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AGENDA

PENSION BOARD

Tuesday, 14th March, 2023, at 2.00 pm		Ask for:	**Matt Dentten**
Online		Telephone	**03000 418381**

Membership

Scheme Employer Representatives (4)

Kent County Council (2)	Mr R Thomas (Chair) and Mr D Jeffrey
District/Medway Council (1)	Cllr R Carnac
Police/Fire & Rescue (1)	Ms A Kilpatrick

Scheme Member Representatives (4)

Active Scheme Member Representative	Ms K King, Kent County Council
Active Scheme Member Representative	Mr J Parsons, Medway Council (Vice-Chair)
Pensioner Representatives	Mrs A Mings, Mr G Ward

UNRESTRICTED ITEMS

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

1. Apologies and Substitutes

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

3. Membership

To note that the following members have joined the Board:

- Kelly King, as an Active Scheme Member Representative
- Alison Mings, as a Pensioner Representative
- Grahame Ward, as a Pensioner Representative

4. Minutes of the meeting held on 24 November 2022 (Pages 1 - 6)

5. Future meeting dates

All meetings are scheduled to begin at 10:00.

Thursday 8 June 2023
Wednesday 6 September 2023
Tuesday 28 November 2023
Tuesday 12 March 2024
Tuesday 11 June 2024

6. Update from the Chairman of the Pension Fund Committee

7. Pensions Administration Update (Pages 7 - 58)

8. Employer Matters (Pages 59 - 122)

9. Governance and Policies Update (Pages 123 - 146)

10. Fund Position Statement (Pages 147 - 158)

Motion to exclude the press and public for exempt business

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

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

EXEMPT ITEMS

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

11. ACCESS Update (Pages 159 - 164)

12. Business Plan and Budget - To follow

13. Pension Fund Risk Register (Pages 165 - 172)

Benjamin Watts
General Counsel
03000 416814

Monday, 6 March 2023

KENT COUNTY COUNCIL

PENSION BOARD

MINUTES of a meeting of the Pension Board held online on Thursday, 24 November 2022.

PRESENT: Mr R J Thomas (Chair), Cllr R Carnac, Mr D Jeffrey and Mr J Parsons

ALSO PRESENT: Mr C Simkins, Ms K King and Mr G Ward

IN ATTENDANCE: Mr N Buckland (Head of Pensions and Treasury), Mrs C Chambers (Pensions Administration Manager), Mr J Graham (Pension Fund Treasury and Investments Manager), Mrs A Mings (Treasury and Pensions Strategic Advisor), Mr S Tagg (Senior Accountant - Employer Governance and Compliance), Ms L Savage (Pensions Administration Performance and Operations Manager), Ms S Surana (Investments, Accounting and Pooling Manager), Miss T A Grayell (Democratic Services Officer) and Mr M Dentten (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Membership
(Item 1)

It was noted that Cllr Rachel Carnac from Canterbury City Council had joined the board. Cllr Carnac was welcomed to her first meeting.

Two potential new board members – Kelly King and Grahame Ward – were joining the meeting as observers before joining formally.

2. Apologies and Substitutes
(Item 2)

Apologies for absence had been received from Ms A Kilpatrick.

3. Declarations of Interest by board members on items on the agenda for this meeting
(Item 3)

There were no declarations of interest.

4. Minutes of the meeting held on 18 November 2021
(Item 4)

It was RESOLVED that the minutes of the meeting held on 18 November 2021 are correctly recorded and that they be signed by the Chair. There were no matters arising.

5. Future Meeting Dates
(Item 5)

It was noted that the next meetings of the board would take place on:

Tuesday 14 March 2023 at 2.00 pm
Thursday 8 June 2023 at 10.00 am

6. Verbal update on the Pension Fund Committee

1. Mr C Simkins gave a verbal update on the work of the Pension Fund Committee and its most recent meeting on 28 September 2022 and highlighted the following:

- Mercer Ltd had been re-appointed as the fund's investment consultant for another three years, with a possibility of a two-year extension;
- Barnett Waddingham had undertaken the fund's triennial valuation and the fund was now 102% funded, which was excellent news;
- all the recommendations arising from Barnett Waddingham's governance review had now been actioned, the business plan reviewed and the membership of both the committee and the board updated, as recommended by Barnett Waddingham;
- the fund's performance was currently very good; and
- the fund's property portfolio had recently won two awards.

He also gave updates on the strategy review, responsible investment and pensions administration.

2. In response to a question, Mr Buckland confirmed that a report by Barnett Waddingham on the actuarial valuation would be made to the committee at its 8 December meeting and the valuation would be signed off finally in March 2023, at which time a similar presentation could be made to the board.

3. The verbal update was noted, with thanks.

7. Fund Business Plan - 2022/23 - 2024-25

(Item 6)

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

a) targets had been set to be challenging, for example, in clearing the backlog of pensions administration work. The aim was to clear this backlog by the end of 2023. Mrs Chambers added that the pensions dashboard was due to go live in 2024, so the backlog would need to be cleared by then and all data correct and available to allow scheme members to access it; and

b) in response to a question about resourcing, Mr Buckland advised that resources were not yet available to address the backlog but he was confident that suitable staff would shortly be recruited.

2. It was RESOLVED that the Business Plan for the Kent be noted, with thanks.

8. Pensions Administration

(Item 7)

1. Mrs C Chambers introduced the report and highlighted key challenges and areas of progress:-

- a new reporting system was now in use, and performance against key performance indicators (KPIs) was generally around 84%;
- staff recruitment was proceeding well, attracting candidates of a good standard;
- a new way of working to support scheme members and employers was being established. Work on employers was now largely complete and the new year would focus on engagement with scheme members; and
- development of the online self-service system had continued.

2. The Chairman thanked Mrs Chambers for the great amount of improvement and design work she had led since joining the County Council in summer 2022 and emphasised how aware members were of the importance and complexity of the pensions administration role.

3. Mrs Chambers then responded to comments and questions from the committee, including the following:-

a) Members welcomed the report and commented that the service seemed to be in good shape and well placed to meet future demands successfully;

b) more detail and figures relating to the take-up of the online self-service tool, and what impact this was having on the general workload of pensions administration staff, could be included in future reports. The system was still relatively new, and project work would seek to identify patterns of usage to make it as user-friendly as possible;

c) the employers forum would take place on 9 December to start the consultation on the Administration Strategy and it was hoped that the new strategy would be ready to be implemented on 1 April 2023. Mr Buckland added that a report on the new Administration Strategy would be presented to the committee's March meeting; and

d) improvements in the telephony system were expected to be completed by Christmas and it was hoped that this would result in a much better service to customers.

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

9. Pension Fund Annual Report and Accounts and External Audit
(Item 8)

1. Ms Surana introduced the report, about which there were no questions.

2. It was RESOLVED that the Annual Report and Accounts of the Kent Pension Fund and Audit Findings Report from the external auditor be noted, with thanks.

10. Fund Employer and Governance Matters
(Item 9)

1. Mr Tagg introduced the report and emphasised the large amount of work going on since last reporting to the board. He responded to questions about specific companies and advised that all admissions to, and departures from, the pensions fund were reported to the Pension Fund Committee.

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

11. Governance review - update

(Item 10)

1. Mrs Mings introduced the report and updated the board on the work undertaken to implement the recommendations made by Barnett Waddingham's review of governance. Out of the 139 recommendations, 48 applied specifically to the board and, of these, 46 had so far been implemented. There were no questions.

2. The board placed on record its thanks to Mrs Mings for the great amount of work she had put it into commissioning the governance review and actioning its recommendations.

3. It was RESOLVED that the report be noted, with thanks, the Code of Conduct and Conflicts of Interest Policy be adopted and that training for board members be continued to ensure that knowledge was kept up to date.

12. Fund Position September 2022

(Item 11)

1. Mr Graham introduced the report and advised that the fund's returns in 2022 had been good, despite it having been a very difficult year. He advised that the investment strategy would be reviewed after the actuarial valuation. There were no questions.

2. The Chair emphasised the importance of achieving a good level of funding and emphasised that the fund was now 102% funded, which was excellent.

3. It was RESOLVED that the fund's asset allocation and performance, as of 30 September 2022, be noted, with thanks.

13. ACCESS update

(Item 12)

1. Mr Graham introduced the report and advised that members of pensions boards and committees were now permitted to attend Access meetings as observers. It was agreed that, at the March meeting, at which Kent had its allocated turn to send observers, the Kent fund would be represented by the Chair and Vice-Chair of the Pension Board. Mr Buckland noted that being able to do this was very helpful.

2. It was RESOLVED that the report be noted, with thanks, and the Chair and Vice-Chair of the board be nominated to observe the ACCESS Joint Committee meeting on 6 March 2023.

14. 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 minute

15. Pension Fund Risk Register

(Item 13)

1. Mr Buckland introduced the report, about which there were no questions.

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

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To:	Kent Pension Board – 14 March 2023
From:	Chairman – Kent Pension Board Corporate Director of Finance
Subject:	Pensions Administration
Classification:	Unrestricted

Summary:
This report brings members up to date with a range of matters concerning the administration of the Kent Pension Fund for the period 1 November 2022 to 31 January 2023. The report covers the following areas:

1. Performance Update
2. Staffing & Training
3. Compliments & Complaints
4. Internal Dispute Resolution Procedure (IRDP) Appeals
5. Member Self Service
6. Administration System Contract
7. Guaranteed Minimum Pension (GMP) Rectification
8. Draft Administration Strategy Consultation
9. Change to CARE Revaluation Date
10. Communications Policy
11. Internal Audit
12. End of Year

Recommendations:
The Board is recommended to note the report.

FOR INFORMATION

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1. Introduction

1.1 This report brings members up to date with a range of matters concerning the administration of the Kent Pension Fund for the period 1 November 2022 to 31 January 2023.

2. Performance Update

1.1 During the period 1 November 2022 to 31 January 2023 a total of 14,777 new cases were received by the Pensions team, with 11,878 cases completed during the same period.

1.2 Performance on the majority of death cases was of a high standard (86% and above within Service Level Agreement (SLA)), with the exception of Death

Grants. The team are continuing to work through a backlog of these cases which is reflected in the ‘average number of days to complete cases’ at 100 days. There are currently 78 (of the 163 outstanding) Death Grant cases still open that were started prior to 1 November 2022.

1.3 Payment of Retirement Benefits and Provision of Retirement Estimates were of a particular high standard during the period with 98% and 92% (respectively) of the cases completed being done so within the SLA. In addition, the number of outstanding Payment of Retirement Benefit cases reduced from 395 at the start of the period to 302 at the end of the period. In addition, the number of outstanding Provision of Retirement Estimate cases reduced from 487 to 413 during the period.

1.4 Performance on Early Leavers (Refund of Pension Contributions and Deferred Benefits) improved from the previous period but is still lower than expected. However, there is currently a project being carried out to automate the processing of these cases in bulk where possible which should support further performance improvements in this area.

1.5 The team continue to struggle to meet SLA’s in some areas of Transfers and Interfund moves (due to them being a lower priority), however the team have been focussing on these areas at specific times during each month in order to clear the backlog. As this work continues it will be some time before any improvement in performance is seen but the benefits of these ‘backlog days’ will be reflected in the number of outstanding cases at the end of the period being lower than the start of the period, for example: Aggregation In Estimates, LGPS Transfer Out Estimates, LGPS Transfer Out Actuals, Non LGPS Transfer In Estimates, Non LGPS Transfer Out Estimates and Non LGPS Transfer In Actuals.

1.6 Further detail on performance can be found at **Appendix 1**. This summary will be presented at the meeting.

2. Staffing and Training

2.1 All recruitment under Phase 1 of the plans has now been completed and saw the creation of several new roles such as an additional Technical Consultant, two Training Officers, two Team Managers on the Communications & Support Team and a Senior Pensions Programme Manager.

2.2 A recent review has been carried out on the existing vacancies on the team (including those as a result of internal movement under phase 1). Proposals have been agreed to make best use of the current, agreed staffing budget and recruitment is underway for phase 2 to ensure the team are up to full complement as soon as possible so that the team can start to realise the benefits of the additional roles filled.

2.3 Several members of the team are booked to attend the Local Government Associations (LGA's) LGPS Residential Course. This is an invaluable tool for new staff in particular as it provides an in-depth training course on an Introduction to the LGPS as well as allowing for networking with other LGPS colleagues from other Pension Funds.

2.4 The majority of the administration team (including management) are also booked on a Challenging Conversations training course with an external training consultant who has recently specialised in providing similar training to NHS staff. This will support the team in dealing with difficult conversations with customers on the telephone, but also with challenging conversations with colleagues.

2.5 With the Training Officers now in post, work will commence on developing an overarching training matrix for the team which will help identify any gaps in knowledge and any single points of failure, each member of the team will also have their own training plan. Work has started with KCC's Learning and Development Team to ascertain if there is a single source for recording all training completed (i.e. KCC's DELTA system).

3. Compliments & Complaints

3.1 The corporate complaints system recorded a total of 2 complaints during the period 1 November 2022 to 31 January 2023. These are broken down as follows:

Month	**No. of complaints received**	**Reason for complaint**
November	1	Poor communication – Death Certificate not requested at point of contact, then not accepted by e-mail. NOK dissatisfied with 20 working day turnaround for processing a death case
December	1	Disagreement with decisions or policies made – member wanted refund but wasn't entitled to one
January	0	

4. Internal Dispute Resolution Procedure (IDRP) Appeals

4.1 No new IDRP Stage 1 applications were received during the period.

5. Member Self Service (MSS)

5.1 The number of members currently registered for Member Self Service are:

Active	Deferred	Pensioner
3,083 (5.65% of active membership)	1,791 (3.61% of deferred membership)	1,640 (3.41% of pensioner membership)

5.2 The number of new members registered for Member Self Service during the period 1 November 2022 to 31 January 2023 is:

Active	Deferred	Pensioner
431	165	435

5.3 There were no bulk promotions during this period, however with the Pensioner newsletter being issued in April, and Annual Benefit Statements being issued in July/August it is anticipated that there will be a further increase in new registrations.

6. Administration System Contract

6.1 Members will be aware that the existing contract with the provider of the Fund's administration software is due to expire at the end of April 2023.

6.2 KCC Procurement and Legal advice has been received and a recommendation will be taken to the Pension Fund Committee at their meeting on 29 March as to the effective way forward.

7. Guaranteed Minimum Pension (GMP) Rectification

7.1 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.

7.2 ITM will be required to adjust member benefits where the value of the GMP in payment has been reconciled against data held by the National Insurance Contributions Office (NICO) and the value in payment needs to be amended and the benefits rectified.

7.3 ITM have provided a number of documents in relation to this project which can be found in Appendices 2-5 of this report.

7.4 Decisions relating to No Liability members being out of scope, application of a £2 per week easement and disregarding potentially incorrect GMP's on deceased member's pensions have already been taken by the Pensions Administration Manager and Head of Pensions and Treasury following advice from ITM.

7.5 Decisions on correcting and paying underpaid pensions and correcting and recovering overpaid pensions will be taken to Pension Fund Committee for consideration.

8. Draft Administration Strategy Consultation

8.1 At the Employer Forum on 9 December 20022 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. However, there will not be any fundamental changes made but certain points will be clarified in our response to the feedback from these two employers.

8.3 The intention is to implement the Administration Strategy from 1 April 2023. 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. Change to CARE Revaluation Date

9.1 The Department for Levelling Up, Housing and Communities (DLUHC) recently issued a consultation to change the revaluation rate that is applied to CARE benefits in the LGPS, in order to better align the inflation-proofing in the LGPS with the Pension Input Period used for assessing pensions growth against the annual allowance.

9.2 The main concern with this change is that it will come into force on 31 March 2023 so it is unlikely that software suppliers will be able to update administration systems in time to take account of this change.

9.3 Consideration also needs to be given to how this will be communicated with members as Disclosure Regulations state that the changes must be communicated at the latest within three months of them coming into effect i.e. by 30 June 2023. Any scheme literature and the pension fund website will also need to be updated.

9.4 The proposed changes won’t affect members who are already deferred or in receipt of a pension since before 1 April 2022 because their benefits now increase by Pension Increase Orders rather than Treasury Revaluation.

9.5 Members who are affected will not see any change to the benefits they receive on retirement because the point at which benefits come into payment, revaluation is awarded on 6 April but backdated to 1 April. The only area in which a change will be seen is in the calculation of pensions growth to assess against the annual allowance.

10. Communications Policy

10.1 The Communications & Support Team have started reviewing 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.

10.2 Consideration will be given to what additional functionality can be adopted 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.

10.3 Plans will also be developed to encourage more interest in self-service and to establish what extent the Fund can deliver all communications electronically where possible. However, the team will need to carry out a mailing preference exercise first before considering making all communication electronic by default.

10.4 The team will also be discussing ideas for increasing member and employer engagement and education via such methods as newsletters, roadshows, videos etc.

11. Internal Audit

11.1 Internal Audit have published their Engagement Plan (**Appendix 6**) for a review of Pensions Administration. The aim of the audit is to provide assurance on the controls in place for key administrative processes including, but not limited to, new joiners, transfers in/out, deaths and retirements.

