of election.</p> | <p>Start deduction of AVCs in the month following the month of election. Pay over contributions to the AVC provider(s) by the 19<sup>th</sup> of the month following the month of election.</p> |
| <p>After receipt of instructions start deduction of Additional Pension Contributions (APC) or amend such deductions, as appropriate</p>                                                                                                                                                                                                                   | <p>The month following election to pay contributions to the Fund</p>                                                                                                                            |
| <p>After receipt of instructions, stop deductions of Additional Regular Contributions (ARCs) or Additional Pension Contributions (APCs) or AVCs.</p>                                                                                                                                                                                                      | <p>Immediately following receipt of instructions.</p>                                                                                                                                           |
| <p>Refund via payroll any employee contributions that have been deducted in error.</p>                                                                                                                                                                                                                                                                    | <p>Contributions to be refunded in the month following the incorrect deduction.</p>                                                                                                             |

## Supply of information

| Supply of information responsibilities                                   | Action to take                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Provide year end information required by the Fund.                       | Information to be supplied in the format as detailed in the instructions published on the website in February/March each year. Information to be submitted via the Year End upload form by the date included in the instructions.                       |
| To provide any additional information that may be requested by the Fund. | To be provided in the format required by the Fund e.g. completion of form, email etc. within 1 calendar month of receipt unless a statutory requirement requires the information to be supplied before this date which will be detailed in the request. |

## New employers and TUPE transfers

| New employers and TUPE responsibilities                                                                                                                                         | Action to take                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Notify the Fund of any contracting out of services that will involve a TUPE transfer of members to another organisation at least 6 months before the TUPE is due to take place. | Employers should inform the Fund ( <a href="https://www.kentpensionfund.co.uk/local-government/about-us/contact-treasury-and-investments">https://www.kentpensionfund.co.uk/local-government/about-us/contact-treasury-and-investments</a> ) as soon as possible within the tender process, enabling pension information to form part of the tender documentation.                                                                                         |
| Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.                          | Agreement to be in place by the time the service is contracted out.                                                                                                                                                                                                                                                                                                                                                                                        |
| Provide the Fund with information regarding members transferring to an admitted body or schools converting to academies.                                                        | Liaise with the Fund ( <a href="https://www.kentpensionfund.co.uk/local-government/about-us/contact-treasury-and-investments">https://www.kentpensionfund.co.uk/local-government/about-us/contact-treasury-and-investments</a> ) regarding the format in which this information needs to be supplied. Information to be supplied 1 calendar month from date of change. Any queries relating to this information to be responded to within 10 working days. |
| Notify the Fund where the employer ceases to admit new members or is                                                                                                            | This should be done at the earliest opportunity, allowing the Fund to liaise with the Fund actuary                                                                                                                                                                                                                                                                                                                                                         |

considering ceasing participation in the Fund.

in order to achieve a well-managed employer exit from the Fund.

## Appendix 2 Kent Pension Fund Responsibilities

### Commitment to new scheme members

The table details what the Fund commit to new scheme members and when.

| New scheme members responsibilities | Actions to take                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Statement of pensionable service    | The Fund will issue a welcome letter to members within 20 working days of receiving the required data from an employer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Transfers in                        | <p>The Fund will calculate the estimated benefits that a <u>transfer value</u> will buy in the LGPS. The Fund will issue a quotation within 20 working days of receiving details from the previous pension provider and any additional information required from the Department for Work and Pensions (DWP).</p> <p>The Fund will request payment of the transfer value within 10 working days of receiving confirmation from members that the transfer is to be made.</p> <p>The Fund will confirm the actual benefits purchased by the transfer value to members within 20 working days of receiving payment from the previous pension provider.</p> |

### Commitment to existing scheme members

The table details what the Fund commit to existing scheme members and when.

| Existing scheme member responsibilities | Actions to take                                                                                                                                                                          |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annual Benefit Illustrations            | Each year members will be provided with an <u>Annual Benefit Illustration (ABI)</u> which will provide a personalised illustration of their benefits in the LGPS by 31 August each year. |



| Existing scheme member responsibilities                                                 | Actions to take                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pension Saving Statements                                                               | The Fund will provide all members identified as having exceeded the Annual Allowance limit with a Pensions Saving Statement by 6 October each year, or within 3 months of a member request                                                                                                                                                                                                                                                                                                                                                                                        |
| Benefit estimates (Member request i.e., voluntary retirement)                           | Provided there are no outstanding queries to be resolved, the Fund will provide members with their estimate within 20 working days of receiving the estimate request from their employer. Where there are outstanding queries, the Fund will provide the estimate within 20 working days of the date the queries are resolved.                                                                                                                                                                                                                                                    |
| Benefit estimates (Employer request i.e., flexible, redundancy, efficiency retirements) | For individual requests the above timescales apply, however if the request is for bulk estimates, then a longer time period may need to be negotiated with the employer. Estimates will be released to members within 5 working days of an employer's instruction to send to the member.                                                                                                                                                                                                                                                                                          |
| Paying Additional Pension Contributions (APCs)                                          | The Fund will provide information within 20 working days of receiving a request from members if they wish to pay <u>APCs</u> to buy additional LGPS pension.                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Retirements                                                                             | <p>Provided that there are no outstanding queries to be resolved, the Fund will send details of the benefits payable and pay members tax free cash lump sum within 20 working days of receiving all the information required from their employer and/or them (or 20 working days from receipt of an AVC fund if applicable), or the date the benefits become due if later.</p> <p>Where there are outstanding queries, the Fund will send details of the benefits payable and pay members tax free cash lump sum within 20 working days of the date the queries are resolved.</p> |
| Deaths                                                                                  | The Fund will send details of the benefits payable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

| Existing scheme member responsibilities | Actions to take                                                                                                                                                                                                  |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                         | within 15 working days of receiving all information required from the late scheme members employer. The Fund will pay the lump sum death grant as soon as possible after determining all relevant beneficiaries. |
| Deferred benefits                       | The Fund will send details of the deferred benefits within 60 working days of receiving all information required from a member's employer.                                                                       |
| Refunds                                 | The Fund will pay a refund within 20 working days of receiving a member's formal request for payment.                                                                                                            |

## Commitment to deferred scheme members

The table details what the Fund commit to deferred scheme members and when.

| Deferred scheme members responsibilities | Actions to take                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Deferred benefit statements              | The Fund will provide a <u>deferred benefit statement</u> providing details of the current value of members deferred benefits (as adjusted in line with the Consumer Prices Index (CPI)) by 31 August each year                                                                                                                                                                              |
| Deferred benefits into payment           | The Fund will send details of the benefits payable and pay any cash lump sum within 20 working days of receiving all information required from a member, or the date the benefits become due if later.                                                                                                                                                                                       |
| Death of a deferred scheme member        | <p>The Fund will acknowledge a notification of the death of a deferred scheme member and start action to put into payment any dependants' benefits within 5 working days of receiving the notification.</p> <p>The Fund will send details of any benefits payable within 15 working days of receiving all required information from the dependants and will pay any lump sum death grant</p> |

| Deferred scheme members responsibilities | Actions to take                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                          | due as soon as possible after determining all relevant beneficiaries.                                                                                                                                                                                                                                                                                                                                                                                               |
| Transfers out                            | <p>The Fund will issue a quotation, within 20 working days of receiving all information required. The Fund only provide one Transfer Value quotation free of charge within a 12 month period. Any further quotations requested are chargeable.</p> <p>The Fund will pay a <u>transfer value</u> within 20 working days of receiving confirmation from members that the transfer is to be made, and if received all of the information required to make payment.</p> |

## Commitment to pensioner scheme members

The table details what the Fund commit to pensioner scheme members and when.

| Pensioner scheme members responsibilities | Actions to take                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Newsletter                                | The Fund will produce the <a href="#">Open Lines newsletter</a> for pensioners at least twice a year.                                                                                                                                                                                                                                                                   |
| Pension Payments                          | <p>The Fund will make payments to members on the last working day of each month with new pensioners or dependents being added to the first available payroll run following the award of their benefit.</p> <p>Following the annual Pension Increase review, all members in receipt of a pension payment will be provided with a payslip detailing any increase due.</p> |
| Death of a pensioner                      | The Fund will acknowledge a notification of the death of a pensioner and start action to put into payment any dependants' benefits within 5 working days of receiving                                                                                                                                                                                                   |

| Pensioner scheme members responsibilities | Actions to take                                                                                                                                                                                                                                                                 |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                           | <p>the notification.</p> <p>The Fund will send details of any benefits payable within 15 working days of receiving all required information from the dependants and will pay any lump sum death grant due as soon as possible after determining all relevant beneficiaries.</p> |

## Commitment to employers

The table details what the Fund commit to employers that participate in the LGPS and when.

| Employer responsibilities     | Actions to take                                                                                                                                                                                                                                                                                                     |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Procedures, letters and forms | <p><a href="#">Guidance (including letters and forms)</a> will be made available to employers to help you carry out their responsibilities.</p>                                                                                                                                                                     |
| Changes in regulations        | <p>The Fund will make employers aware of any changes to the LGPS regulations, and any other relevant legislation, within 15 working days of receiving details of the changes.</p>                                                                                                                                   |
| Other pension information     | <p>The Fund will make employers aware of any relevant pension information within 15 working days of receiving details.</p>                                                                                                                                                                                          |
| Benefit estimates (single)    | <p>Provided there are no outstanding queries to be resolved, the Fund will provide the estimate within 20 working days of receiving the estimate request from an employer. Where there are outstanding queries, the Fund will provide the estimate within 20 working days of the date the queries are resolved.</p> |

| Employer responsibilities | Actions to take                                                                                                                                                                  |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Benefit Estimates (Bulk)  | Discussions will need to be held as early as possible to agree suitable timeframes for producing bulk estimates.                                                                 |
| Confidentiality           | The Fund will respect the confidentiality of information exchanged under this agreement and use it only in accordance with the current Data Protection legislation.              |
| Training                  | The Fund will provide <a href="#">training</a> free of charge for employers' personnel and payroll staff either when there are relevant changes to the LGPS or at their request. |
| Newsletters               | The Fund will publish 4 employer newsletters each year                                                                                                                           |
| Forums                    | The Fund will host 2 employer forums each year, one in June and one in December                                                                                                  |

## Appendix 3 Additional Charges

The following table details work which the Fund may do for Scheme Employers, but which is not covered by the administration charge which is included in the Employer contribution rate. This may be because there is no statutory requirement for the Fund to do the work or because not all employers require the work to be done. As such work is not included in the administration (Admin) charge, the following additional charges will apply.

The Fund will inform employers of any recharge items as they become due. Invoices must be paid within 30 working days of the invoice date, or in accordance with the payment terms on the invoice.

| Description of activity                                       | Work done not covered by the Admin charge                                              | Additional charge    |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------|
| New employer joining the Fund                                 | All work relating to the actuarial report                                              | 10% of actuary's fee |
|                                                               | All work relating to the legal work related to new admissions                          | 10% of legal fee     |
| IAS19 / FRS102 report production for accounts                 | All work relating to IAS19 / FRS102 reports                                            | 5% of actuary fee    |
| Actuarial work relating to auditor queries re annual accounts | All work relating to the answering of auditors' queries                                | 5% of actuary fee    |
| Employer leaving the Fund                                     | All work relating to a cessation valuation report                                      | 10% of actuary fee   |
|                                                               | All work relating to the legal work related to the termination of admission agreements | 10% of legal fee     |

## Appendix 4 Non-Compliance

7.1 Administration fees are spread proportionately among all employers of the fund via an allowance (defined by the scheme actuary) within the employer pensions contributions. Where an employer puts a disproportionate burden on administration through its poor performance then this could in effect be subsidised by other employers.

7.2 The strategy enables the Fund to reserve the right to re-charge such employers for the additional costs they cause.

7.3 The Fund may apply the following charges in circumstances where scheme employers do not adhere to their responsibilities under the LGPS. Where the Fund has incurred additional costs due to an employer's poor performance, it will recover these costs by charging employers.

| Description of activity                                                         | Requirements                                                                    | Charge                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Late payment of contributions (EEs, ERs, deficit) and late submission of return | Receipt of income late – regulations require within 19 days of end of the month | <p>A fixed penalty of £500 if received after the 19<sup>th</sup> of the following month, plus interest on the total payment due charged at 1% above base rate calculated from the due date.</p> <p>A fixed penalty of £500 if the Employment Monthly Return is received after the first working day of the following month, plus a further fixed penalty of £50 for every further day late after that deadline.</p> |
| Failure to submit the monthly data return via i-Connect by the due date.        | Return due by the end of the calendar month                                     | A fixed penalty of £500 if received after the first working day of the following month, plus a further fixed penalty of £50 for every further day late after that deadline. Note that both the file and the remittance advice must be received for no penalty to apply                                                                                                                                              |
| Year End Data - Failure to                                                      | Required by date per                                                            | Late receipt - initial fee of                                                                                                                                                                                                                                                                                                                                                                                       |

|                                                                                                                                                                                                                                       |                                                          |                                                                                                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| provide year end data by the due date following the year end or the non-provision of year end information or the accuracy/quality of the year end data is poor requiring additional data cleansing                                    | year end instructions                                    | £500 then a fee of £150 for every month the information remains outstanding.<br>Quality/format of data – fee of £150 should data provided not be in the correct format and/or the quality is poor |
| New Starter(s)<br><br>Failure to notify the Fund of new starter(s) and the late or non- provision of starter form(s) – by the 10 <sup>th</sup> of the month following entry                                                           | 1 <sup>st</sup> instance<br><br>2 <sup>nd</sup> instance | Warning<br><br>£50 fine per member                                                                                                                                                                |
| Leavers<br><br>Failure to notify the Fund of any leaver(s) and the late or non-provision of leaver form(s) including an accurate assessment of final pay no later than 1 calendar month after the final payment is made to the member | 1 <sup>st</sup> instance<br><br>2 <sup>nd</sup> instance | Warning<br><br>£50 fine per member                                                                                                                                                                |
| Payment of invoices                                                                                                                                                                                                                   | Payment due within 30 days of invoice date               | A fixed penalty of £500 if received after 7 days of the payment due date, plus interest on the total payment due charged at 1% above base rate calculated from the due date.                      |
| Resubmission of incorrect data                                                                                                                                                                                                        |                                                          | A fixed penalty of £500 plus charges to account for the officer resource used to rectify any issues charged at a minimum hourly rate of £100.                                                     |
| Failure to respond within a published timeframe                                                                                                                                                                                       |                                                          | A charge of £25 per case for each case chased after the original deadline has passed                                                                                                              |
| Failure to provide a copy of discretions policy or latest                                                                                                                                                                             | A copy of the policy document to be                      | A fixed penalty of £500 for failing to supply a copy plus a                                                                                                                                       |



|                                                                                             |                                                                                 |                                                                                                                                                                                                             |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| version                                                                                     | provided to the Fund within 30 working days of it being agreed by the employer. | further £100 charged on each occasion that a policy is requested or is chased by an officer and is not supplied                                                                                             |
| Failure to notify the Fund of key changes or events, including a change of payroll provider |                                                                                 | A fixed penalty of £1,000 where the change has a significant impact on administration or £500 plus a further £100 charged on each occasion that further information is requested or chased and not supplied |