11.2 In order to provide assurance, the Internal Audit approach will include a review of controls in the following key areas:

- Governance and oversight arrangements
- Policies, procedures and staff training
- System access, data security and data quality
- Pension scheme administration
- Compliance with scheme rules and regulations
- Capacity and resourcing of the pension scheme administration team

11.3 Fieldwork started on 20 February with the draft report due by 31 March.

12. End of Year

12.1 On 16 February the 2022/23 end of year data capture template spreadsheet was uploaded to the employer's area of the Fund's website with all employers being written to on 20 and 21 February informing them that the spreadsheet is available.

12.2 A deadline of 6 April has been given to employers for their data to be returned. Upon receipt of the data a significant amount of work is carried out to check and balance the information provided and contributions paid over to the Fund before any information is loaded to member records and Annual Benefit Illustrations and Annual Allowance statements are produced.

12.3 Planning has also commenced for the application of Pensions Increase (confirmed as 10.1%) to all pension benefits due an increase. Discussions include liaising with the Pensions Payroll team and the mailing house who produce the Pensions Increase letters and P60's. Although P60's will still be delivered in paper format this year, work is already underway to publish these (as well as pensioner payslips) on Member Self Service.

Clare Chambers – Pensions Administration Manager – Kent Pension Fund

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March 2023

Appendix 1 - Performance Report 01.11.2022 – 31.01.2023
Appendix 2 - Kent LGPS Standard Pension Approach following GMP reconciliation 1.0
Appendix 3 - Kent GMP Rectification High-Level Project Plan
Appendix 4 - Kent LGPS - Specification - GMP Rectification
Appendix 5 - Kent LGPS - GMP Rectification Decisions Log
Appendix 6 - Pensions Administration final EP 17022023 v1.0

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	Case Type	SLA (days)	Tolerable Performance (%)	Number of cases open at start of the period	Number of cases received	Number of cases completed	Number of cases completed within SLA	% of cases completed within SLA	Number of cases completed outside of SLA	Average number of days to complete cases	Number of cases open at end of the period
Deaths	Initial Death Notification	15		80	445	398	358	90	40	9	117
	Survivors Pensions	15		55	140	144	124	86	20	20	47
	Death Grant Payment	20		157	110	95	37	39	58	100	163
	Balance of Payments/Overpayment Recovery	15		63	272	265	245	92	20	9	63
Retirements	Payment of Retirement Benefits	20	90	395	705	774	763	98	189	16	302
	Provision of Retirement Estimates	20		487	1099	1101	1018	92	83	11	413
Early Leavers	Payment of Refunds	20		72	270	263	231	88	32	12	66
	Provision of Deferred Benefit Statements	60		3789	1306	389	161	41	228	158	4406
Transfers	LGPS Transfer In Estimates	20		392	513	149	109	73	40	207	658
	Aggregation In Estimates	260		1485	234	237	195	82	42	221	1465
	LGPS Transfer Out Estimates	20		244	110	115	45	39	70	93	191
	LGPS Transfer In Actuals	20		215	160	57	3	5	54	158	311
	Aggregation In Actual	60		3574	1059	572	227	40	345	133	3899
	LGPS Transfer Out Actuals	20		156	90	93	13	14	80	83	147
	Non LGPS Transfer In Estimates	20		50	55	78	43	55	35	27	20
	Non LGPS Transfer Out Estimates	20		109	106	122	64	52	58	27	88
	Non LGPS Transfer In Actuals	20		136	47	58	8	14	50	71	115
	Non LGPS Transfer Out Actuals	20		23	32	12	3	25	9	41	42
Divorces	Pension Sharing on Divorce Estimates	6 weeks		23	84	77	77	100	0	11	27
	Pension Sharing on Divorce Implementations	4 months		5	1	2	1	50	1	100	4
General	New Starters	30		472	4198	3113	2709	87	404	9	1554
	General Correspondence	15	98	102	1822	1859	1832	99	27	2	51
	Change of Details (i.e. address, name, nomination)	10		9	1707	1710	1706	100	4	0	6
	Opt Outs			91	156	144	142	99	2	1	97
	Lost Pension			9	56	51	50	98	1	2	14
Total				**12193**	**14777**	**11878**	**10164**	**86**	**1892**	**61**	**14266**

Pension Correction Approach following GMP Changes

Approach document and decisions for
Kent County Council

Victoria Franklin
February 2023

itm
Solution delivered...

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1 Introduction

1.1 Background

A project to rectify pension benefits following reconciliation of guaranteed minimum pensions (GMPs) is being undertaken for Kent County Council ("the Client") in respect of the Kent Pension Fund ("the Fund").

The reconciliation confirmed the GMP figures the Fund will use for members going forward following reconciliation with HMRC. The rectification part of the project is the process of making corrections to the pension record where the confirmed GMP figures differ to those that have been used in the administration process. This includes correction of the GMP data sets; the pension elements currently in payment and calculating any historic under or over payments.

ITM has developed a standardised approach to GMP rectification based on its experience of other similar exercises. This will enable the Fund to carry out pension corrections in a cost effective manner, and to leave a clear audit trail of the decisions taken during that process, for example treatment of past over payments. This approach is described in this document.

1.2 Purpose of document

The purpose of this document is to set out the proposed high level approach for GMP rectification of pensioners and dependant pensioners, and to obtain the Client's feedback and subsequent agreement to that overall approach.

It should be noted that ITM cannot give legal or actuarial advice, and the Client should consider whether it wishes to obtain legal or actuarial advice on some or all of the areas covered in this document, prior to taking decisions. Specifically, there are a number of decisions flagged in Section 3 regarding the scope of the population to be submitted for rectification for which the input of the legal advisers may be required, together with notes as to whether those decisions need to be taken up front, or can wait until more data is available later in the project.

This approach document is designed to take account of the specific requirements for the Fund at a high level. Further technical detail will be captured and then reflected in a later *Specification* document, for example details of calculation methods for interest on underpayments. *Test cases* will then be provided to demonstrate the full workings of the rectification calculation method, for review by the Client and external advisers as required.

2 ITM rectification approach

2.1 How GMP impacts pension benefits

A summary of the ways in which GMP can impact pension benefits in defined benefit pension schemes is shown in the table below. Rectification can address the impact of each of these as a result of any change to the GMP record following GMP reconciliation:

Impact of GMP on typical DB scheme benefits	Impact for the Fund
GMP can impact the level of initial retirement pension *(Generally more GMP = higher pension)*	This has no impact for the Fund, as no distinction is made between GMP and excess pension when undertaking revaluation of deferred benefits. Transferred in GMP is always converted to Section 148 revaluation if accepted by the Funds.
GMP acts as a minimum pension level payable from GMP age *(more GMP = higher underpin)*	This does apply for the Fund. GMP acts as a minimum pension at GMP Age, noting this is still 60 for females, not the later State Pension Age.
GMP can impact pension in payment increase rates *(Generally more GMP = lower pension increases)*	Statutory GMP increases apply from State Pension Age (SPA) for members who reached SPA before 6 April 2016, except for periods where those members have been flagged as having “Additional Pension < GMP”. GMPs receive full indexation for those who reach SPA on or after 6 April 2016.

2.2 Rectification populations

ITM’s proposed GMP rectification approach is set out in the diagram below, split between whether members concerned are currently “no liability” (for example, transfers out or deceased), deferred members, pensioner members (split under / over GMP age) or dependant pensioners:

	No liability	Pensioner under GMPA	Pensioner over GMPA	Dependant
Band 1 No rectification	Out of scope	Exact matches: No action required	Exact matches: No action required	Exact matches: No action required
Band 2 HM Treasury easement for within £2 pw		N/A	Accept administration record – no further action	Accept administration record – no further action
Band 3 No change to total pension in payment		All differences: Amend GMP/excess split only	Trivial differences: Amend GMP/excess split only	Trivial differences: Amend GMP/excess split only
Band 4 Pension corrections from GMPA / DOD			Corrections to pension and make good past mispayments	Corrections to pension and make good past mispayments

The diagram above segments the work involved into four bands of increasing complexity, with Band 1 requiring no rectification at all, and Band 4 requiring the most complex rectification work.

The Bands are described in more detail below for pensioners over GMPA and dependants:

- **Band 1 – No rectification required**, where the GMP reconciliation has confirmed that the GMP held on Fund records is correct, or so close to being correct that there is no need to apply rectification. For pensioners and dependants this typically includes members where GMP differences are simply due to pension increase rounding rules.
- **Band 2 – HM Treasury easement for within £2 pw**, which is based on the advice given in the letter from HM Treasury to the Department for Communities and Local Government on 2 February 2016, that set out a recommendation that all public service pension schemes could take the approach of accepting their scheme records of GMP for pensioner members where the differences between the scheme record and HMRC's record is within the £2 per week tolerance level. ITM has interpreted this recommendation as applying also to dependant pensioners.
- **Band 3 – No change to total pension in payment**, where the revised GMP is updated into the member's record so it will form the basis of future pension increases. For pensioners and dependants in Band 3 it should be noted that no change is made to the overall total pension level in payment, instead the GMP and excess pension elements are simply re-split ready to be used in the next annual pension increase (pensioners under GMP age in this band would have their contracting-out data updated to record the GMP values agreed with HMRC).
- **Band 4 - Corrections from GMP Age, or Date of Member's Death ("DOD") for a dependant,** where the previous pension increases awarded on the incorrect GMP are unwound back to GMP age or for a dependant back to Date of Member's Death ("DOD"), and then the correct increases are applied using the reconciled HMRC GMP figures. Any step up required at GMP age would also be corrected to use the reconciled GMP figures. Any period after SPA for which the member was flagged as "Additional pension < GMP" is also taken into account as the member would have received full indexation on GMP during that period.

2.3 Rectification calculation method

In summary the rectification calculation method for Band 4 is as follows:

- The pre-88 GMP and post-88 GMP pension elements currently in payment are "rolled-back" (i.e. reversal of pension increases) to State Pension Age (or date of retirement (DOR) should this be later than State Pension Age).
- A GMP delta at the later of GMP age and DOR (reconciled GMP – original GMP) is calculated.
- A pre-97 delta at the later of GMP age and DOR is also calculated that is equal and opposite of the GMP delta.
- Pension increases from the later of State Pension Age and DOR to the rectification date are applied to the reconciled GMP and the pre-97 delta to produce a reconciled GMP and a pre-97 delta at the rectification date. Increases to the pre-97 delta will be pro-rated where retirement occurred during the increase year.
- It should be noted that GMP elements receive full indexation until the individual reaches SPA. If the individual reaches SPA on or after 6 April 2016 then full indexation will continue to apply to GMP elements. In addition, there are periods where an individual may be flagged as "Additional Pension < GMP", during which full indexation will also be applied to any GMP elements.
- The current pension elements are adjusted using the rolled-forward GMP pension elements and the rolled-forward pre-97 delta.

- Any historic underpayment due to the member is also calculated along with interest.
- A check is performed that the rectified pre-97 excess pension is not negative. Where the pre-97 excess pension is calculated to be negative then it will be adjusted to zero and any historic underpayment recalculated accordingly.
- An additional check is performed to ensure that the pension payable from GMP age to state pension Age is at least equal to the GMP. Where this is not the case then the pension payable from GMP age will be uplifted to meet the minimum pension due.

2.4 Rationale and assumptions behind method

The ITM calculation method has been devised with the following rationale:

- Pension in payment histories are unlikely to be available in a reliable form going back as far as would be required to support GMP rectification, therefore the best approach is to project the current pension elements back to SPA/GMP Age/Date of Death using the assumed pension increase rates, make the correction, then roll forward – subject to a number of additional assumptions and tests as set out below. This approach also has the key advantage of <u>not</u> allowing the project's scope to extend out to an audit of the historic application of pension increases in any wider sense.
- For dependant pensioners, the roll back is only implemented to the deceased member's death. The logistics of reliably calculating a pension correction in respect of GMP for the deceased member (whose GMP records may of course have been entirely correct), and hence a possible further adjustment to the dependant's initial pension level, are very difficult. ITM clients have to date been comfortable to accept this standard method, however a decision (D6) is listed in Section 3 below to cover this.

A number of assumptions and special cases need to be considered:

- It is possible that statutory GMP increases have been triggered earlier than was required for some members, for example at GMP Age for a female whose SPA is later. ITM can screen for these cases and a decision made on how to treat them.
- The rectification method takes account of periods of "Additional pension < GMP" where they are held on Altair following receipt of form RD614, however it is assumed that there are no other sources of data held at Kent that confirm an individual is actually claiming state benefits, therefore statutory GMP increases will be assumed to apply in all other circumstances.
- The rectification method set out above assumes that GMP will be offset against the excess pension as local authorities do not split the pre-97 and post-97 pension. Where the excess pension is insufficient to cover the reconciled GMP but there remains other pension elements (e.g. AVCs) then the rectification calculation will not offset GMP against these pension elements. Where the excess pension is insufficient to be offset against the reconciled GMP then such an approach would generally result in a higher rectified pension than if GMP had been offset against post-97 benefits. The detail of this can be agreed at the later *Specification* stage.
- Special treatment is required for GMP only pensions where the GMP is confirmed to be at a lower level than was previously used in the administration process, because it is necessary to establish why the pension became GMP only to then decide whether to reduce the overall pension, or create an excess element, or both.

2.5 Historic underpayment and interest

The historic under or overpayment will be calculated for each pension increase year as follows:

Underpayment = (Reconciled GMP – Original GMP) – Excess Delta

The reconciled GMP, original GMP and Excess Delta above have all had pension increases applied up to the pension increase year in question.

A positive value is an underpayment while a negative value is an overpayment.

Historic under or overpayments will be pro-rated where the “increase year” is not a full year, e.g. the year in which the member reaches GMP age or retired if after GMP age and the “increase year” in which the rectification date occurs.

Interest will be applied using the interest rate defined in the relevant regulations, or separately agreed with Kent County Council where they have leeway to do so – this will be agreed at the later *Specification* stage.

Where a member receives underpayments in some years and overpayments in others then these would normally be offset against each other (typically can occur where there is a GMP only pension involved). In such circumstances interest will be applied to both the underpayments and overpayments to enable a net calculation to be produced.

3 Decisions on population in scope

The table below sets out ITM's proposals for the criteria to be used in deciding which rectification "band" a member is treated under, and hence whether they are in scope for rectification processing. The table flags where decisions can be made now, or are better considered at a later stage of the project. Some of the decisions relate to formal acceptance of ITM's standard rectification approach, which is the basis on which the original proposal was set out to the Client – these are marked with the text "*ITM standard approach*" in the table below.

Relevant band	Applies to	Proposed allocation criteria	Justification	Decisions to be considered	Date decision required
Band 1 – No Rectification Required	**Pensioner over GMP age Dependant**	It is proposed that members will be included in Band 1 when: • identified during Stage 2 as having suspect HMRC data that cannot be successfully challenged, and hence will not be rectified • the member has a "no liability" status.	In addition to the challenge of confirming the existence and address for no liability members, it is not appropriate for the Fund to contact no liability members who no longer have an on-going relationship with the pension scheme.	**D1** – is it acceptable that members who are "No liability" are entirely excluded (and hence treated as if they are also in Band 1)? *(ITM standard approach)*	After review of this document
Band 2 – HM Treasury easement for within £2 pw	**Pensioner over GMP age Dependant**	It is proposed to accept the HM Treasury easement to accept Fund records where GMP differences are within £2 pw at the point of comparison, for pensioners and dependant members. This point of comparison will be GMP age or Date of Death for pensioners and dependants respectively.	This is consistent with the approach being taken in reconciliation to not investigate differences below the £2 pw tolerance.	**D2** – is it acceptable to apply the easement and remove these members from the population that are submitted for rectification processing?	After review of this document

Relevant band	Applies to	Proposed allocation criteria	Justification	Decisions to be considered	Date decision required
Band 3 – No change to total pension in payment	**Pensioner over GMP age Dependant**	ITM propose that a "trivial threshold" is set based on review of the full set of draft rectification results. If the size of the correction to a member's current pension is below the trivial threshold then the member would then be treated as a Band 3 – Trivial Adjustment member. Typically public sector clients have chosen trivial thresholds of £12 pa, applying to both under and overpayments. There have been a couple of clients who have chosen no threshold or a higher threshold of £60 pa.	The use of a trivial threshold hugely reduces the number of members that need rectification adjustments communicating and applying to the administration system. This applies even when the HM Treasury easement is applied, for example changes in respect of Post 88 GMP that are greater than £2 per week at the point of comparison can still result in trivial under/overpayment results, due to the similarity of Post 88 GMP increases and the increases applied to the excess pension.	There are some issues that can be considered now in respect of the use of a trivial threshold for allocating members to Band 3: **D3** - Is it acceptable to operate a trivial threshold at all? **D4** - Is it acceptable to operate a trivial threshold in respect of underpaid members?	Late in Phase 1 of the project after full draft results are produced

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Relevant band	Applies to	Proposed allocation criteria	Justification	Decisions to be considered	Date decision required
Band 4 – Standard Corrections from GMP Age / Date of Death	**Pensioner over GMP age Dependant**	All pensioner members who are over GMP age and dependant members, that do not fall into Bands 1 to 3 above, will require a Standard Correction.	This is the standard rectification correction of incorrect pension increases as a result of incorrect GMP, and in exceptional cases the uplift of the pension from GMP age (for pensioners) or Date of Death (for dependants) to meet the GMP minimum. For a dependant member, only the dependant's GMP will be corrected, i.e. no attempt will be made to assess if the deceased member's pension was impacted by incorrect GMP, which in turn could have resulted in the initial level of dependant's pension being incorrectly calculated. This is because: • A dependant's GMP being incorrect does not necessarily mean the member's GMP was incorrect • Data availability is usually too poor to enable the deceased member's pension to be reliably corrected	There are some issues that can be considered now in respect of the Standard Correction process: **D5 –** Is it acceptable to not attempt to take account of the impact of incorrect GMP on a deceased member's pension, and hence on the dependant's initial pension level, for the reasons set out in the column to the left? *(ITM standard approach)*	After review of this document

Kent Pension Fund GMP Rectification - High Level Project Plan

Project Task	Task owner	Action to Commence	Actual Completion	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023
Planning phase										
Kick off meeting held between Kent and ITM	**ITM / Kent**	**February 2023**								
Issue rectification approach document	**ITM**	**February 2023**								
Establish rectification database	**ITM**	**February 2023**								
Review of rectification approach document	**ITM / Kent**	**February 2023**								
Issue detailed rectification specification using ITM and LGPS standard specification basis	**ITM**	**February 2023**								
Agree rectification specification	**ITM / Kent**	**February 2023**								
Issue draft decisions log	**ITM**	**February 2023**								
Agreement of under / overpayments administration approach	**Kent**	**February 2023**								
Tool configuration, test case production for all scenarios, for recalculation of benefits	**ITM**	**March 2023**								
Produce and agree draft member communications materials	**ITM / Kent**	**March 2023**								
Send test cases to Kent for review	**ITM**	**April 2023**								
Meeting to review test cases	**ITM / Kent**	**April 2023**								
Kent review and sign off test cases	**Kent**	**April 2023**								
Data extract inclusive of 2023 PI provided by Kent	**Kent**	**April 2023**								
Load data extract	**ITM**	**April 2023**								
Data queries raised with Kent following receipt of extract	**ITM**	**April 2023**								
Response to data queries received	**Kent**	**May 2023**								
Confirm population requiring rectification	**ITM**	**May 2023**								
Recalculate pension benefits year by year since GMP date / date of death at provisional rectification date (dry run)	**ITM**	**May 2023**								
Provide summary report	**ITM**	**June 2023**								
Provide test data output files	**ITM**	**June 2023**								
Test data load to Altair	**ITM / Kent**	**June 2023**								
Review individual files for exceptional cases where required, to obtain additional data and validation	**Kent**	**June 2023**								
Live phase										
Make decision on where the trivial threshold will be set	**Kent**	**June 2023**								
Decisions log updated following Kent review and approval	**Kent**	**June 2023**								
Perform live processing run following files reviews and final decisions at rectification date	**ITM**	**July 2023**								
Provision of final consolidated output and removal of recently processed cases	**ITM / Kent**	**July 2023**								
Produce the live run summary report and project closure report	**ITM**	**August 2023**								
Produce and distribute communications in advance of benefit changes to all impacted members	**ITM / Kent**	**August 2023**								
Loading of corrected excess pension elements data for pensioner and dependants	**ITM / Kent**	**August 2023**								

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Pension Correction Following GMP Changes - Specification

GMP rectification specification for the
Kent County Council

Victoria Franklin
February 2023

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1 Introduction

This document sets out the parameters and other criteria that will be used to implement the GMP rectification as described in the “Pension Correction Approach Following GMP Changes” document previously issued to Kent County Council (the “Approach Paper”). Section 2.3 of the Approach Paper sets out the rectification method to be used to correct the pension in payment for pensioner and dependant pensioner members of the Kent Pension Fund (the Fund). This document should be read in conjunction with the Approach Paper.

The parameters that defined the rectification method breakdown as follows:

- Scope – Which members will not be subject to pension correction and which will be subject to pension correction? For those members subject to pension correction which correction approach will be required?
- Pension elements – Details of the pension elements recorded on Altair and how these will be mapped to the GMP rectification calculation
- Pension increase rates applicable to both GMP and excess pension
- Additional pension increases – When do these apply and how they are applied?
- Pro-rating of pension increases where an increase arises within a calendar year of retirement (or pension commencement for dependant pensioners)
- Rounding of pension elements following a pension increase
- The calculation of contingent spouse’s pension following pension correction
- Augmentation of pension benefits for members of the Fund where the corrected pension benefits are lower than those currently in payment
- Outputs – The information to be provided to Kent following the completion of the pension correction exercise
- Data Validations – specific data validations required to ensure that all data inputs are appropriate for the pension correction calculation

The purpose of this document is, in conjunction with the Approach Paper, to describe the rectification calculation sufficiently that our rectification solution can be developed and that test cases can be produced for review by Kent. The GMP rectification Date (the date from which corrected benefits are paid) is to be confirmed. It may be necessary to set different dates for underpaid members and overpaid members. A number of aspects of the pension correction calculation method are yet to be determined. These are outlined on the decisions document.

The following points have been confirmed:

- No liability members are to be excluded from the rectification population.
- Members who were identified at Stage 2 as having suspect HMRC data that cannot be successfully challenged are to be excluded from the rectification population.
- Pensioners with a GMP difference of less than £2 per week at GMP Age are to be excluded from the rectification population.
- Dependants with a GMP difference of less than £2 per week at original member’s data of death are to be excluded from the rectification population.
- The impact of incorrect GMP on a deceased member’s pension and hence on the dependant’s initial pension level, will not be taken account of during rectification.
- Where the deceased member died in retirement after GMP date then ITM will correct pension increases from date of death for all dependant pensioners. Only the dependant’s GMP will be

corrected, that is no attempt will be made to assess if the deceased member's pension was impacted by incorrect GMP.

- Interest will be added to underpayments on the basis set out in the Regulations for the Scheme. Interest will be calculated from the month in which the payment is due (the "due date") to the rectification date using Bank of England Base Rates (the "base rate") plus 1%, compounded over periods of three months.
- Deferred or pensioner members who are Pre GMP age are to be excluded from the rectification population however ITM will provide an output to load the HMRC GMP at date of exit for cases outside tolerance.

2 Glossary

Pension correction refers to the following dates:

- GPD – Guaranteed Minimum Pension (GMP) payment date. For females this is their 60th birthday, for males this is their 65th birthday. For pensioners from GPD onwards the pension paid to the member must be at least equal to the GMP.
- SPD – State Pension Date. For pensioners from SPD onwards the pension will be split into pre-88 GMP, post-88 GMP and excess tranches with different increases applied to each tranche.
- Rectify from Date. For pensioners this is the later of GPD and date of retirement. For dependant pensioners this is the corresponding deceased member's date of death.
- Admin Extract Date. The last day of the payroll period in which the administration extract was taken. For example if an extract was taken at the end of April but the data reflects the situation for the May payroll then the Admin Extract Date would be 31st May. The Admin Extract Date will be different for test cases and live processing as these will be based on different cuts of administration data.
- GMP Rectification Date. The last day of the payroll period directly prior to the correction of elements. Therefore if the October payroll month was to be the first in which benefits were to be paid at their corrected level then the GMP Rectification Date should be 30th September. Different GMP Rectification Dates may need to be stipulated for members on a monthly payroll, quarterly payroll or annual payroll. In addition a different GMP Rectification Date may be needed for underpaid members (whose benefits are increased following pension correction) and overpaid members should their benefits be reduced following pension correction.
- Test Cases. ITM will arrange to provide test cases for review by Kent. These are detailed calculations which have been run and can be examined to ensure the client agrees with the outcome.

The following terms are also used throughout this document:

- GMP rectification – Pension correction activities that follow GMP reconciliation. Also referred to as "GMP reconciliation – stage 3".
- Band 1 rectification – Members for whom no change is required to their pension record
- Band 2 rectification – Members for whom no change will be made to their total pension because the differences between the Scheme record and HMRC's record is within the £2 per week tolerance level.
- Band 3 rectification – For pensioners and dependants in Band 3 it should be noted that no change is made to the overall total pension level in payment, instead the GMP and excess pension elements are simply re-split ready to be used in the next annual pension increase.
- Band 4 rectification – Members for whom corrections are required, corrections from GMP Age, or Date of Member's Death (''DOD) for a dependant, where the previous pension increases awarded on the incorrect GMP are unwound back to GMP age or, for a dependant, back to Date of member's Death (''DOD''), and then the correct increases are applied using the reconciled HMRC GMP figures. Any step up required at GMP age would also be corrected to use the reconciled GMP figures. Any period after SPA for which the member was flagged as 'Additional pension<GMP'' is also considered as the member would have received full indexation on GMP during that period.
- Historic underpayment – Applies for members whose corrected pension is higher than that currently in payment. This is the difference between the actual pension payments between Rectify from Date and GMP Rectification Date and the correct pension payment over the same period. It is common for interest to be added to these amounts and the shortcoming made good to members as a single payment.

- Historic overpayment - Applies for members whose corrected pension is lower than that currently in payment. This is the difference between the actual pension payments between Rectify from Date and GMP Rectification Date and the correct pension payment over the same period.
- Triviality Threshold – In order to determine which members should be in Band 3 and Band 4 the change to the current pension arising from pension correction is compared to a Trivial Threshold. Where the change is less than the Trivial Threshold then the correction is deemed to be trivial and the member is assigned to Band 3. Where the change is equal to or greater than the Trivial Threshold then the correction is deemed to be non-trivial and the member is assigned to Band 4.
- Additional Pension less than GMP (AP<GMP) – Members whose state pension increase is insufficient to make up the difference between their increases to GMP and the pension increase that would apply to an equal amount of excess pension. For these members the total pension should be increased as if it were entirely excess pension.
- AP Flags – Flags provided by the Department for Work and Pensions highlighting which members are subject to the Additional Pension rules in any given tax year. These flags are recorded on Altair for the scheme. There are other reasons why the GMP value might be set to zero so such cases would need to be confirmed as Additional Pension cases by Kent.
- Deemed Date – A date used to determine whether a pension increase should be subject to pro-rata or not. If a pension increase occurs within twelve months of the Deemed Date then the increase will be subject to pro-rata. Depending on the salary definition used the Deemed Date may be the member's date of retirement, date of exit or my even be earlier. For dependant pensioners the deemed date is the corresponding member's deemed date.

3 Scope

Whether pensioners or dependant pensioners are in scope for pension correction following GMP reconciliation and the type of pension correction that is to be applied is assessed as follows:

3.1 Pensioners

- If GPD is after GMP Rectification Date – Pension correction is not required. Reconciled GMP will be passed to Kent for upload to the administration system.
- If GPD is after Admin Extract Date but is equal to or prior to GMP Rectification Date – Reconciled GMP will be passed to Kent. Any cases requiring an uplift to their pension will need to be processed through BAU.
- If GPD is prior to or equal to Admin Extract Date – member is in-scope for pension correction.

3.2 Dependant Pensioners

- Dependant pensioner records set up after Admin Extract Date are out of scope. Kent will need to identify such cases from the rectification output and resolve any changes to dependant pensioner benefits through BAU.
- If date of death is prior or equal to Admin Extract date – member is in-scope for pension correction.

3.3 Further Analysis

Further analysis will then be performed on pensioners and dependants that are in-scope for pension correction:

- Members where the GMP reconciliation has confirmed that the GMP held on Scheme records is correct, or so close to being correct that there is no need to apply rectification (Band 1 in the approach paper).
- Members where the GMP in payment is within a £2pw tolerance of the HMRC GMP will not require pension correction (Band 2 in the Approach paper).
- Members where the impact of pension correction is less than the Trivial Threshold will be subject to re-tranching but will not have their total pension changed (Band 3 in the Approach paper). The Trivial Threshold will be recorded in the decisions log.
- The remaining members will be subject to a standard pension correction calculation (Band 4 in the Approach paper).

In all circumstances the correction of GMP payment will be from the later of GMP date and date of retirement for pensioners and from date of death for dependant pensioners. The correction of pension increases will be from the later of SPD and date of retirement for pensioners and from date of death for dependant pensioners.

4 Pension Elements

The current pension elements for pensioners in the Fund will be derived from the MEMBER_PENSION_DETAILS_LIST and MEMBER_GMP_DETAILS tables on Altair.

The current pension elements for dependants in the Fund will be derived from the MEMBER_DEPENDANT_DETAILS_LIST and MEMBER_DEPENDANT_DETAILS tables on Altair.

The current payroll elements for both pensioners and dependants in the Fund will be derived from the MEMBER_PAYROLL_ELEMENT_DETAILS table on Altair.

4.1 Altair Pension Elements

For pensioners the total annual pension payable will be derived from the CURRENT_PENSION value on the MEMBER_PENSION_DETAILS_LIST table for the entry where PENSION_TYPE equals PEN. For dependants the total annual pension payable will be derived from the CURRENT_PENSION value on the MEMBER_DEPENDANT_DETAILS_LIST table for the entry where PENSION_TYPE equals PEN.

The current annual total GMP will be derived from the CURRENT_GMP value on the MEMBER_GMP_DETAILS table for pensioners (or from the MEMBER_DEPENDANT_DETAILS table for dependants).

The current annual post-88 GMP will be derived from the POST_88_CURRENT_GMP value on the MEMBER_GMP_DETAILS table for pensioners (or from the MEMBER_DEPENDANT_DETAILS table for dependants).

Pre-88 GMP = Total GMP – Post-88 GMP

Excess pension = total pension – total GMP

The following pension elements are present on the MEMBER_PENSION_DETAILS_LIST table and the MEMBER_DEPENDANTS_DETAILS_LIST table:

Pension Element Code	Pension Element Description	Impacted by Pension Correction?
ACTR	Actuarial Reduction	No
ADDN	Compensatory Added Years	No
APB	Additional Pension Benefit	No
AUGP	Augmentation	No
C5I	Care 50:50 Pensions increase	No
CARE	CARE pension	No
CLWR	Clawback Regarding a Redundancy Payment	No
CMI	CARE Main Pensions Increase	No
CMWI	CARE Main Spouse Increase	No
COMM	Lump Sum provided by commutation	No
CP50	Commuted 50:50 Section Pension	No

Pension Element Code	Pension Element Description	Impacted by Pension Correction?
CRCM	Commuted CARE Pension	No
EPB	Equivalent Pension Benefit	No
FSCM	Final Salary Pension Commuted	No
GA	Addition in anti-franking tests	No
GMP	GMP only	Yes
GRAT	Gratuity	No
IAVC	In-House AVC Annuity	No
INJ	Injury Allowance	No
LAPD		
LCOM	Pension from Commuted Lump Sum	No
MODF	NI Modification (Funded)	No
MODU	NI Modification (Unfunded)	No
P88I	Increases on post-88 GMP (GMP only pension)	Yes
PCOM	Pension commuted for lump sum	No
PEN	Basic Funded Pension	Yes
PIP	Total Pension Increase	Yes
PIPA	ADDN Pensions Increase	No
PIPS	Pensions Increase on short term pension	No
PN60	1/60th Scheme Pension	No
PROT	Protected Ill Health Enhancement	No
PYRV	Part-Year Revaluation on CARE Pension	No
RA	Lump Sum Retiring Allowance	No
RAI	Pensions Increase on Lump Sum	No
RECH		
SECC		
SICI	Serious ill-health commutation deduction	No
SPIA		
STPA	Short Term Pension (Additional)	No
STPF	Short Term Pension (Funded)	No
STPG		
STPP	Short Term Pension (Protected)	No
STPU	Short Term Pension (Unfunded)	No
SURF		
TEMP	Temporary Adjustment	No

Table 1 – Breakdown of Altair pension elements for Kent Pension Fund.

For the above elements pensioners and dependants have the following pension values recorded:

- INITIAL_PENSION - the member's pension at DATE_COMM_DUE (which is normally the member's date of retirement)
- CURRENT_PENSION - the member's current pension
- INITIAL_WID_PENSION - the contingent spouse's pension at DATE_COMM_DUE
- CURRENT_CONT_WID_PENSION – the current contingent spouse's pension

The PIP pension element (Total pension increase) is the change to PEN (Basic funded pension) since the INITIAL_PENSION value was set. Where pension correction results in a change to the PEN value then an equal change would be made to PIP value as well. Therefore if the CURRENT_PENSION value of the PEN element increases by £12pa then the CURRENT_PENSION value of the PIP element would also be increased by £12pa.

Where the member has been overpaid then both PEN and PIP would be reduced. This revision is to be applied to member pensions in payment and dependant pensions in payment. However, it is not to be applied to contingent spouse's benefits.

As there will be no pension increases processed between Admin Extract Date and GMP Rectification Date none of the other pension elements will be impacted by the pension correction exercise.