7.4 If an employer's poor performance leads to a third-party agency issuing the Fund with financial penalties, then the Fund will recover these costs from the employer concerned. This includes:

- Those imposed by TPR for a breach of statutory duties, where the breach occurred due to the poor performance of an employer. An example would be where the Fund has not issued Annual Benefit Illustrations because the employer has failed to provide member data.
- Those imposed by HMRC, such as scheme sanction charges that arise as a result of the decision of an employer. An example would be if the employer allowed a member to claim benefits that would cause the Fund to make an unauthorised payment.
- Those imposed by the Office of the Information Commissioner following a data breach where the breach was caused by the actions of an employer.

7.5 The Fund will pay the penalty but will recover it from the employer concerned. The list is not exhaustive, and the Fund reserves the right to use the same principles and policy for other penalties imposed on it by outside agencies not detailed here.

7.6 In general, the Fund will apply a financial penalty where an employer fails to:

- meet the requirements of the strategy
- meet the requirements of the LGPS Regulations
- meet the requirements of other legislation.

Where this results in:

- additional work or costs for the Fund or its agents
- failure of the Fund to meet its obligations under the LGPS regulations, other legislation or guidance
- complaints by organisations or members
- appeals by members or their representatives.

- 7.7 In all cases, the Fund would look to consider any mitigating circumstances, such as system failure, business continuity events and so on, and take a pragmatic approach when making decisions.
- 7.8 Before applying any financial penalties, the Fund may decide to put an improvement plan in place. An Improvement Notice would be sent to the employer detailing the areas of concern, set timescales for improvement and confirm possible fees that the Fund would seek to charge to the employer should performance not improve.
- 7.9 Should performance not improve within the timescales set out in the Improvement Notice the breach will be reported to the Head of the Pensions & Treasury in the first instance for consideration. The Fund reserves the right to invoke the appropriate administration fee. Any events of this type will be reported to the Pension Fund Committee.
- 7.10 Where performance issues are related to one-off events (e.g. provision of annual contribution return), and no extenuating circumstances are known to the Fund, then an Improvement Notice will be sent by the Fund. Fees may be incurred immediately and reported to the Pension Fund Committee. Serious non-compliance will also be reported to the Pensions Regulator.
- 7.11 As an alternative, in some circumstances, the Fund may offer employers/payroll providers the opportunity to attend specific training courses to avoid the issues arising in the future, and thus improving the overall provision of service to all scheme members.



# 2022 LGPS National Knowledge Assessment

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## Kent Pension Fund





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## Overview

The LGPS National Knowledge Assessment (NKA) provides LGPS funds with a direct insight into the knowledge and skills of their key decision makers and oversight body.

In addition, funds get a 'sense check' of this knowledge position against other participating funds via the benchmarking reports provided.

16 LGPS funds and over 200 members have participated in this National Knowledge Assessment of Pension Committee ('Committee') and Pension Board ('Board') members.

The findings from this assessment provide a quantitative report of the current knowledge levels of the individuals responsible for running the 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 commitment to training – a key cornerstone to the good governance of your Fund.

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## Background

The Kent Pension Fund ("the Fund") agreed to participate in the NKA using our online assessment.

This report provides an overview of the participants' results broken down into 8 key areas.

The online assessment opened at the end of September and closed in November, 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.

The questions posed in the assessment are split into 3 categories.

- Technical questions
- Roles and responsibilities
- Decision making

Technical questions, made up around two thirds of the questions. The remaining questions were split between the categories of Roles and Responsibilities as well as Decision Making. This helps to provide more in-depth analysis of the results and provides further context to the proposed training plans.

The National Knowledge Assessment is a challenging multiple-choice assessment of participants' knowledge and understanding of key pension 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.

## Why Does this Matter?

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 as decision makers.

To execute their roles effectively, Committee members must be able to address all relevant topics such as investment matters, issues concerning pension funding, pension administration and governance.

All topics which require a level of knowledge and understanding from the Committee. Similarly, the Pension Board members must have a sound knowledge of these topics in order to be able to offer critical challenge in the oversight of Committee decisions.

## The Assessment

The members of the Kent Pension Fund Committee and Board were invited to complete an online knowledge assessment. In total there were 10 respondents from the Committee and 5 respondents from the Board.

Each respondent was given the same set of 48 questions on the 8 areas below:

| Section   | Section Names                              |
|-----------|--------------------------------------------|
| Section 1 | Committee Role and Pensions Legislation    |
| Section 2 | Pensions Governance                        |
| Section 3 | Pensions Administration                    |
| Section 4 | Pensions Accounting and Audit Standards    |
| Section 5 | Procurement and Relationship Management    |
| Section 6 | Investment Performance and Risk Management |
| Section 7 | Financial Markets and Product Knowledge    |
| Section 8 | Actuarial Methods, Standards and Practices |

Under each subject heading, there were 6 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct.

Participants were also given the option of selecting “I have no knowledge of this area”, where they were unsure.

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.
- Results split by the categories of “**technical**”, “**roles and responsibilities**” and “**decision making**”.
- Each average score benchmarked for both groups against the other NKA participant funds’ Committee and Board for each of the 8 subject areas.
- Each score compared with the results of the previous assessment in 2020, to show growth or regression in each area.
- Engagement levels for both the Committee and Board and how these levels rank against other LGPS funds.
- The most requested topics for training.

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 chart on the right 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 is the average score of all participating Committee and Board members from each Fund.

The Kent Pension Fund is in 10th out of 16 Funds.