All Kent Pension Fund pensioners and dependant pensioners are paid on a monthly payroll cycle.

4.2 Altair Payroll Elements

The following pension elements are available for use in the MEMBER_PAYROLL_ELEMENT DETAILS table:

Payroll Element Code	Payroll Element Description	Pension Element Category	Impacted by Pension Correction?
20	xxx	xxx	xxx
21	xxx	xxx	xxx
22	xxx	xxx	xxx
23	xxx	xxx	xxx
26	xxx	xxx	xxx
30	xxx	xxx	xxx
32	xxx	xxx	xxx
34	xxx	xxx	xxx
36	xxx	xxx	xxx
38	xxx	xxx	xxx
52	xxx	xxx	xxx
54	xxx	xxx	xxx
56	xxx	xxx	xxx
57	xxx	xxx	xxx
58	xxx	xxx	xxx
59	xxx	xxx	xxx

Payroll Element Code	Payroll Element Description	Pension Element Category	Impacted by Pension Correction?
60	xxx	xxx	xxx
61	xxx	xxx	xxx
62	xxx	xxx	xxx
64	xxx	xxx	xxx
65	xxx	xxx	xxx
70	xxx	xxx	xxx
71	xxx	xxx	xxx
72	xxx	xxx	xxx
89	xxx	xxx	xxx
109	xxx	xxx	xxx
300	xxx	xxx	xxx
301	xxx	xxx	xxx
302	xxx	xxx	xxx
303	xxx	xxx	xxx
304	xxx	xxx	xxx
305	xxx	xxx	xxx
306	xxx	xxx	xxx
307	xxx	xxx	xxx
308	xxx	xxx	xxx
310	xxx	xxx	xxx
314	xxx	xxx	xxx
318	xxx	xxx	xxx
320	xxx	xxx	xxx
321	xxx	xxx	xxx

Table 2 – Breakdown of Altair payroll elements for the Kent Pension Fund.

4.2.1 Arrears payroll element

The payroll element to use for the arrears payment will need to be confirmed. The standard Altair tool from Heywood only allows for one arrears element to be added per member via the interface. If the net arrears and interest are to be loaded to separate elements, then the interest element will need to be loaded manually, or via another payroll interface Kent may have access to.

4.4 Late GMP Increments

Where a member retires seven weeks or more after their GMP date then late payment GMP increments apply at a rate of 1/7th of 1% for each week that retirement occurs after GMP date.

In addition, where retirement is after GMP date and there are any 6th Aprils after GMP date but before or on date of retirement then the statutory post-88 GMP increases occur even when retirement was less than 49 days after GMP date.

Such late GMP increments are not recorded separately for the Scheme and are included in the main GMP elements.

5 Pension increase Rates

5.1 Pension Increase Rates

The following pension increase rates will be used when calculating the pension correction following GMP reconciliation for all four schemes.

Year of Increase	Statutory Post-88 GMP Increases	Excess Pension Increases
1978		7.40%
1979		16.00%
1980		16.50%
1981		9.06%
1982		11.00%
1983		3.70%
1984		5.10%
1985		7.00%
1986		1.10%
1987		2.10%
1988		4.20%
1989	0.00%	5.90%
1990	3.00%	7.60%
1991	3.00%	10.90%
1992	3.00%	4.10%
1993	3.00%	3.60%
1994	1.80%	1.80%
1995	2.20%	2.20%
1996	3.00%	3.90%
1997	2.10%	2.10%
1998	3.00%	3.60%
1999	3.00%	3.20%
2000	1.10%	1.10%
2001	3.00%	3.30%
2002	1.70%	1.70%
2003	1.70%	1.70%
2004	2.80%	2.80%
2005	3.00%	3.10%

Year of Increase	Statutory Post-88 GMP Increases	Excess Pension Increases
2006	2.70%	2.70%
2007	3.00%	3.60%
2008	3.00%	3.90%
2009	3.00%	5.00%
2010	0.00%	0.00%
2011	3.00%	3.10%
2012	3.00%	5.20%
2013	2.20%	2.20%
2014	2.70%	2.70%
2015	1.20%	1.20%
2016	0.00%	0.00%
2017	1.00%	1.00%
2018	3.00%	3.00%
2019	2.40%	2.40%
2020	1.70%	1.70%
2021	0.50%	0.50%
2022	3.00%	3.10%
2023	3.00%	10.10%*

Table 3 – Pension increase rates for use in pension correction

*to be confirmed

- Pre-88 GMP receives zero increases from state pension age onwards.
- Post-88 GMP increases occur on the 6th April of each year from state pension age onwards.
- Excess increases occur on the first Monday that is on or after the 6th April of each year.

5.2 Additional Pension

Individual members may be flagged that an "Additional Pension" increase applies for any pension increase ("AP Flags"). For pension increases where an AP Flag is set for a particular member then:

- The GMP elements would be updated as normal (no increase for pre-88 GMP, statutory increases for post-88 GMP).
- However the excess pension would be increased such that the excess increase rate applies to the entire pension.

The pension increases where the AP Flag is set can be derived from the Altair data table MEMBER_GMP_DETAILS_DATE. The DATE_GMP_EXCLUDED field records the start date for Additional Pension increases while the DATE_GMP_RESTORED field records the end date for Additional Pension increases.

AP Flags are recorded on Altair for LGPS members. A list of the cases impacted will be passed to Kent for confirmation.

The pension correction calculations will incorporate Additional Pension increases where these are recorded in the administration data or where Kent confirm which members are subject to an Additional Pension increase and the tax years in which the Additional Pension increases apply.

5.3 Pro-rating Increases

Excess increases will be pro-rated in the following circumstances:

- For pensioners the first increases after retirement will be pro-rated where the increase occurs within a year of the member's deemed date.
- For dependant pensioners the first increase will be pro-rated where the increase occurs within a year of the deceased member's deemed date.

For Kent the Deemed Date is derived from the DATE_FOR_PI field from the MEMBER_PENSION_DETAILS table on Altair.

The period from the 1st of the month equal to or following the Deemed Date to the date of the pension increase is calculated in months (inclusive of the Deemed Date but excluding the pension increase date).

Where this period is twelve months or more then the increase is not subject to pro-rata.

Where this period is less than twelve months then the increase rate will be subject to pro-rata by a factor derived from the table below:

Period from Deemed Date to first pension increase		Pro-rata
	Up to 15 days	Nil
16 days to	1 month and 15 days	1/12
1 month and 16 days to	2 months and 15 days	2/12
2 months and 16 days to	3 months and 15 days	3/12
3 months and 16 days to	4 months and 15 days	4/12
4 months and 16 days to	5 months and 15 days	5/12
5 months and 16 days to	6 months and 15 days	6/12
6 months and 16 days to	7 months and 15 days	7/12
7 months and 16 days to	8 months and 15 days	8/12
8 months and 16 days to	9 months and 15 days	9/12
9 months and 16 days to	10 months and 15 days	10/12
10 months and 16 days to	11 months and 15 days	11/12
11 months and 16 days or greater		Full increase applied

Table 4 – Pro-rata of pension increases

Post-88 GMP increases are always applied in full and are never subject to pro-rata.

5.4 Rounding

Increases to Post-88 GMP elements will be rounded to the nearest multiple of £0.52pa.

Increases to the excess pension will be rounded to the nearest penny for all schemes.

No adjustment will be made to the total pension. Where the total pension is not a multiple of £0.12pa then existing payroll systems and procedures will deal with any difficulties arising.

5.5 Contingent Spouse's Pensions

The re-calculation of contingent spouse's benefits for Kent pensioners is not in scope as part of the GMP stage 3 project.

6 Other Parameters

6.1 Interest on underpayments

Interest will be added to underpayments on the basis set out in legislation for the Kent Pension Fund.

Interest will be calculated from the month in which the payment is due (the “due date”) to the rectification date using Bank of England Base Rates (the “base rate”) plus 1%, compounded over periods of three months.

7 Outputs

The following outputs will be provided to Kent following pension correction:

- Files for loading to Altair to amend GMP, pension and payroll elements
- ITM standard GMP rectification output to show results for each member
  - *Key dates used in pension correction*
  - *Pension correction band*
  - *HMRC records used for pension correction*
  - *Original pension amounts*
  - *Corrected pension amounts*
  - *Change to current pension (both monetary change and percentage change)*
  - *Past underpayment (both with and without interest)*
- GMP rectification audit trail
- Merge fields for communications
- Details of any members requiring action under BAU
- Report that summarises results

8 Version control

Date Created	Version	Classification	By Whom	Reason
13/02/2023	0.1	Draft	Victoria Franklin	Initial Draft

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ID	Decision Description	Proposal	Commentary and ITM experience	Decision required by	Decision	Decision Made By	Decision Date
D1	Is it acceptable that members who are "No liability" are entirely excluded (and hence treated as if they are also in Band 1)?	It is proposed that members will be included in Band 1 (no rectification required) when: • identified during Stage 2 as having suspect HMRC data that cannot be successfully challenged and hence will not be rectified, or • the member has a "no liability" status	In addition to the challenge of confirming the existence and address for no liability members, it is not appropriate for the Pension Fund to contact no liability members who no longer have an on-going relationship with the Fund.	After review of approach document	Yes - exclude from rectification	Clare Chambers / Nick Buckland	10/02/23
D2	Is it acceptable to apply the easement and remove these members from the population that are submitted for rectification processing?	It is proposed to accept the HM Treasury easement to accept Fund records where GMP differences are within £2 pw at the point of comparison, for pensioners and dependant members. This point of comparison will be GMP age or Date of Death for pensioners and dependants respectively.	This is consistent with the approach being taken in reconciliation to not investigate differences below the £2 pw tolerance.	After review of approach document	Yes - accept HM Treasury easement to accept Scheme record where GMP differences are within the £2 pw tolerance	Clare Chambers / Nick Buckland	10/02/23
D3	Is it acceptable to operate a trivial threshold at all? If so then at what level should the trivial threshold be set?	ITM propose that a "trivial threshold" is set based on a review of the full set of draft rectification results. If the size of the correction to a member's current pension is below the trivial threshold then the member would then be treated as a Band 3 – Trivial Adjustment member. Typically public sector clients have chosen trivial thresholds of £12 pa, applying to both under and overpayments. There have been a couple of clients who have chosen no threshold or a higher threshold of £60 pa.	The use of a trivial threshold hugely reduces the number of members that need rectification adjustments communicating and applying to the administration system. This applies even when the HM Treasury easement is applied, for example changes in respect of Post 88 GMP that are greater than £2 per week at the point of comparison can still result in trivial under/overpayment results, due to similarity of Post 88 GMP increases and the increases applied to the excess pension. Members impacted by the triviality threshold would have their GMP/excess split corrected so that future increases are corrected. The success of the triviality threshold relies on there being no need to communicate with members where their pension splits are adjusted but no change is made to their total pension.	Late in Phase 1 of the project after full draft results are produced			
D4	Is it acceptable to operate a trivial threshold in respect of underpaid members?	Kent County Council could choose to apply a smaller trivial threshold to underpayments than that applied to overpayments.	Where ITM's clients have applied a triviality limit then this has usually been done equally for members that would have their pension marginally increased as for members that would have their pension marginally decreased. The justification is that any change to the pension in payment is trivially small and can be disregarded whether or not it would be to the member's benefit – the benefits to the Fund of disregarding the change outweigh any benefits to the member of applying the change.	Late in Phase 1 of the project after full draft results are produced			
D5	Is it acceptable to not attempt to take account of the impact of incorrect GMP on a deceased member's pension, and hence on the dependant's initial pension level, for the reasons set out in column D?	Where the deceased member died in retirement after GMP date then it is possible to either rectify the dependant's benefits only or to rectify both the deceased member's benefits and the dependant's benefits. ITM's preference is to correct pension increases from date of death for all dependant pensioners. However, ITM's preferred method is that only the dependant's GMP will be corrected, that is no attempt will be made to assess if the deceased member's	To date all ITM's clients have corrected dependant pensions from the deceased member's date of death and have not sought to correct benefits payable to the deceased member. This is because: • A dependant's GMP being incorrect does not necessarily mean the member's GMP was incorrect • Data availability is usually too poor to enable the deceased member's pension to be reliably corrected	After review of approach document	Yes - agree no attempt should be made to rectify the deceased member's pension	Clare Chambers / Nick Buckland	10/02/23
D6	Whether and how underpaid pensions in payment will be corrected?	Once Kent County Council are aware that incorrect benefits are being paid then legal advice is usually that they have a duty to correct them. Therefore pensions that are currently being underpaid (and the change is non-trivial) should be increased to the correct level as soon as is practical.	All of ITM's clients have made good any non-trivial underpayments. Kent County Council have a duty to pay members the correct benefits which they cannot disregard. Of course the Pensions Committee should consider the impact on Fund liabilities.	Before the initial processing starts			
D7	Whether historic underpayments will be paid to the member?	Historic underpayment of benefits should be made good through a single payment.	Existing administration practice for making good past underpayments is often followed. Substantial one-off payments may impact a member's tax and state benefits. Members may request a tax year breakdown of any past underpayment and interest so that this can be provided to HMRC to help with adjustment of any tax liability arising. This breakdown can also be provided for all members with a past underpayment.	Before the initial processing starts			
D8	Whether interest will be applied to historic underpayments?	Interest may be applied to these underpayments in line with LGPS regulations (e.g. Bank of England base rates or the rate interest applied when past underpayments are corrected as part of business as usual processing).	Pension Fund rules or administration practice may dictate that interest needs to be applied and may also dictate the rate of interest to be applied. Also any benefit to the Fund from late payment of benefits (that is interest accrued) should be made good to the member.	Before the initial processing starts			
D9	Whether and how overpaid pensions in payment will be corrected?	Once Kent County Council are aware that incorrect benefits are being paid then they have a duty to correct them. Therefore pensions that are currently being overpaid (and the change is non-trivial) should be decreased to the correct level as soon as is practical, but allowing the member enough time to adjust their financial arrangements or query the change with the Pension Fund. Alternatively Kent could augment benefits to maintain benefits at their current, overstated level. A third option is to freeze benefits at their current level until pension increases/bonuses cause the rectified pension amount to catch-up with the frozen benefit. This option also involves carrying out an augmentation, possibly on an annual basis for each member whose pension has not "caught up" with the frozen level. Any augmentation may or may not be passed onto dependants in the event of an overpaid member's death.	Kent County Council may also wish to consider: 1 – The reduction to Fund liabilities arising from reducing future pension payments. 2 – The likely impact on Fund operations due to member queries and potential IDRP cases arising. 3 – The impact on Fund reputation of reducing benefits, especially where hardship may arise. ITM's Local Authority clients have tended to decrease the pension to the correct level. Freezing pension benefits is only viable where administration and payroll functions permit the recording of both the frozen benefits in payment and the lower rectified benefit level.	Before the initial processing starts			

ID	Decision Description	Proposal	Commentary and ITM experience	Decision required by	Decision	Decision Made By	Decision Date
D10	Whether historic overpayments will be clawed back and whether interest will be applied?	Historic overpayments can be recouped and Kent County Council may feel that they have a duty to the Pension Fund to do so. However, in ITM's experience it is more common for Trustees / Pensions Committees to waive historic overpayments. ITM understand that some of our clients have received advice that waiving the recoupment of an overpayment does not result in that overpayment being treated by HMRC as an unauthorised payment, as long as the overpayment was made "by mistake". Kent County Council may decide to look at extreme cases and take the to the Pensions Committee for advice on how to proceed.	The majority of ITM's clients waive historic overpayments, particularly public sector clients. Where ITM's clients have initially considered recouping historic overpayments, only one private sector client has so far followed through.	Before the initial processing starts			
D11	What is the pension correction date for underpaid members?		This is the date from which the corrected pension will be paid and the date to which past underpayments (and interest if applicable) will be calculated.	Late in Phase 1 of the project after full draft results are produced			
D12	What is the pension correction date for overpaid members?		This is the date from which the corrected pension will be paid. This may be the same date as for underpaid members but a later date may be preferred, allowing members time to adjust their financial arrangements or query the change before their pension is reduced - see D9.	Late in Phase 1 of the project after full draft results are produced			
D13	What data fields are needed for member communications?		The ITM standard output with merge fields for communications will be provided with the initial results. If any additional data fields are required then these can be added to the output as necessary.	Late in Phase 1 of the project after full draft results are produced			
D14	How should members who reach SPA during live processing be treated?	ITM would process these members as being under SPA. Checks that the correct GMP was brought into payment at SPA would need to be done under business as usual by the administration team.	This applies for members who were under SPA when the data cut used for live processing was taken but who reach SPA before the pension correction date.	Late in Phase 1 of the project after full draft results are produced			
D15	How should members whose death is notified to Kent County Council during live processing be treated?	ITM would process these members as being alive. It is proposed that the BAU team would then need to calculate any historic underpayment due to the deceased member's estate (if applicable) and update any dependant's pension.	This applies for members who were alive when the data cut used for live processing was taken but whose death was notified to the Fund before the pension correction date.	Late in Phase 1 of the project after full draft results are produced			
D16	Cut off date for interest rate changes	Start of live processing.	There have been several changes to the Bank of England base rate in the last year. For the purposes of the calculations we will need to agree a cut off point for incorporating any future increases into the calcuations, to prevent having to re-run if a new rate is announced.	Late in Phase 1 of the project after full draft results are produced			

Pension Scheme Administration CS04- 2023

INTERNAL AUDIT ENGAGEMENT PLAN

Release: Draft

Date:17 February 2023

Plan Author: Rudo Chitaukire

Plan Reviewer: Sarah Bubb

Key Deliverable Dates	
Fieldwork Start	20 February 2023
Draft Report	31 March 2023
G&A Committee reporting date	TBC

1 BACKGROUND & OBJECTIVES

A. Background

1) The Local Government Pension Scheme (LGPS) is a public service pension scheme. It is administered locally by 86 pension funds in England and Wales. Kent Pension Fund is one of those regional funds.

   Kent County Council (KCC) is the administering authority for the LGPS in Kent and for the Kent Pension Fund. The administration of members records is administered by KCC and the employers in the scheme. Employers include local authorities and public service organisations however, teachers and those on NHS terms and conditions have their own pension scheme.

2) There is a clear distinction between KCC and the Kent Pension Fund. The assets of the Fund are held completely separately from those of KCC and over 400 other participating employers in the Kent Pension Fund.

3) The Pension Administration Section and the Treasury and Investments Section share the day-to-day management of the Kent Pension Fund and have responsibilities to the fund together with the Pension Fund Committee.

4) Significant risks identified are:

From the Departmental risk register

Governance

- G1 - The Administering Authority fails to have appropriate governance arrangements, including the requirement for a Pension Board, resulting in:
  - Non-compliance with legislation and/or best practice.
  - Inability to determine policy, make effective decisions and/or deliver service.
  - Risk to reputation
- G2 - Failure to comply with regulations and guidance from the National Scheme Advisory Board, the Pensions Regulator and Pensions Ombudsman.
- G9 - increased Cyber Security threats, including to employers' systems.

Administration

- A4 - Security and integrity of member data.
- A7 - McCloud judgement - implementation of changes required.

Inherent risks

- The correct benefits are not paid to the correct members at the correct time leading to members suffering hardship and reputational damage for KCC.

B. Objectives

5) As part of the 2022/23 Audit Plan, it has been agreed that Internal Audit will undertake a review of Pension Scheme Administration.

6) The aim of the audit is to provide assurance on the controls in place for key administrative processes including, but not limited to, new joiners, transfers in/out, deaths and retirements.

2 SCOPE

1) The audit will include a review of relevant documentation, interviews with key officers and sample testing of controls.

2) In order to provide assurance, the Internal Audit approach will include a review of controls in the following key areas:

Governance and oversight arrangements

- The appropriateness of governance and oversight arrangements.
- Management information, including the reporting and monitoring of Key Performance Indicators (KPIs).

Policies, procedures and staff training

- The policies and procedures available to staff and accessibility of these.
- Induction, mandatory and refresher training arrangements.
- Identification of training needs and provision of additional training / support.

System access, data security and data quality

- Access to the Altair system is appropriately restricted.
- Staff can only access the data they require for their role.
- Completeness and accuracy of member data - this will include the use of data analytics where appropriate.

Pension scheme administration

- The adequacy of controls in place to ensure all pension scheme processing is accurate and timely, covering the following key processes:
    - New joiners
    - Leavers
    - Transfers in
    - Transfers out
    - Deaths
    - Retirements

Compliance with scheme rules and regulations

- Compliance with regulatory reporting requirements.
- Implementation of new directives.

Capacity and resourcing of the pension scheme administration team

- The arrangements in place to ensure that the team is adequately resourced to achieve the key aims and objectives of the team.

3) In addition, as per best practice guidelines, Internal Audit may explore emerging lines of enquiry, particularly in relation to concerns relating to probity/fraud.

4) As per the Internal Audit Charter, Internal Audit will consider value for money issues and the potential for any efficiency gains.

3 KEY CONTACTS

Timing

Fieldwork start	20 February 2023
Draft Report issue	31 March 2023
Final report issue	21 April 2023

Resources – Internal Audit

Auditor	Rudo Chitaukire
QA	Sarah Bubb

Departmental Contacts

Nick Buckland	Head of Pensions & Treasury
Clare Chambers	Pensions Administration Manager
Louise Savage	Pension Administration & Performance Manager

Systems Access

None.

4 REPORTING

A. Reporting Process

1) On completion of the fieldwork, the findings and issues identified will be discussed with the relevant officers and management actions agreed.

2) A draft report, incorporating the audit opinion, will be issued for agreement of factual accuracy, before issue of the final report to the full circulation list (below).

3) A brief summary of the report and the opinions given will be reported to the Governance & Audit Committee. Internal audits are based on an assurance over the system or function controls and it's ability to improve. Once the agreed date for implementation of any agreed actions has passed, responsible managers will be contacted to confirm that these have been implemented.

B. Report Distribution

Leader	Roger Gough
Chair of Governance & Audit Committee	Rosalind Binks
Cabinet Member for Finance, Corporate and Traded Services	Peter Oakford
Deputy Cabinet Member for Finance	Paul Cooper
Corporate Director - Strategic & Corporate Services	David Cockburn
Corporate Director – Finance	Zena Cooke
Head of Pensions & Treasury	Nick Buckland
Pensions Administration Manager	Clare Chambers

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To:	Kent Pension Board – 14 March 2023
From:	Chairman – Kent Pension Board Corporate Director of Finance
Subject:	Fund Employer Matters
Classification:	Unrestricted

Summary:

This report provides an update on Fund employers, the Funding Strategy Statement, and the 31 March 2022 actuarial valuation results.

Recommendation:

The Board is recommended to note the report.

FOR INFORMATION

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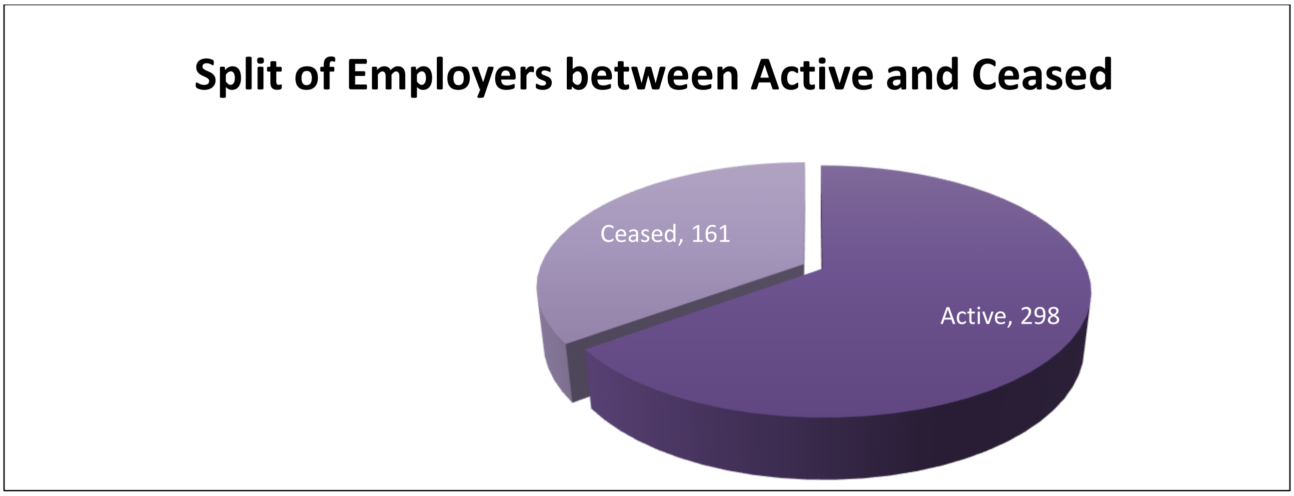
1. Introduction

This report provides information on Fund employers for the 9 months ending 31 December 2022. It also provides an update on the Funding Strategy Statement, 31 March 2022 valuation results and the Board and Committee national knowledge assessment.

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 Board 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.

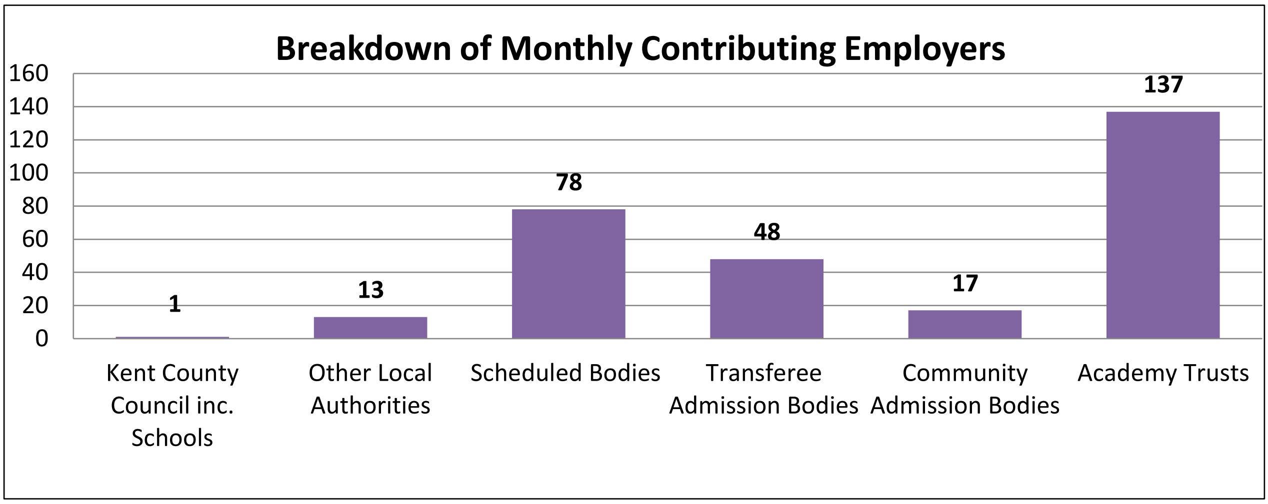
New Employers	Effective Date
Admission Bodies	
Olive Dining	1 May 2019 (backdated admission)
Independent Catering Management Ltd (re Robert Napier Fort Pitt Thomas Aveling Academies)	1 August 2020 (backdated admission)
Pabulum Ltd -Tenterden Schools Trust	1 December 2020 (backdated admission)
Town and 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)
Scheduled Bodies	
Leybourne Parish Council	1 September 2021 (backdated resolution)
Academy Trusts	
Hornchurch Academy Trust	1 July 2022
Bourne Alliance Trust	1 September 2022
Character Education Trust	1 September 2022

Ceased Employers	Effective Date
Admission Bodies	
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
Scheduled Bodies	
Higham Parish Council	5 October 2021

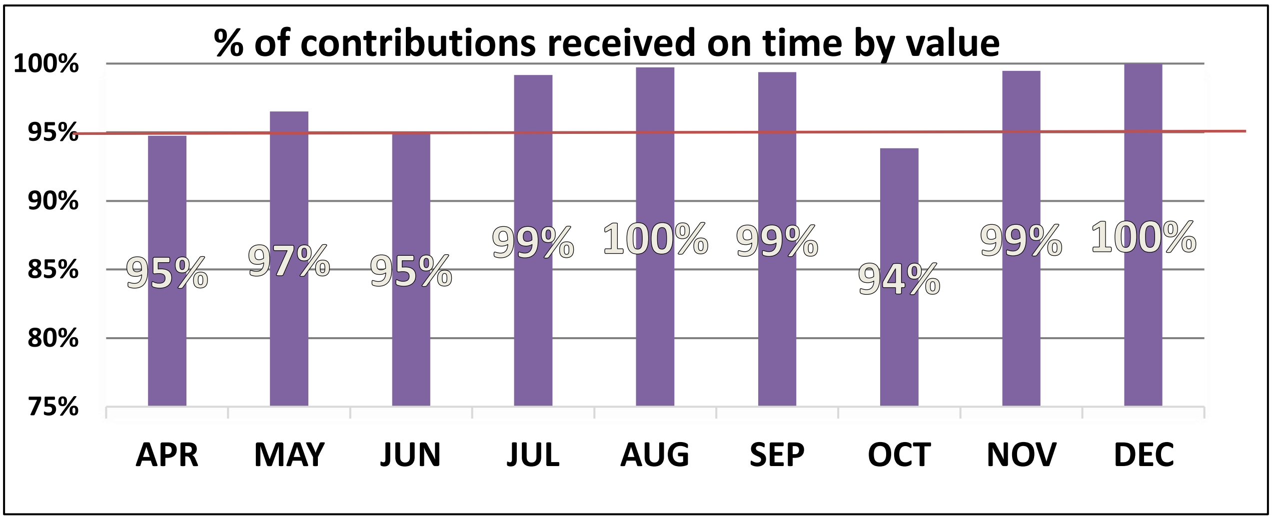
2.4 In the 9 months to 31 December 2022 the Fund received £217.6m from employers in respect of their monthly contributions (employer and employee) as follows:

	Received Early	**Cash on 19th**	**Received Late**	**Total**
	£	**£**	**£**	**£**
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
Total	**138,455,333**	**74,990,561**	**4,196,250**	**217,642,144**

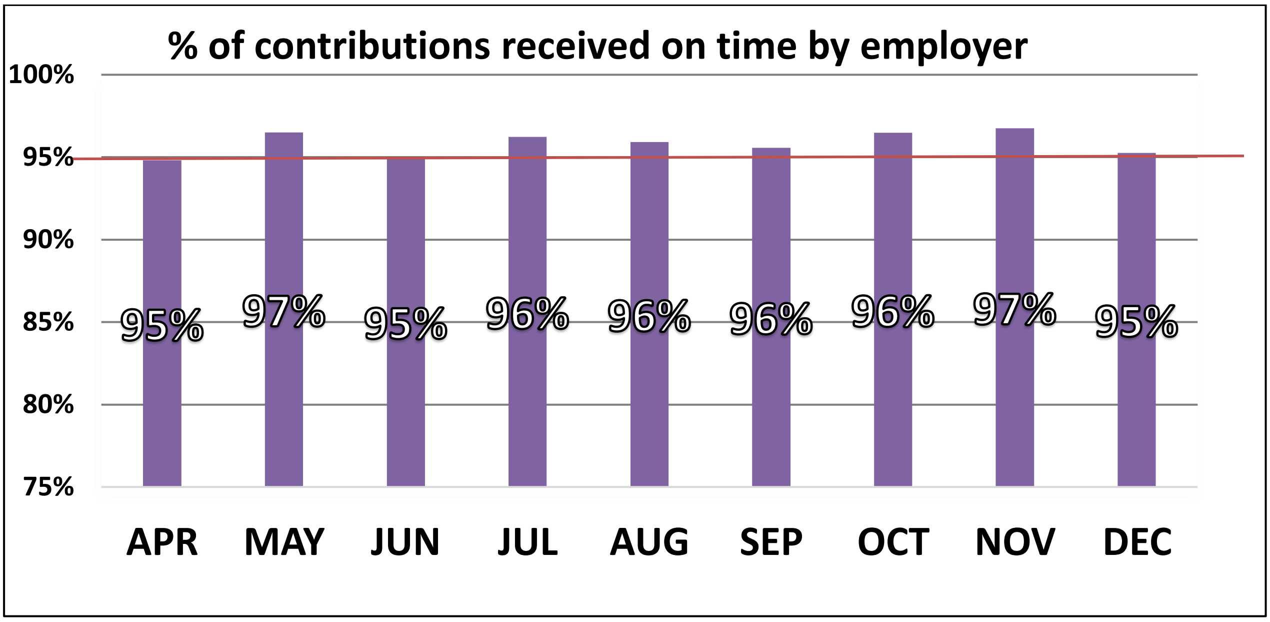
2.5 The following table shows employers from whom the Fund receives monthly contributions by Employer Group.



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. Funding Strategy Statement (FSS) and Associated Fund Policies

3.1 The Board were advised at their meeting on 24 November 2022 the FSS and associated Fund policies will be updated as part of the 31 March 2022 valuation.

3.2 An updated FSS and associated Fund policies were sent to employers for consultation on 19 January 2023, with a closing date for responses of 3 March 2023.

3.3 The draft documents are attached as appendices:

- FSS (Appendix 1)
- Contribution Review Policy (Appendix 2)
- Deferred Debt and Debt spreading policy (Appendix 3)

3.4 Once agreed with employers and ratified by Committee on 29 March 2023 the FSS and associated Fund policies will be implemented from 1 April 2023.

4. 31 March 2022 Valuation Update

4.1 Further to the update provided to the Board at their meeting on 24 November 2022 valuation results continue to be dispatched to employers with the results effective from 1 April 2023.

4.2 There are approximately 10 employer results outstanding, and it anticipated they will be completed and despatched to employer before the end of March.

4.3 Whilst not a requirement of the LGPS regulations, for employers with 5 or less active LGPS members without a scheme employer and for community admission bodies without a scheme employer, an indicative cessation figure at 31 March 2022 is included for employers' information.