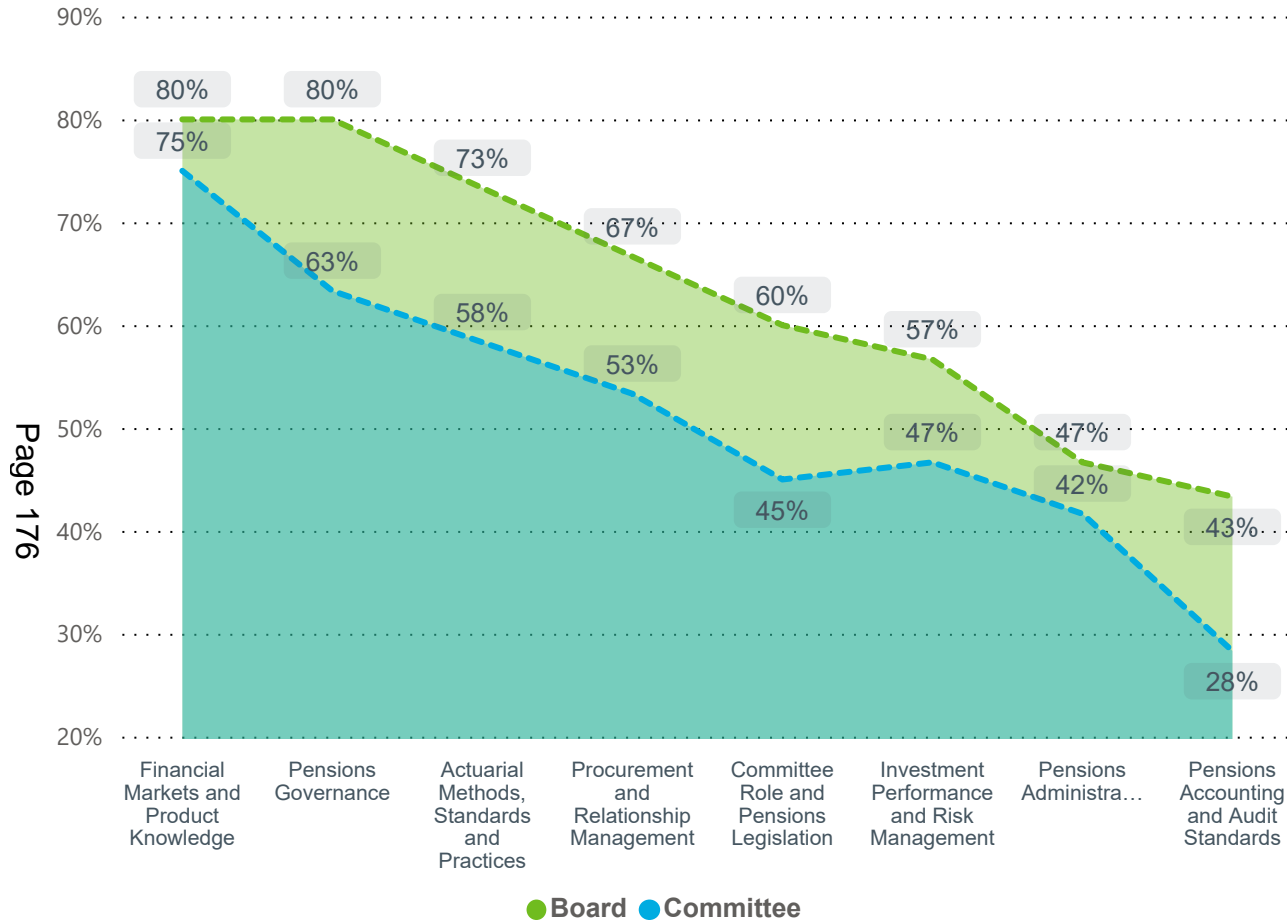
For each of the assessment’s 8 areas we have shown the results of both the Committee and Board.

There is also a summary showing the average scores across all sections for the Committee and Board.

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## Average Score for Board & Committee



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.

- The performance of the Board (average overall score of 63 %) was stronger than that of the Committee (average overall score of 51 %).
- The performance for the Committee and Board diverged the most in the Pensions Governance section, when Board results were 17 % higher than the Committee.
- The Committee performed most strongly in the area of Financial Markets and Product Knowledge and Pensions Governance.

The board's areas of strongest Knowledge were Pensions Governance and Financial Markets and Product Knowledge.

- Overall, for both groups, the area with least knowledge was Pensions Accounting and Audit Standards.



## Benchmarking

As this assessment is being conducted at a national level across numerous 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.

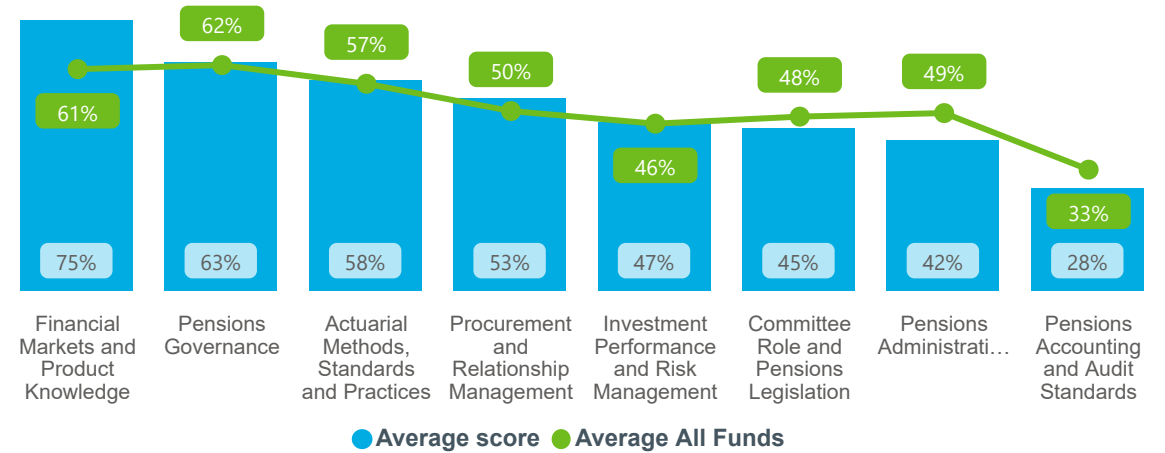
We've provided a comparison of the results for both your Fund's Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

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.

- It's pleasing to see that the areas of Financial Markets and Product Knowledge and Pensions Governance scored well for the Committee.
- It's clear that there are some areas where knowledge levels are lower than hoped for, and these areas of Pensions Administration and Pensions Accounting and Audit Standards would be a sensible focus of training for the Committee.
- Similarly, from the Board chart it can be seen that the highest scoring areas were Pensions Governance and Financial Markets and Product Knowledge.
- The Scores between Kent Pension Fund and all other Funds diverged the most in the Financial Markets and Product Knowledge, when the Average score was 22 % higher than Average All Funds.
- Across all sections, Kent Pension Fund Board score ranged from 43 % to 80 % and the average for all other funds ranged from 43 % and 73 %.