4.4 The valuation results are to be certified by Barnett Waddingham and submitted to central government by 31 March 2023.

5. Employer Admission Matters

5.1 At their meeting on 8 December 2022 the Committee agreed to:

a) that 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) to the admission to the Kent County Council Pension Fund of Skanska Construction UK Ltd.

James Graham, Pension Fund and Treasury Investments Manager
Kent Pension Fund

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14 March 2023

Kent Pension Fund
Funding Strategy Statement

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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 intervaluation 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 meets 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.

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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.

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

January 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.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, 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 in to 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. 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	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. 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. 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.
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 January 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 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 will 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 crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation 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, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; 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 enrols 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 is completed by the actuary..

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity.

Termination clauses 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 as determined by the administering authority and in line with the Fund's exit credit policy.

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.

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From:	Chairperson – Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 14 March 2023
Subject:	Governance & Policy update
Classification:	Unrestricted

Summary:

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

Recommendation:

The Board is recommended to note the report.

FOR DECISION

Introduction

1. As previously agreed, the Board 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. 48 recommendations were made following the review of the Pension Board's role, membership, responsibilities and duties, its relationship with the Pension Fund Committee, and its effectiveness and compliance with LGPS regulations and the Pension Regulator's Code of Practice. 46 of the 48 recommendations have been implemented or are in progress.

4. The Board 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.

5. 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 1st 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 the Board with regular updates.

Board membership

6. The terms of reference of the Board (as revised recently) include 4 scheme members representing Unison, active and pensioner members. As discussed at the previous meeting Joe Parsons has advised that he will continue on the Board as the Unison representative.
7. As reported to the last meeting of the Board a recruitment exercise was undertaken to recruit to the vacant scheme member positions. All positions were filled, and we formally welcome Kelly King, Grahame Ward and Alison Mings to their first meetings.

8. It is pleasing to report that as a result of this exercise the Board now has no vacancies for the first time in some time. Membership is shown in the table below:

Kent Pension Fund - Local Board	
Membership - March 2023	
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
Scehe Member Representatives	
Joe Parsons	Representing Unions
Kelly King	Representing scheme members - Active
Alison Mings	Representing scheme members - Deferred
Grahame Ward	Representing scheme members - Retired

9. The Board’s terms of reference do not specifically expect that the Scheme Members representatives are drawn from the different groups, however we are in a fortunate position that the current representatives are able to give diverse perspectives.

10. The terns of reference also allow for up to two independent members which at this stage we have not progressed. It is proposed that officers prepare a paper for discussion at the next meeting of the Board to consider whether the addition of independent members may be appropriate.

Fund policies

11. At the last meeting the Board was presented with an updated draft of the Fund’s **Administration Strategy** ahead of a consultation with Fund employers, which was launched in January. This was after approval by the Pension Fund Committee. The consultation has concluded, and this is covered elsewhere on today’s agenda. The final draft on the Strategy will be presented to the Pension Fund Committee on 29 March for approval ahead of implementation in April.

12. Several other Fund policies were presented to the last meeting of the Board and were subsequently approved by the Committee at their meeting in December 2022:

- **A policy for reporting breaches of the law.**
- **An administering authority discretions policy**.
- **An abatements policy**.

13. 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, and the Board will be given a verbal update on any responses received. The **FSS** will be presented to the Committee on 29 March for approval.

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

Policy	Last reviewed by the Committee	Next update and review due	Responsibility
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

15. 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.

16. At the last Board meeting it was commented that both would be published in the first quarter of 2023, however at the time of writing neither document has been.

17. 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

18. 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.

19. A copy of the results can be found in the appendix.

Nick Buckland, Head of Pensions and Treasury

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March 2023

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HYMANS ROBERTSON

2022 LGPS National Knowledge Assessment

Kent Pension Fund

Contents

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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.

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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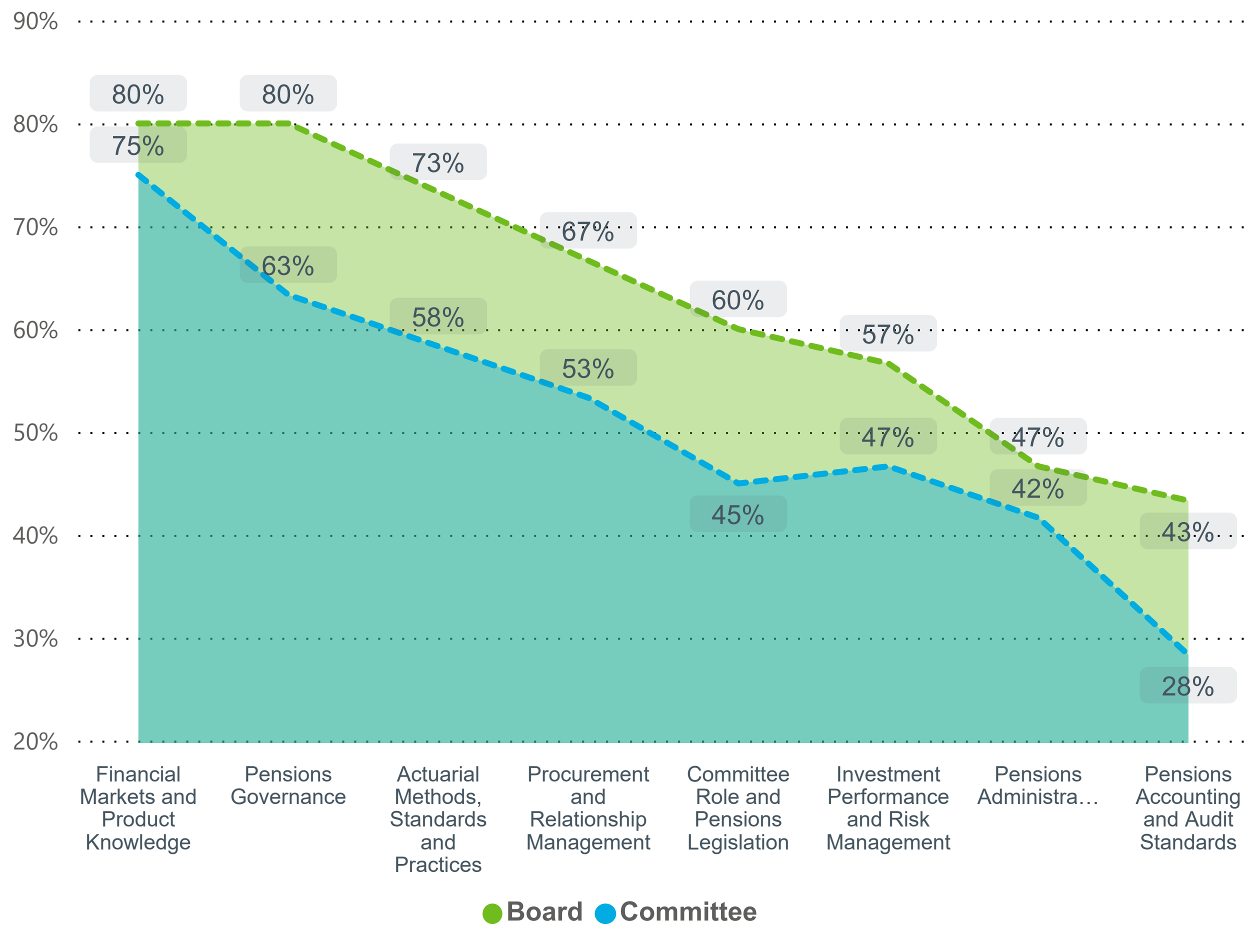
Average Score for Board & Committee



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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 Commitee 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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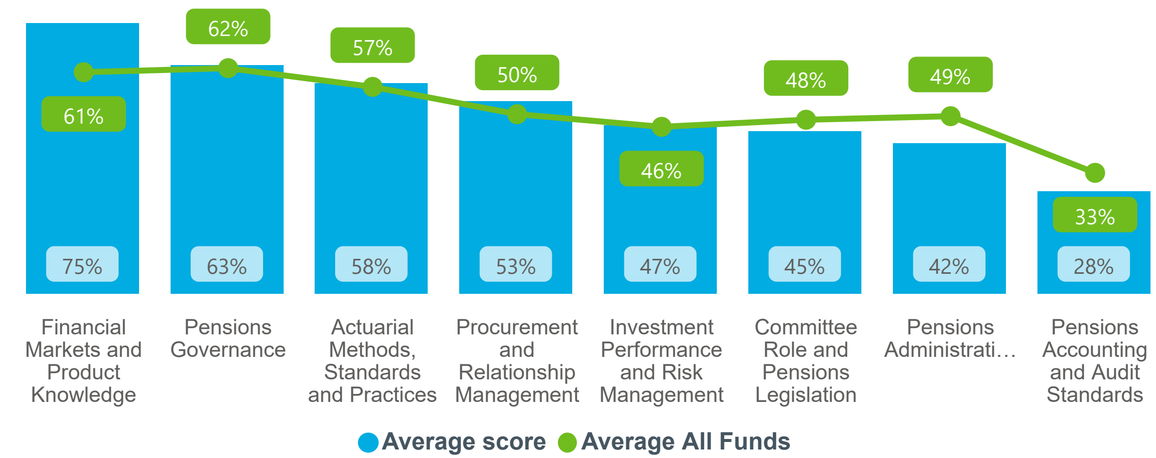
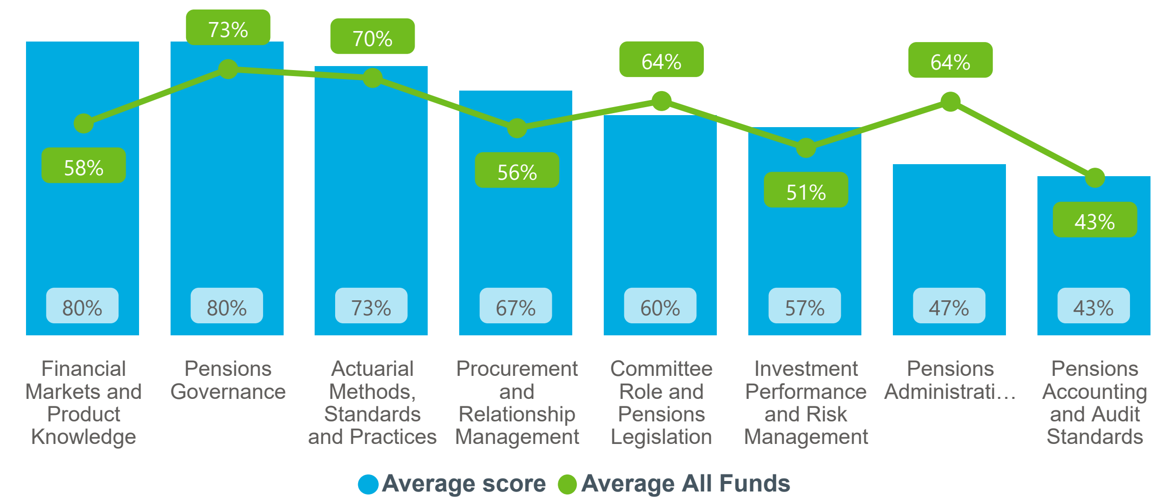
Pension Commitee Average vs. Average All Funds



Pension Board Average vs. Average All Funds



Commentary on results

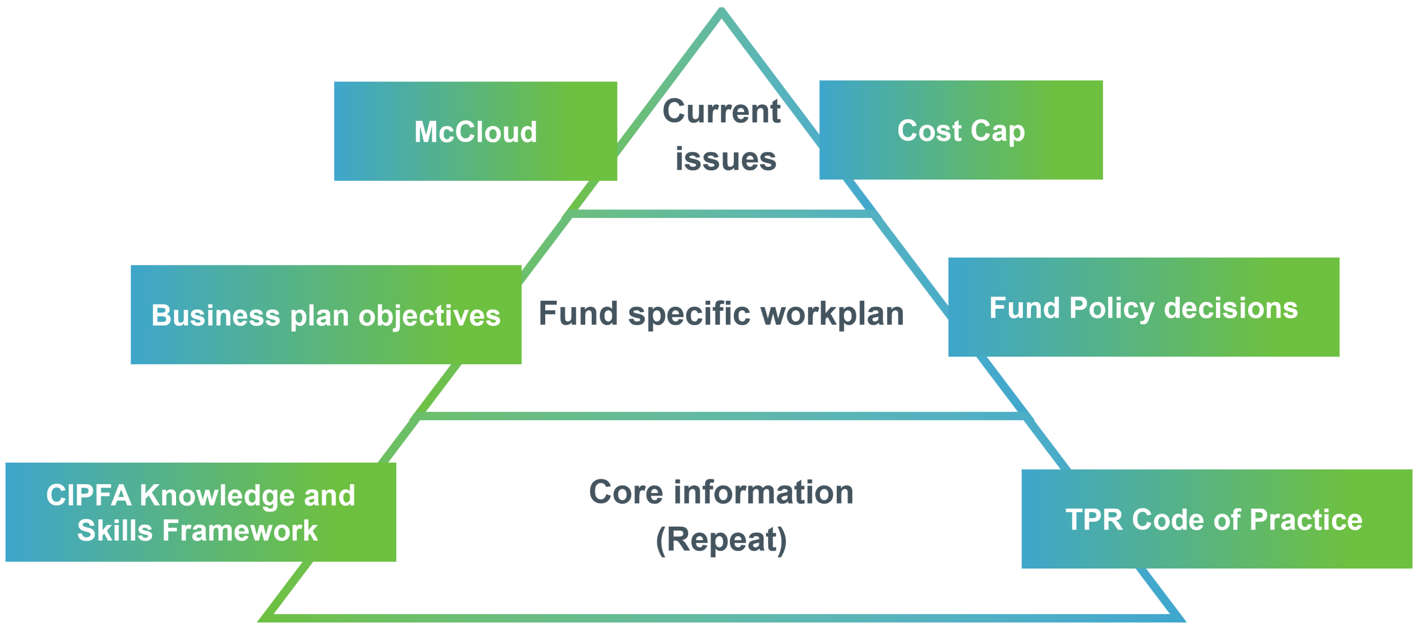
It's encouraging that 15 participants from your Fund took part in the assessment. Overall, the results were positive and it's clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time.

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.

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.



Commitee

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.

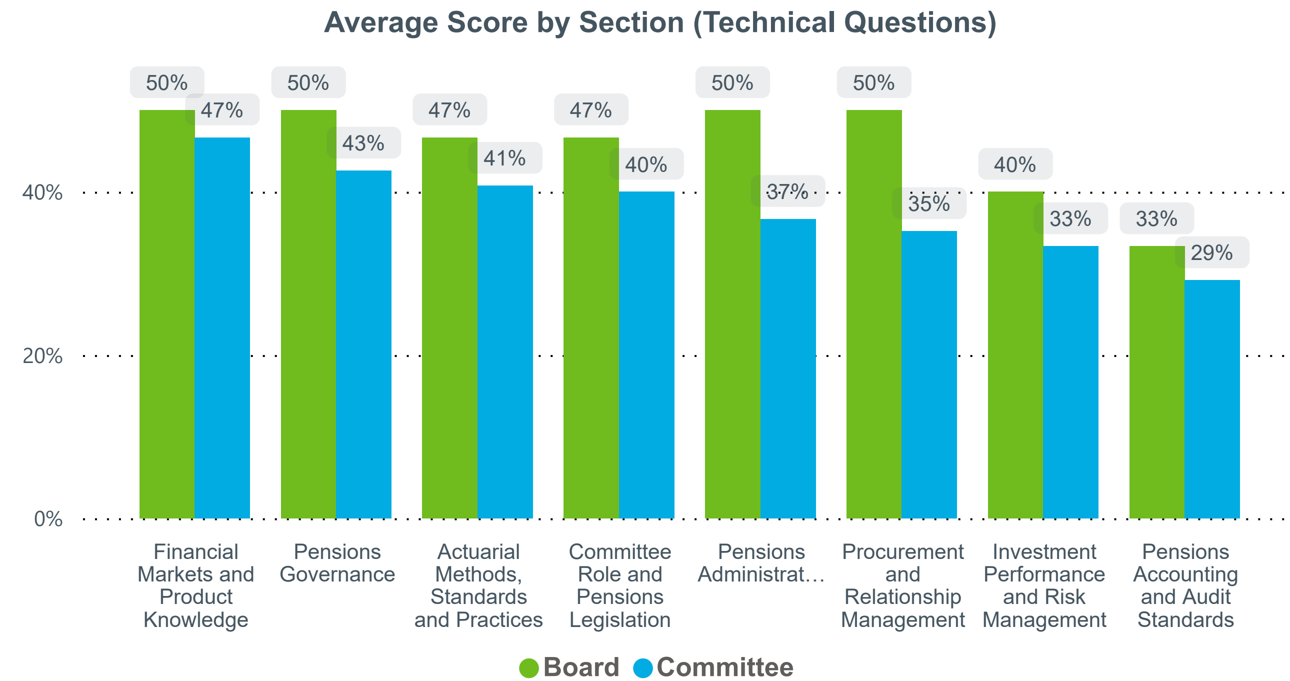
From this chart, the lowest scoring area was Roles and Responsibilities. Bearing this in mind, a particular focus could be put on this over the coming months.

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 IDRP 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.

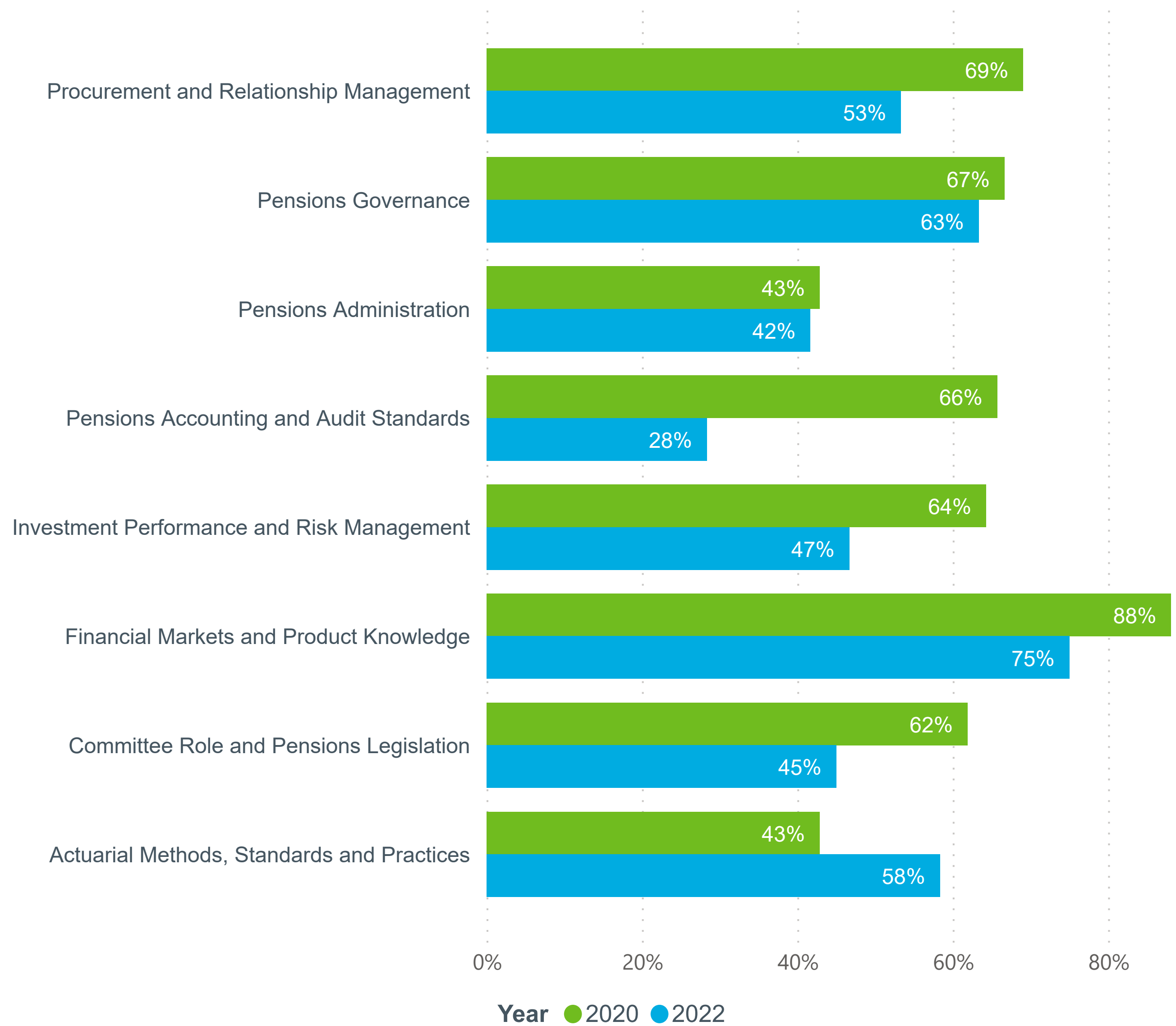
The average score for each topic this year is compared with that from the 2020 assessment. This has been broken down to show the results for the Committee and Board separately.

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.

Committee Results

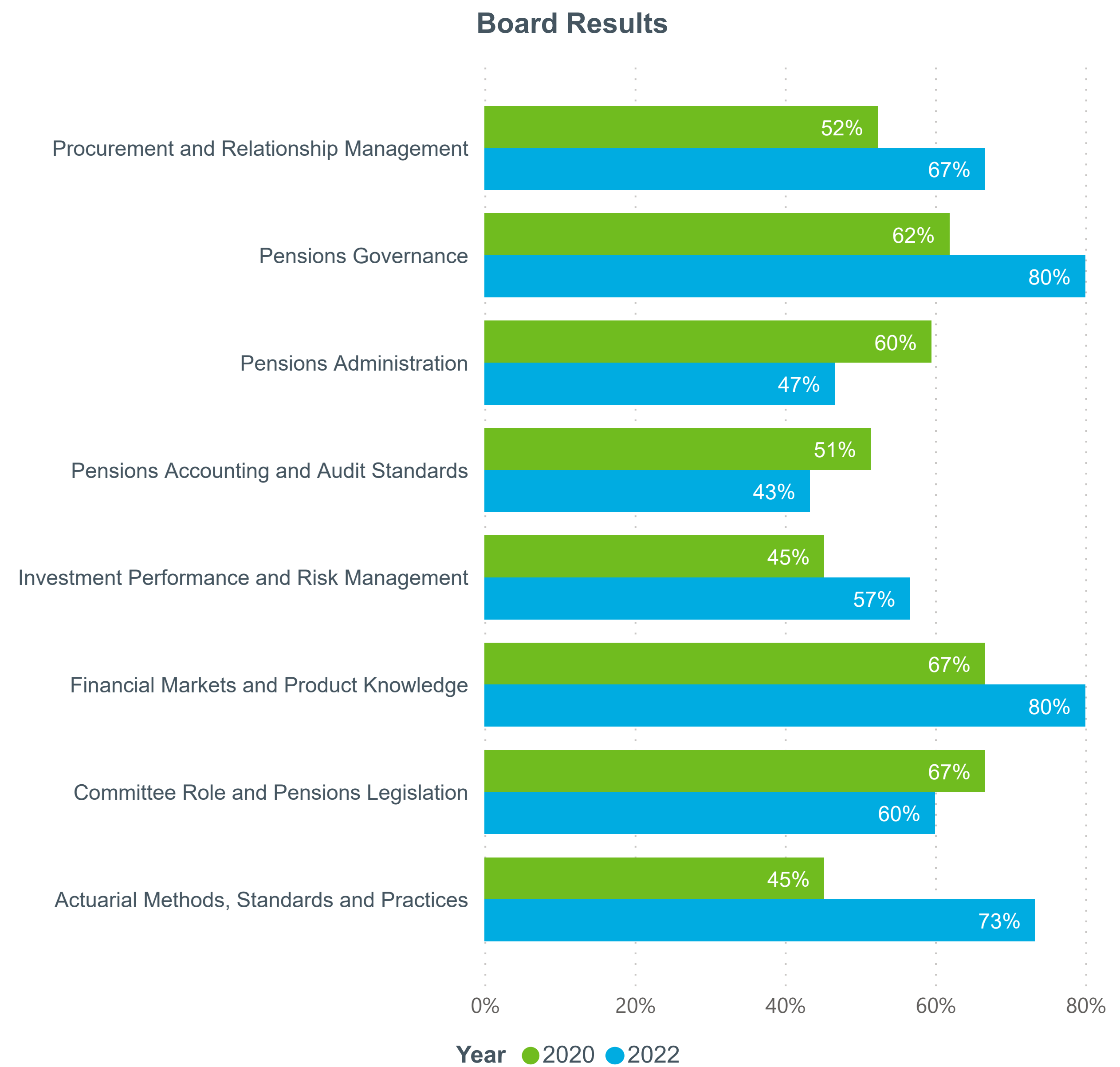


The same comparison can be made for the Board. The chart on the right shows these results.

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.



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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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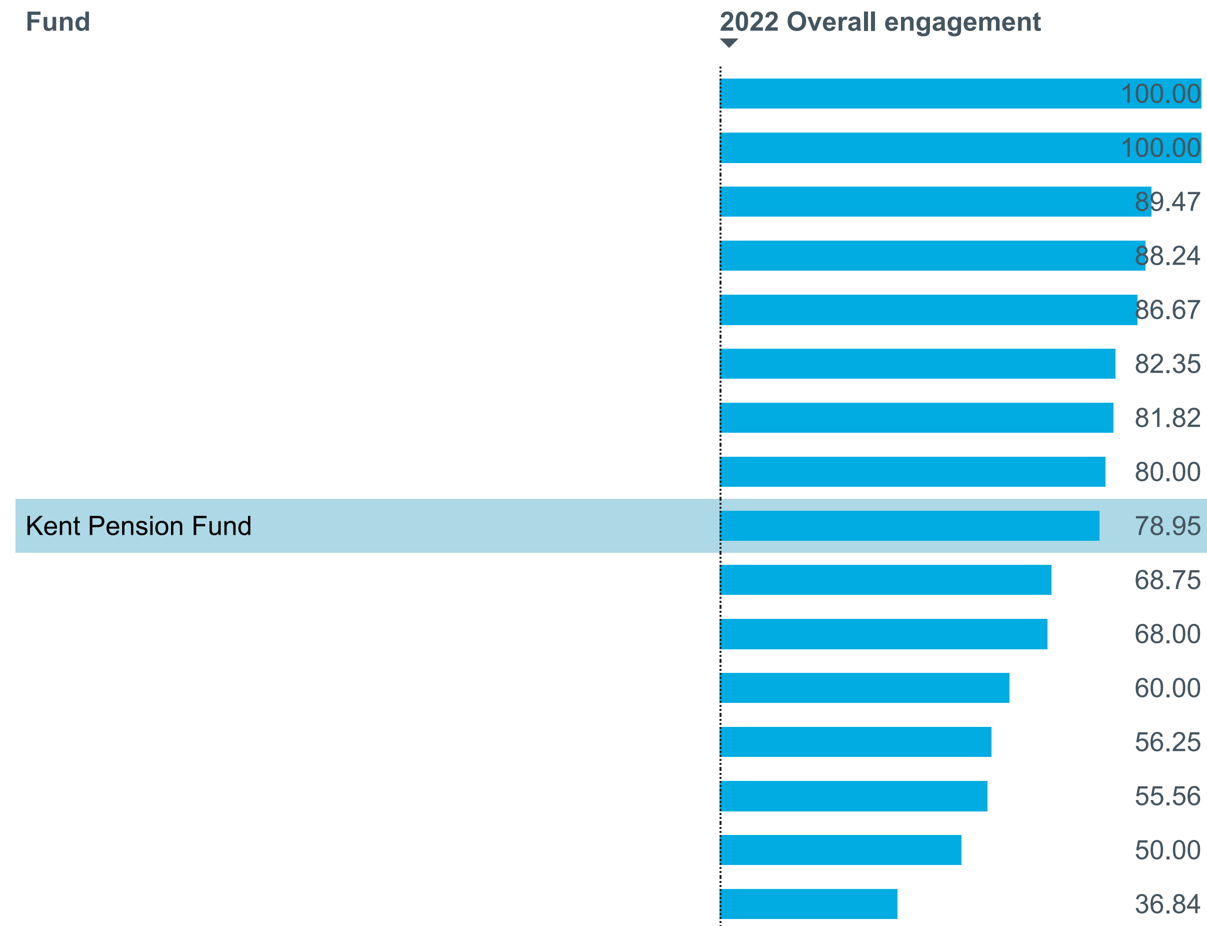
Role	Participants	Total Number	2022 Participation Rate	2020 Participation Rate
Board	5	5	100%	75%
Committee	10	14	71%	44%



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.

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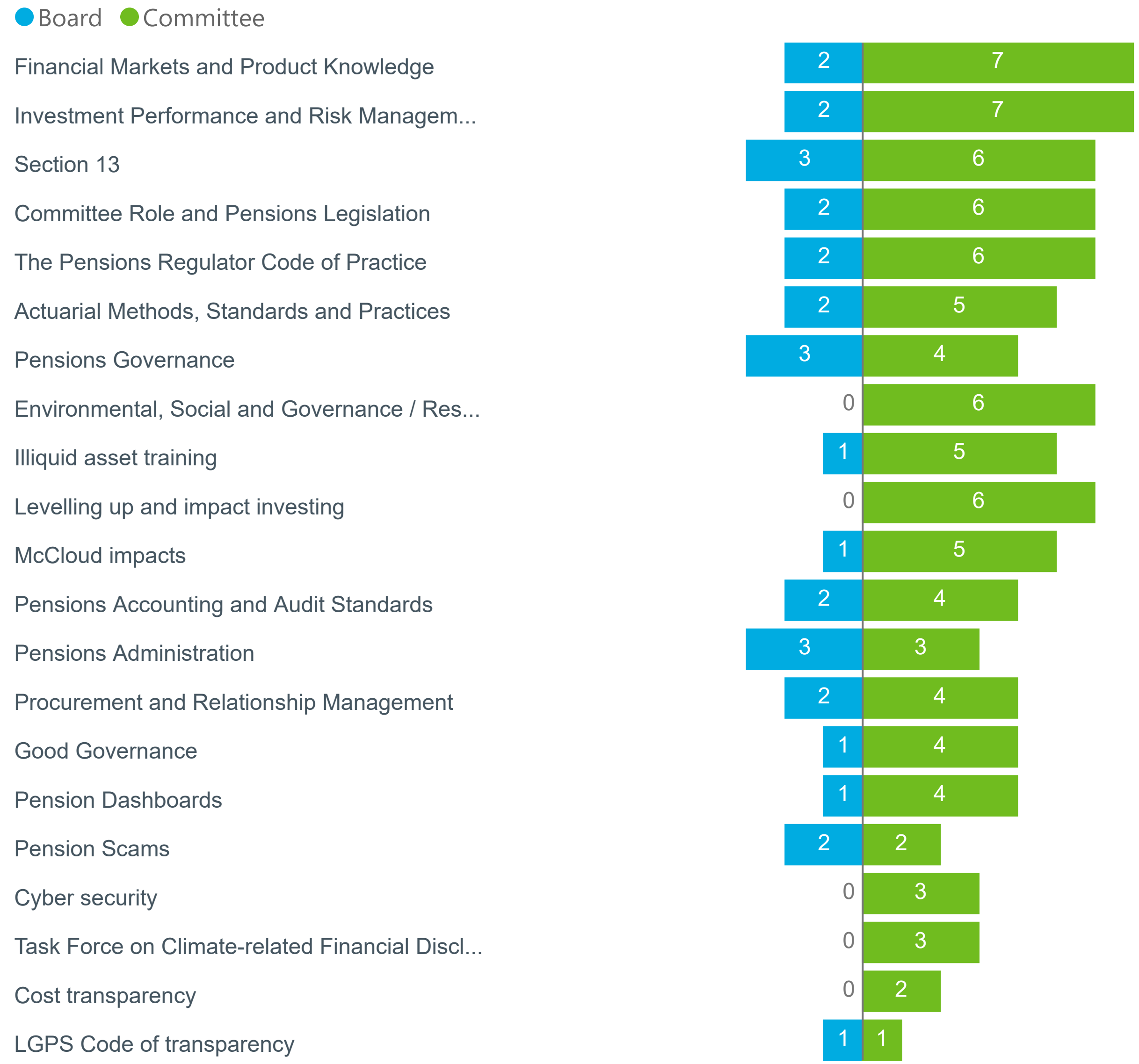
Training requirements



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.

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

Quarter	Core topic	Description	Hot Topic
Q1 2023	Core topic: Accounting & Audit Standards	Providing a general understanding of the Accounts and Audit Regulations and the role of internal and external audit	**Hot Topic:** TCFD, 2023 Valuation conclusion and Fund business plan session
Q2 2023	Core topic: Adminstration	Providing a general understanding of best practice in pensions administration, together with Fund policies, resource and discretionary powers	**Hot Topic:** Good Governance (expected in this quarter) and McCloud remedy
Q3 2023	Core topic: Investment Performance	Providing a general understanding of the relationship between assets and liabilities, the Myners principles and the structure, operation and purpose of investment pooling arrangements	**Hot Topic:** Pension Dashboard, Cyber security and Levelling update agenda
Q4 2023	Core topic: Committee Role and Legislation	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	**Hot Topic:** Pension scams
Q1 2024	Core topic: Procurement & Relationship	Providing a general understanding of the public procurement requirement as they apply to the LGPS, and how performance of suppliers can bemonitored	**Hot Topic:** Cost transparency
Q2 2024	Core topic: Actuarial Methods	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)	**Hot Topic:** 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.

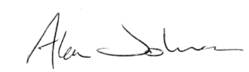
If you wish to discuss the contents of this report further, please get in touch.

Prepared by Hymans Robertson LLP.