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Pension Committee Average vs. Average All Funds



Pension Board Average vs. Average All Funds



## Commentary on results

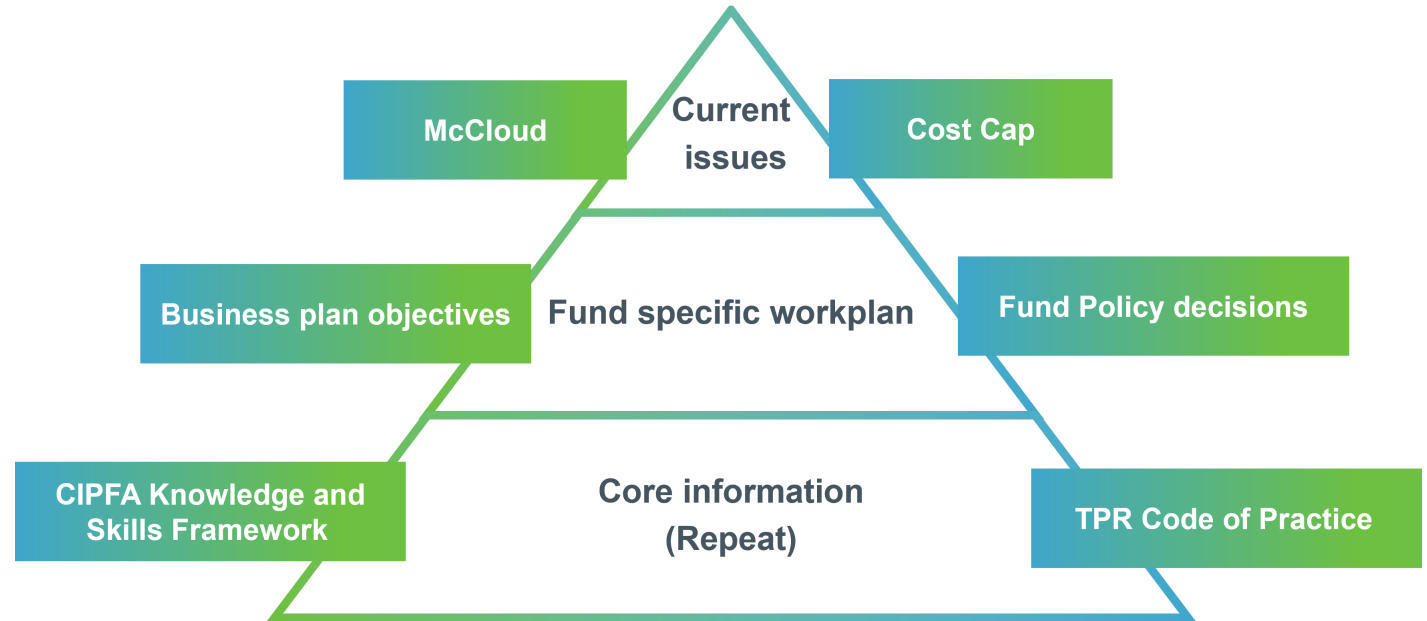
It's encouraging that 15 participants from your Fund took part in the assessment. Overall, the results were positive and it's clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time.

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.

Page 178 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.

Many funds have implemented training plans that follow the pyramid diagram of LGPS training areas. Fundamentally, a plan based on this example pyramid would provide a LGPS fund with a robust training program for its Committee and Board.



## Committee

The results show that Financial Markets and Product Knowledge and Pensions Governance have the highest levels of knowledge. But the areas to focus any specific training on might be Pensions Accounting and Audit Standards for the Committee. Across all funds, the lowest scoring area was Pensions Accounting and Audit Standards.

In general, the Committee's performance relative to all other committees was weak.

When looking at the benchmarking results against the other participating funds, the Committee ranked 11 out of 16 Funds' Committee results.

## Local Pension Board

The results show that Pensions Governance and Financial Markets and Product Knowledge have the highest levels of knowledge, but the areas to focus any specific training on might be Pensions Accounting and Audit Standards for the Board.

Across all funds, the lowest scoring area was Pensions Accounting and Audit Standards. The Board's performance relative to all other committees was strong. In terms of benchmarking results against the other participating funds, the Board ranked 7 out of 16 Funds' Board results.

The next step would be to try and develop the knowledge of 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, ensuring it aligns with your priorities.

## Further Analysis

In order to gain further insight into the knowledge and understanding, the questions posed covered 3 distinct areas. These were:

- **Technical** – 66% of questions
- **Decision Making** – 17% of questions
- **Roles and responsibilities** – 17% of questions

The purpose of this was to drill deeper into the collective understanding of these categories, and to provide further analysis on which areas to target when creating training plans. The following chart shows the average score for each of these sections, for the Committee and Board combined.



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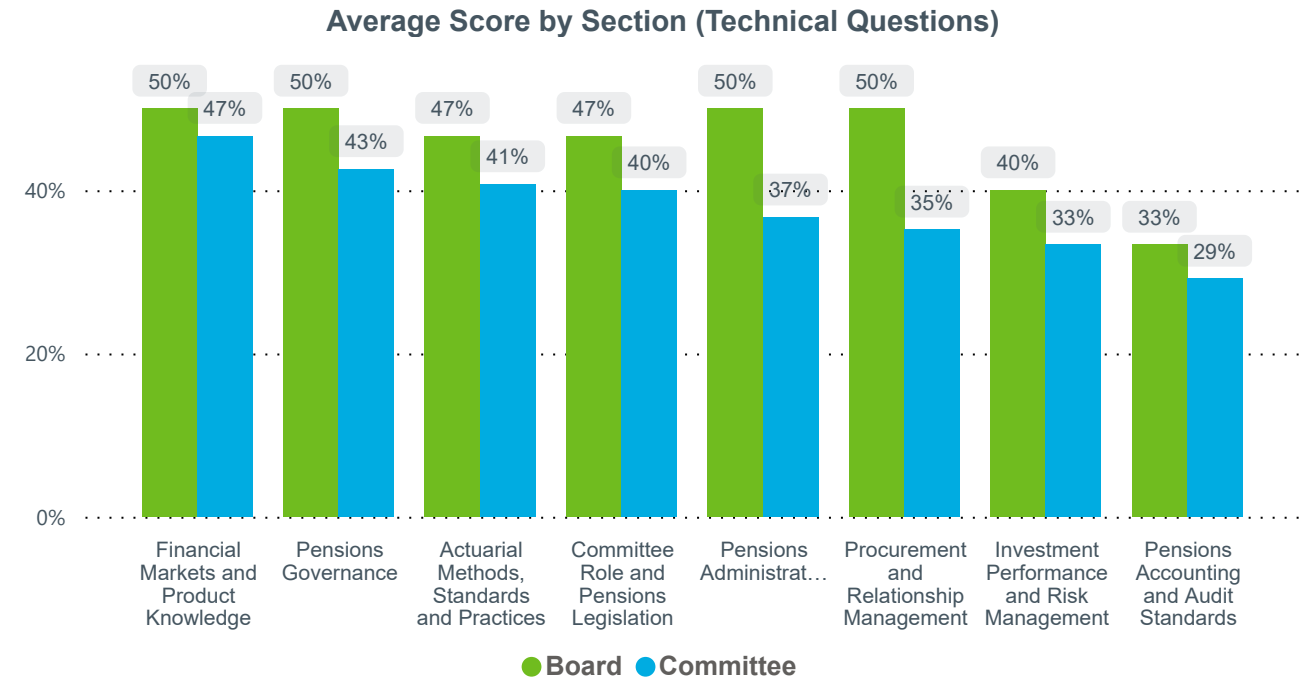
From this chart, the lowest scoring area was Roles and Responsibilities. Bearing this in mind, a particular focus could be put on this over the coming months.

Some next steps to consider are:

**Decision making** – A review of the Fund's decision-making procedures, and updating/creating a decision-making matrix, and sharing this with the Committee and Board to ensure visibility of the role of each group in across a broad spectrum of potential decisions.

**Roles and responsibility** – A specific training session covering the roles and responsibilities of different parties covering different points in the annual cycle of the Fund. This could include preparation of annual report, annual benefit statements, business planning and investment performance reviews for example. It would also be good to cover more niche topics such as the IDR process, review of suppliers and cyber risk.

**Technical** – below, we have also included more detail on the technical questions, as these made up the majority of questions in the assessment.



**Pensions Accounting and Audit Standards** was the lowest scoring section when looking at just the technical questions. This may be an area which is prioritised in terms of more technical training over the coming months.

## Comparison with 2020 Results

The Kent Pension Fund also took part in the 2020 National Knowledge Assessment. The results for each of the 8 topics can be compared to measure progress in each area.

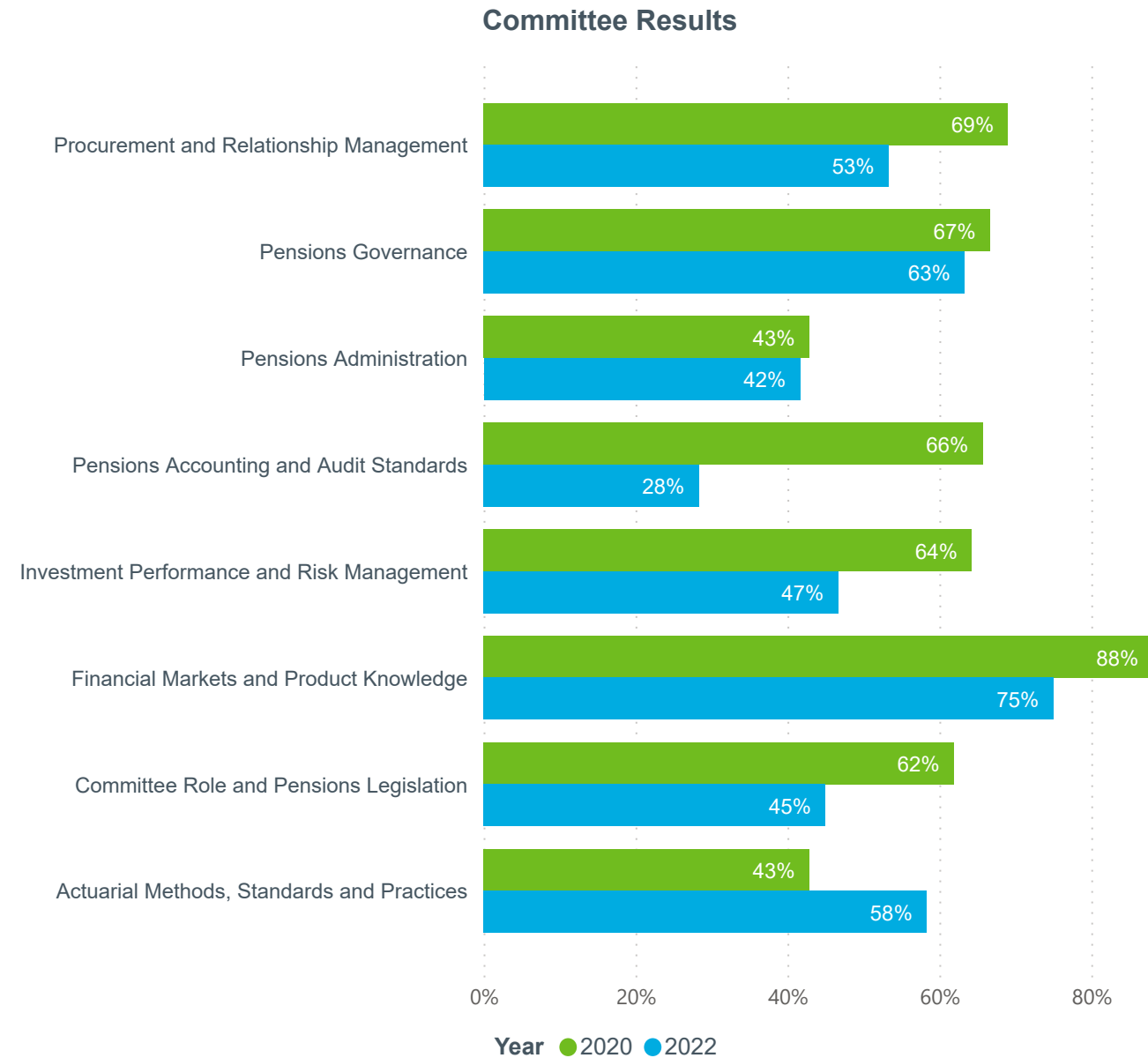
This is shown in the following charts.

The average score for each topic this year is compared with that from the 2020 assessment. This has been broken down to show the results for the Committee and Board separately.

It's worth noting that while there will be differences in the members who actually participated in each assessment, it's the collective knowledge of each group which is important.

The area which knowledge appears to have developed most for the Committee concerns Actuarial Methods, Standards and Practices which is encouraging.

On the other hand, knowledge levels seem to have regressed in Pensions Accounting and Audit Standards.



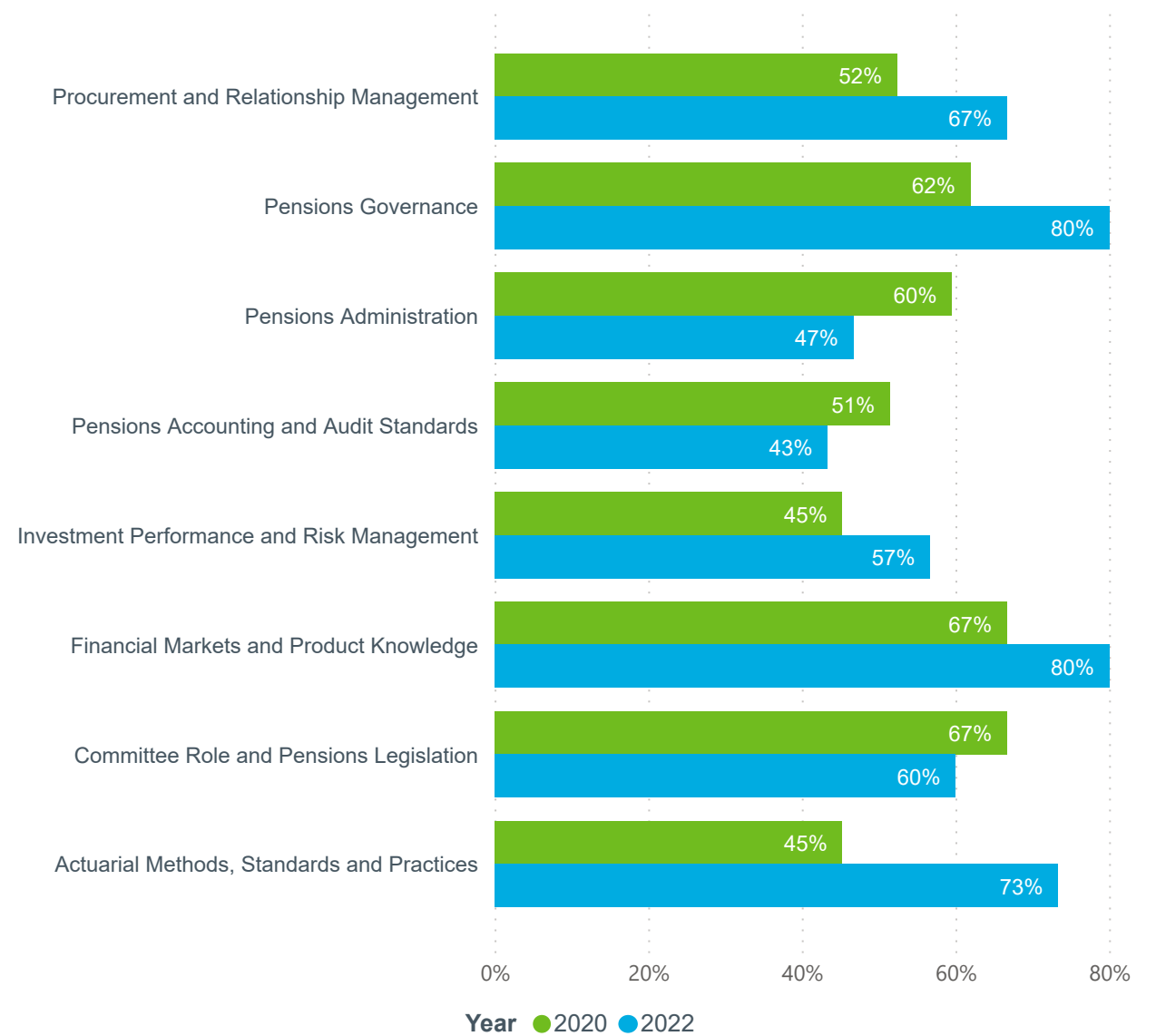
The same comparison can be made for the Board. The chart on the right shows these results.