Andrew McKerns

Senior LGPS Governance, Administration and Projects (GAP) Consultant

Alan Johnson



LGPS Governance, Administration and Projects (GAP) Consultant

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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.

From:	Chairman Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 14 March 2023
Subject:	Fund Position December 2022
Classification:	Unrestricted

Summary:

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

Recommendation:

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

FOR INFORMATION

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.

Sangeeta Surana, Investments, Accounting and Pooling Manager

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March 2023

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FUNDS POSITION STATEMENT

Summary of Fund Asset Allocation and Performance

Pension Fund Committee

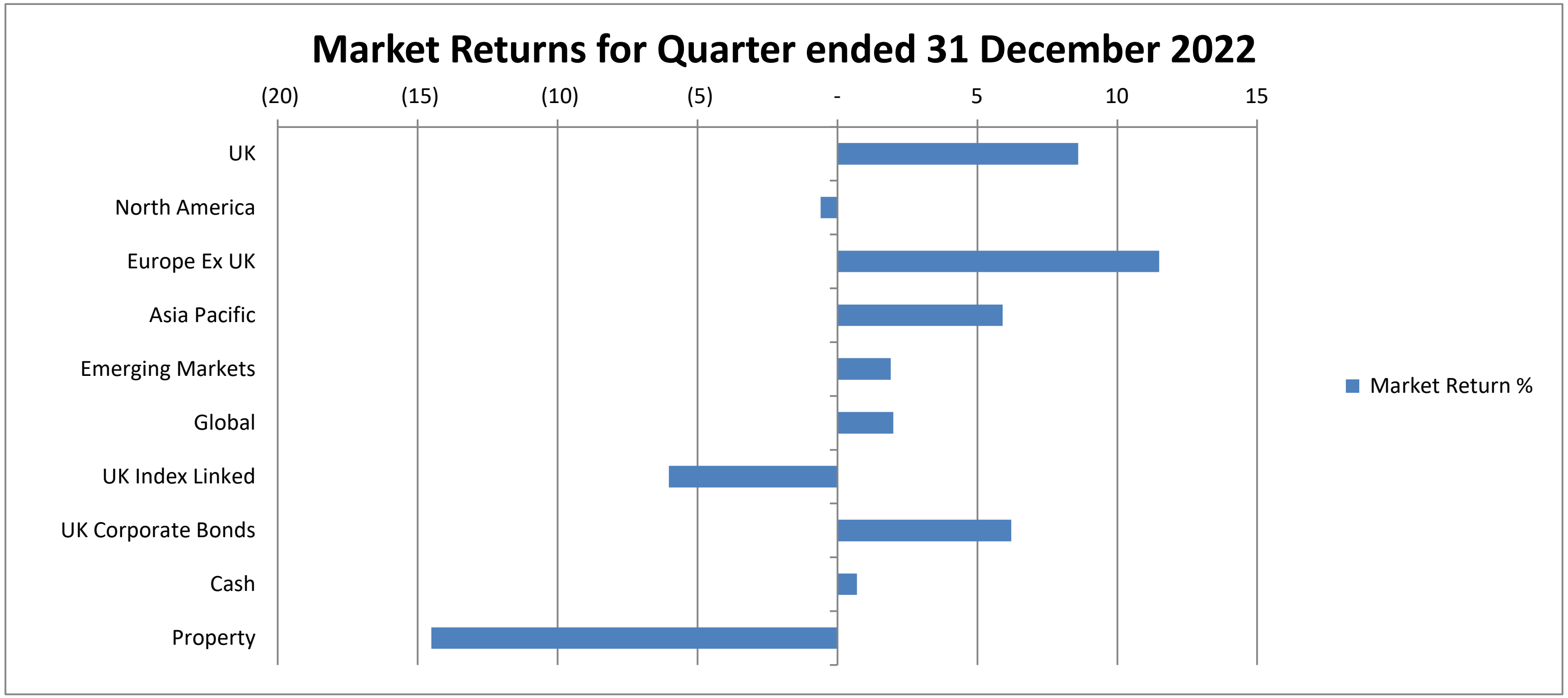
By: Chairman Pension Fund Committee
Corporate Director of Finance

Kent Pension Fund

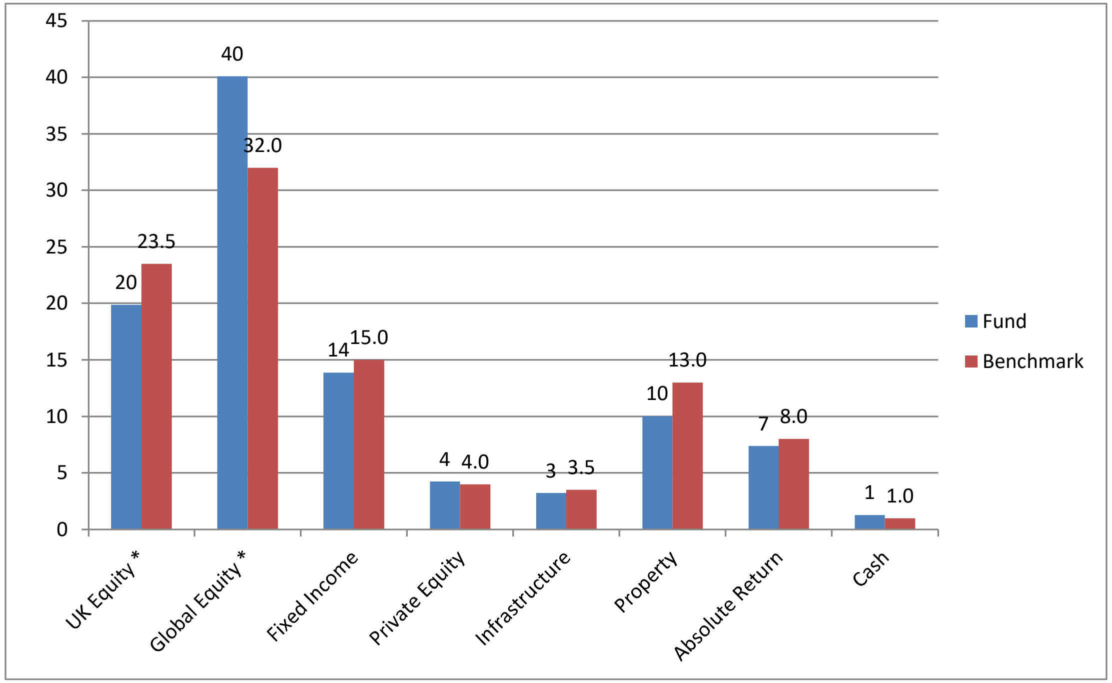
Q3 2022-23

Katherine Gray- Principal Accountant

Market Returns for Quarter ended 31 December 2022



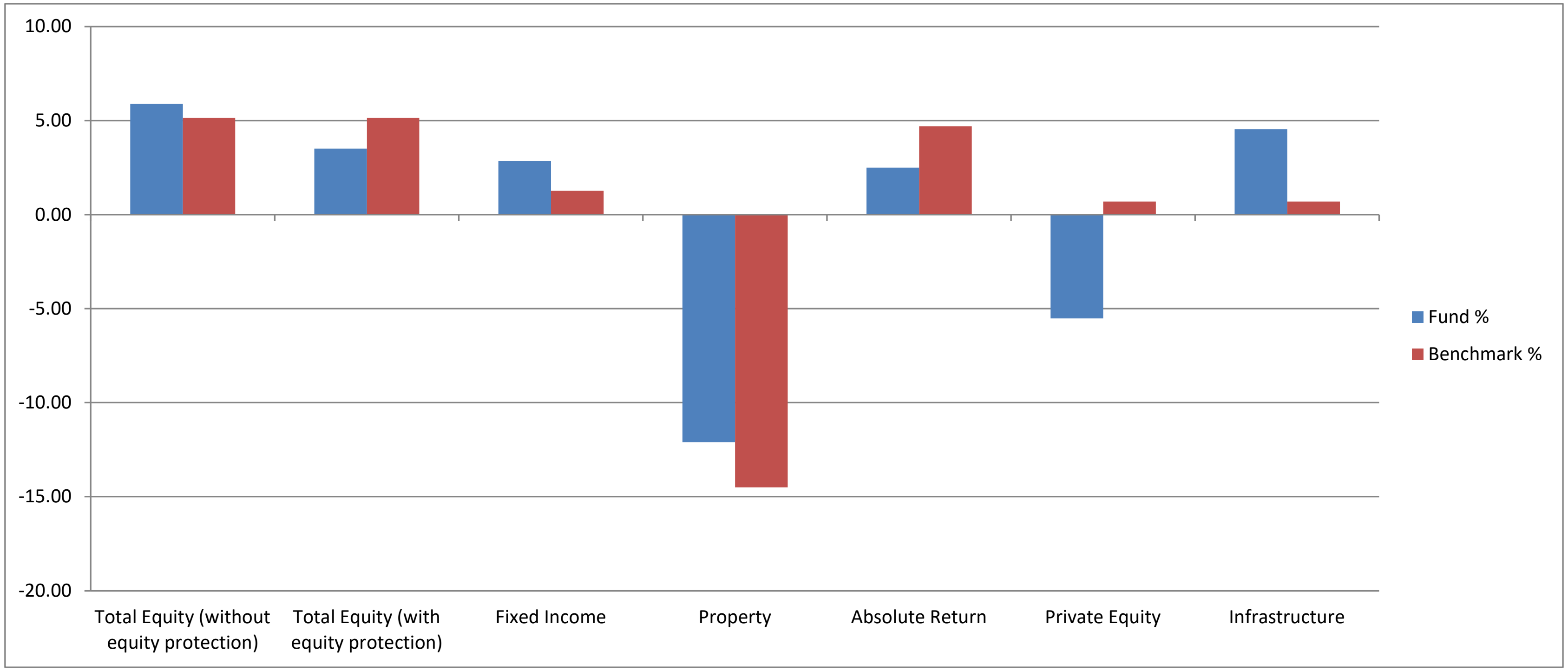
Fund Asset Allocation vs Benchmark as at 31 December 2022



	Fund		Benchmark	Over / (under) weight
Asset Class	£m	%	%	%
UK Equity *	1,539	19.9	23.5	-3.6
Global Equity *	3,102	40.1	32	8.1
Fixed Income	1,074	13.9	15	-1.1
Private Equity	328	4.2	4	0.2
Infrastructure	249	3.2	3.5	-0.3
Property	776	10.0	13	-3.0
Absolute Return	571	7.4	8	-0.6
Cash	99	1.3	1	0.3
Total	7,737	100	100	

* Synthetic equity exposure with Insight is included in UK and Global Equities

Fund Asset Class Performance for Quarter ending 31 December 2022



Asset Class	Fund %	Benchmark %	Outperformance %
Total Equity (without equity protection)	5.88	5.13	0.74
Total Equity (with equity protection)	3.51	5.13	-1.62
Fixed Income	2.86	1.27	1.59
Property	-12.10	-14.51	2.41
Absolute Return	2.49	4.69	-2.19
Private Equity	-5.52	0.70	-6.22
Infrastructure	4.54	0.70	3.84

Market Value Summary by Fund Manager as at 31 December 2022

Fund Manager	Asset Class	Market Value as at 30 September 2022 (£m)	Market Value as at 31 December 2022 (£m)	Change in Market Value (£m)	% of Total Fund 31 December 2022
Insight	Equity Protection Program	1,194	1,158	-36	15.0%
Schroders - LF ACCESS UK Equity Fund	UK Equity	1,042	1,146	104	14.8%
Baillie Gifford - LF ACCESS Global Equity Core Fund	Global Equity	971	987	16	12.8%
M&G - LF ACCESS Global Dividend Fund	Global Equity	475	517	42	6.7%
DTZ	Direct Property	566	493	-73	6.4%
Schroders GAV - LF ACCESS Global Active Value Fund	Global Equity	383	400	18	5.2%
Pyrford	Absolute Return	365	377	12	4.9%
Goldman Sachs	Fixed Interest	362	376	14	4.9%
Sarasin	Global Equity	347	360	13	4.7%
Harbourvest	Private Equity	282	259	-23	3.4%
Partners	Infrastructure	209	249	39	3.2%
M&G Alpha Opportunities	Fixed Interest	231	241	10	3.1%
Schroders	Fixed Interest	237	238	1	3.1%
CQS	Fixed Interest	216	221	6	2.9%
Ruffer - LF ACCESS Absolute Return Fund	Absolute Return	192	194	2	2.5%
Fidelity	Pooled Property	168	143	-25	1.8%
Impax Environmental Markets	Global Equity	68	70	2	0.9%
M&G Residential Property	Pooled Property	70	69	-1	0.9%
YFM	Private Equity	64	68	5	0.9%
DTZ Pooled Funds	Pooled Property	48	39	-10	0.5%
Aegon (Kames)	Pooled Property	40	32	-8	0.4%
Woodford	UK Equity	5	4	-2	0.0%
Internally managed cash	Cash	107	96	-10	1.2%
Total Kent Fund		**7,643**	**7,737**	**94**	**100.0%**

Total investments in ACCESS pooled funds		**3,062**	**3,244**
Percentage of the total Fund		**40%**	**42%**

Performance Returns as at 31 December 2022

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Total Fund *	1.12	1.27	-0.31	-1.99	5.30	4.62
UK Equity						
Schroders - LF ACCESS UK Equity Fund	10.00	8.80	2.88	1.61	2.87	2.08
Woodford	-6.88	8.90	-47.26	0.34	-33.74	2.30
Global Equity						
Baillie Gifford - LF ACCESS Global Equity Core Fund	1.63	5.45	-33.10	-5.93	2.79	5.91
Sarasin	3.64	1.86	-8.87	-8.08	6.92	7.40
Schroders - LF ACCESS Global Active Value Fund	4.57	1.86	1.75	-8.08	8.51	7.40
Impax	2.43	1.86	-14.14	-8.08	8.85	7.40
M&G - LF ACCESS Global Dividend Fund	8.83	1.86	4.69	-8.08	10.18	7.40
Fixed Interest						
Goldman Sachs	3.77	0.86	-11.10	3.50	-2.40	3.50
Schroders Fixed Interest	0.25	0.85	-4.58	1.33	-2.09	0.68
CQS	2.56	1.81	-7.91	5.34	--	--
M&G Alpha Opportunities	4.39	1.81	-0.02	5.34	--	--
Property						
DTZ	-12.59	-14.51	-6.51	-10.39	3.94	2.17
Fidelity	-15.15	-14.51	-10.02	-10.39	2.27	2.17
Aegon (Kames)	-10.52	-14.51	4.68	-10.39	1.23	2.17
M&G Property	-1.62	-14.51	3.99	-10.39	2.11	2.17
Private Equity						
Harbourvest	-7.10	0.70	15.53	1.42	28.98	0.47
YFM	1.42	0.70	10.65	1.42	24.15	0.47
Infrastructure						
Partners	4.54	0.70	19.10	1.42	2.74	0.47
Absolute Return						
Pyrford	3.16	4.69	1.75	18.44	2.68	12.28
Ruffer - LF ACCESS Absolute Return Fund	1.21	4.69	5.45	18.44	9.91	12.28

* The total fund return includes the impact of the equity protection program, a separate report detailing the performance of the program is provided as a separate report

Fund Manager Benchmarks and Performance Targets

Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders - LF ACCESS UK Equity Fund	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
Global Equities:		
Baillie Gifford - LF ACCESS Global Equity Core Fund	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G - LF ACCESS Global Dividend Fund	MSCI AC World Index GDR	+3% pa
Schroders - LF ACCESS Global Active Value Fund	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
Fixed Income:		
Schroders Fixed Interest	ICE BofA Sterling 3 month Gov Bill Index	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
CQS	ICE BofA Sterling 3 month Gov Bill Index + 4%	
M&G Alpha Opprtunities	ICE BofA Sterling 3 month Gov Bill Index + 4%	
Property:		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
Aegon (Kames)	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	SONIA	
Private Equity – HarbourVest	SONIA	
Infrastructure – Partners Group	SONIA	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Ruffer - LF ACCESS Absolute Return Fund	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	SONIA	

Fund Structure as at 31 December 2022

UK Equities	Global Equities	Fixed Interest	Property	Cash/Alternatives
Schroders +1.5% £1,146 m	Baillie Gifford +1.5% £987 m	Goldman Sachs +6.0% Abs. £376 m	DTZ Property £532 m	Internally managed Cash £96 m
Woodford £4 m	M&G +3.0% £517 m	Schroders +4.0% £238 m	Fidelity Property £143 m	Partners Infrastructure £249 m
	Schroders +3.0% - +4% £400 m	CQS £221 m	Aegon(Kames) Property £32 m	YFM Private Equity £68 m
	Impax +2.0% £70 m	M&G Alpha Opps £241 m	M&G Property £69 m	HarbourVest Private Equity £259 m
	Sarasin +2.5% £360 m			Pyrford Abs. Return RPI + 5% £377 m
	Insight Equity Protection £1,158 m			Ruffer Abs. Return RPI £194 m

Total Fund £7.7 bn

ACCESS fund

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