The area which knowledge appears to have developed most for the Board concerns Actuarial Methods, Standards and Practices which is encouraging. On the other hand, knowledge levels seem to have regressed in Pensions Administration.

It's worth noting that the underlying questions have changed between both assessments, and for the 2022 assessment there was an additional option given to answer "I have no knowledge of this area", whereas in 2020 that option was not there.

This might account for some small differences in the results.

### Board Results



## Engagement

One of the key areas that we recommend funds focus on is Committee and Board training 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 not only be willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

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.

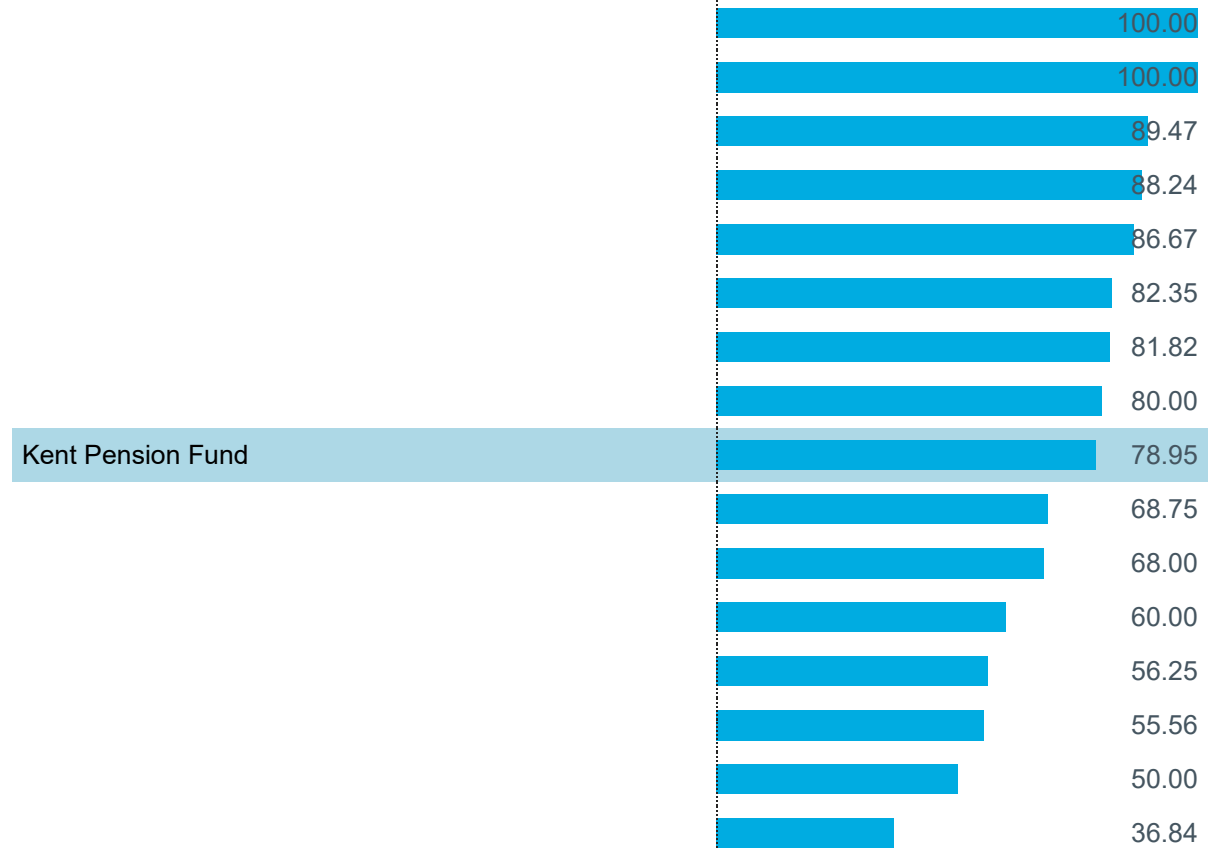
The chart below shows the breakdown of the total number of participants from the Kent Pension Fund, as a proportion of those who could have responded.

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| Role      | Participants | Total Number | 2022 Participation Rate | 2020 Participation Rate |
|-----------|--------------|--------------|-------------------------|-------------------------|
| Board     | 5            | 5            | 100%                    | 75%                     |
| Committee | 10           | 14           | 71%                     | 44%                     |

Fund

2022 Overall engagement



## Engagement

That 15 participants from your Fund took part in the assessment is highly encouraging. 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 good level; however, it is important to maintain this, particularly in the current climate where face-to-face meetings and delivery of training sessions might be in Hybrid format for some time to come.

One of the biggest challenges in this area is how to improve engagement. The move to online learning and tackling topics in bitesize chunks can help.

The way in which information is shared with the Committee and Board can also promote engagement.

There have been moves by some funds to issuing short timely bulletins and newsletters to increase training knowledge and engagement, which we very much encourage.



## 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.

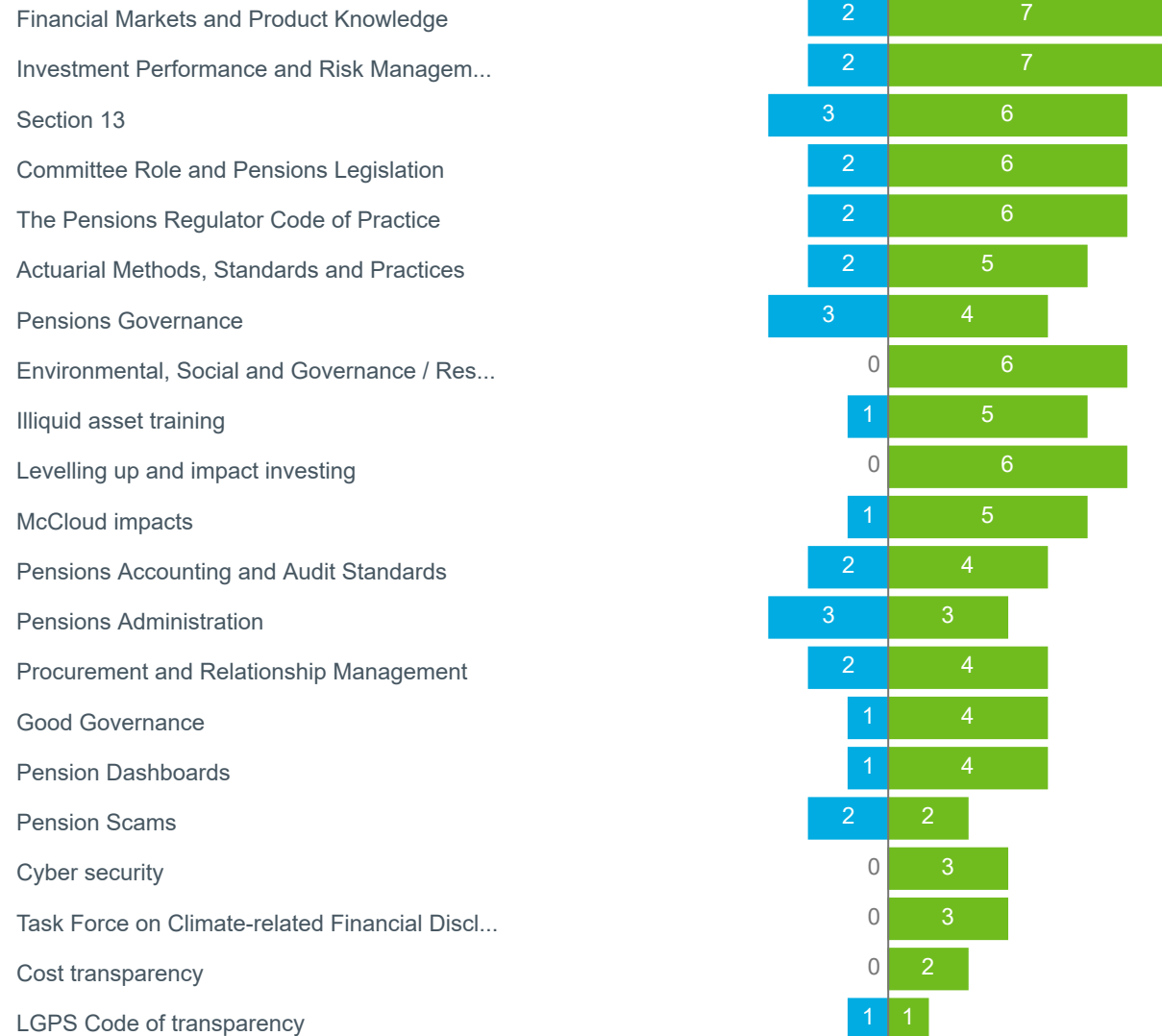
There was a list of options available, covering a broad spectrum of the topics we believe are most relevant to allowing Committee and Board members to effectively perform their roles. Members were also given the option to indicate any other areas in which they would benefit from further training.

The table on the right summarises the areas in which members indicated training would be beneficial.

A suggested training plan is shown on the next page.

### Training requirements

● Board ● Committee



## Training plan

Based on the results from this assessment, we have prepared the adjacent draft ‘core’ training plan which you may wish to adopt.

This has been prepared based on the overall scores of the Board and Committee combined.

The intention is to make the planning and delivery of these sessions more efficient for the Fund.

You may want to create separate plans for the Board and Committee - further *tailoring* the training plan to their distinct priorities.

We would be happy to discuss the options for delivery of any of these training sessions. Hymans can support in the preparation of this suite of sessions.

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As detailed on the page ‘**Commentary on results**’, we recommend that training plans include elements on:

- Core information
- Fund specific workplan
- Current issues / Hot topics

The key output for your Fund is to have a clear training plan and the delivery dates (or delivery vehicle i.e. training paper) set aside for these sessions.

### Feedback from participants

We also asked the participants to provide comments on the areas they would most appreciate training in. Based on these comments, the most requested areas for training were **Financial Markets and Product Knowledge** and **Investment Performance and Risk Management**.

More detail is shown in the chart on the previous page.

## Training Plan - Kent Pension Fund - January 2023 to June 2024

| Q1 2023                                                                                                             |
|---------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Accounting &amp; Audit Standards</b>                                                                 |
| Providing a general understanding of the Accounts and Audit Regulations and the role of internal and external audit |
| <b>Hot Topic:</b> TCFD, 2023 Valuation conclusion and Fund business plan session                                    |

| Q2 2023                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Administration</b>                                                                                                             |
| Providing a general understanding of best practice in pensions administration, together with Fund policies, resource and discretionary powers |
| <b>Hot Topic:</b> Good Governance (expected in this quarter) and McCloud remedy                                                               |

| Q3 2023                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Investment Performance</b>                                                                                                                                               |
| Providing a general understanding of the relationship between assets and liabilities, the Myners principles and the structure, operation and purpose of investment pooling arrangements |
| <b>Hot Topic:</b> Pension Dashboard, Cyber security and Levelling update agenda                                                                                                         |

| Q4 2023                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Committee Role and Legislation</b>                                                                                                                          |
| Providing overview of committee's role and a general understanding of the legislative framework as it applies to the LGPS, in line with CIPFA Knowledge & Skills Framework |
| <b>Hot Topic:</b> Pension scams                                                                                                                                            |

| Q1 2024                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Procurement &amp; Relationship</b>                                                                                                    |
| Providing a general understanding of the public procurement requirement as they apply to the LGPS, and how performance of suppliers can be monitored |
| <b>Hot Topic:</b> Cost transparency                                                                                                                  |

| Q2 2024                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Core topic: Actuarial Methods</b>                                                                                                                                                                                               |
| Providing a general understanding of the role of the Fund actuary and the formal valuation process (including the FSS and inter-valuation monitoring) and the treatment of new and ceasing employers (including employer covenant) |
| <b>Hot Topic:</b> Good Governance (update)                                                                                                                                                                                         |

## 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 Fund's officers and results shared with the Committee and Board.
- Set up a **structured training plan** or adjust the existing training plan for the next 18 months covering the main areas highlighted in this report.
- Plan for the **delivery** of training over the immediate 6-month period following these results and communicate that intention with the Committee and Board.
- Consider the most **pressing** training requirements in the coming months. Importantly, look at the **frequency** of training engagement with your Committee and Board.
- **Assess** the tools available to the Fund to assist with training, and whether any new methods should be deployed.
- 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.

We will be producing a national LGPS report on the results of these assessment, which will aid Scheme Advisory Board LGPS training discussions.

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.

Prepared by Hymans Robertson LLP.

**Andrew McKerns**



Senior 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 of November 2022.

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Agenda Item 18

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Agenda Item 19

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