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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 26th March, 2021 at 10.00 am
Place	Remote Meeting
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting is being held remotely and will be recorded and broadcast live via the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. CONFIRMATION OF MINUTES (NON-EXEMPT) (Pages 5 - 12)

To confirm the Minutes of the meeting held on 12 February 2021.

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make

6. MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021 (Pages 13 - 18)

To receive the minutes of the Responsible Investment Sub-Committee held on 5 March 2021.

7. MINUTES OF THE ACCESS JOINT COMMITTEE ON 13 JANUARY 2021 (Pages 19 - 24)

To receive the minutes of the ACCESS Joint Committee held on 13 January 2021.

8. GOVERNANCE: DRAFT POLICY ON EMPLOYER FLEXIBILITY REGULATIONS (Pages 25 - 98)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Pension Fund Panel and Board with information about the changes to the LGPS Regulations, which allow greater flexibility for employers who are likely to exit the Fund, and to seek approval to consult with employers on the draft Employer Flexibilities policy.

9. GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS (Pages 99 - 108)

To consider a report from the Director of Corporate Resources-Corporate Services introducing changes to the calendar of meetings for the Panel and Board, starting from the 2021/22 municipal year.

10. EXCLUSION OF THE PRESS AND PUBLIC

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

11. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING (Pages 109 - 112)

To confirm the exempt minutes of the meeting held on 12 February 2021.

12. EXEMPT MINUTES OF THE PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE ON 5 MARCH 2021 (Pages 113 - 114)

To receive the exempt minutes of the Pension Fund Responsible Investment Sub-Committee on 5 March 2021.

13. INVESTMENTS: HAMPSHIRE PENSION FUND CUSTODIAN PERFORMANCE REPORT (Pages 115 - 126)

To consider the exempt report from the Director of Corporate Resources- Corporate Services providing a review of custody services since the last report in December 2019 and an update on the Pension Fund's tax claims and class actions.

14. INVESTMENT: ACADIAN'S MANAGED VOLATILITY PORTFOLIO (Pages 127 - 182)

To consider the exempt report from the Director of Corporate Resources- Corporate Services proposing a change to the Pension Fund's investment in Acadian's Managed Volatility global equities portfolio to reduce the carbon footprint of the investments in the portfolio.

15. INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE (Pages 183 - 244)

To consider the exempt report of the Director of Corporate Resources - Corporate Services updating the Pension Fund Panel and Board on the progress of the alternative investments portfolio.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to observe the public sessions of the meeting via the webcast.

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Agenda Item 3

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held virtually on Friday 12 February 2021.

Chairman:

*Councillor M. Kemp-Gee

Vice-Chairman:

* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* C. Carter

* A. Dowden

* A. Gibson

* B. Tennent

* A. Joy

* P. Latham

* J. Glen

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth City Council)

* Councillor P. Taylor (District Councils - Rushmoor Borough Council)

* Dr L Bartle (University of Portsmouth)

Councillor S. Barnes-Andrews (Southampton City Council, substitute employer representative)

Scheme Member Representatives (Co-opted members):

* Dr C. Allen (pensioners' representative)

* Mr N. Wood (scheme members representative)

* Ms L. Gowland (deferred members' representative)

* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

300. **APOLOGIES FOR ABSENCE**

There were no apologies.

301. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the

County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

Cllr Corkery declared an interest that he was a member of the Trade Union UNISON, particularly in relation to item 11, but that he did not believe this was a prejudicial interest.

302. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 4 December 2020 were confirmed.

303. **DEPUTATIONS**

In accordance with Standing Order 12, the Panel and Board received a deputation from Miss Kerrie Sinclair representing the Dirty Money campaign group. Miss Sinclair highlighted that last week US Climate Envoy John Kerry said that attitudes of investors towards climate action has to change. Mr Kerry said that it requires a *war like enterprise* to avert the current expectations for temperature increases.

Miss Sinclair pointed out that Hampshire County Council has declared a Climate Emergency, but the Hampshire Pension Fund and the wider ACCESS pool, is not being used to meet this emergency with its full power.

Miss Sinclair said that the Pension Fund should be following the direction of the UN Secretary General for pension funds to adopt specific plans to achieve the net zero carbon emissions goals. This policy is being followed by the UN Net Zero Asset Owner Alliance, which comprises 33 members, including The Church of England and Aviva.

Miss Sinclair believes that the Hampshire Pension Fund should join the Net Zero Asset Owner Alliance to benefit from its expertise in setting decarbonisation targets. The Pension Fund's last reported carbon emissions data may be below the broader index but is still unacceptably high.

As a result the Dirty Money Campaign calls for the Hampshire Pension Fund to:

1. Produce a position statement on managing its portfolios in line with the Paris Agreement and a maximum 1.5 degree climate increase.
2. Create a strategy and timeline to achieve this.
3. Report in plain English with scheme members and consult with and be advised by scheme members on the Pension Fund's Statement of Investment Principles.
4. Call on all members of the ACCESS pool to become members of the Net Zero Asset Owners Alliance.

304. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman asked Andy Lowe to update the committee that Hampshire Pension Services had successfully been chosen by the London Boroughs of Westminster and Hillingdon to provide pensions administration services.

The Chairman asked Andrew Bouflower to provide further details on the recent press stories that the Hampshire Pension Fund had sold part of its holding in Moonpig. The company was held as part of a co-investment in the Pension Fund's Private Equity portfolio, managed by Aberdeen Standard Investments. The company was floated on the London Stock Exchange, which has provided a very positive return for the Pension Fund, which Aberdeen will be able to provide more details on at their next update to the committee.

Cllr Kemp-Gee informed the committee he had attended the Scheme Advisory Board's online seminar, and invited the other members to report back on any virtual training they had attended:

- Cllr Tennent reporting on a report on ESG that he had been sent.
- Cllr Gibson fed back on an investment conference
- Cllr Glen reported that he had attended a Bank of America conference which was relatively positive on the potential outlook for the US economy.

305. **ACCESS MINUTES – 12 NOVEMBER 2020**

The minutes of the ACCESS Joint Committee meeting held on 12 November 2020 were received.

306. **GOVERNANCE - INTERNAL AUDIT PROGRESS REPORT**

The Panel and Board received and noted a report of the Director of Corporate Resources (item 7 in the Minute Book) providing the Pension Fund Panel and Board with the progress of internal audit work for the period ending 31 January 2021. Two of the four audits planned for 2020/21 have concluded, with the audit opinion for both Pension Refunds and Fund Management, Investments and Accounting for Assets, having substantial systems of governance and control.

Internal Audit will be amending the definitions of their findings, in line with CIPFA's recommendations, to remain in line with best practice.

307. **GOVERNANCE – INTERNAL AUDIT PLAN 2021/22 – 2023/24**

The Panel and Board received a report of the Director of Corporate Resources (item 8 in the Minute Book) providing the Pension Fund Panel and Board with the Internal Audit Plan 2021/22 – 2023/24 for Pension Services. The plan for 2021/22 includes five audits taking 100 staff days to complete. The plan will remain fluid and subject to on-going review, and will be amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council.

308. **GOVERNANCE: ACCESS BUSINESS PLAN**

The Panel and Board considered the report from the Director of Corporate Resources (Item 9 in the Minute Book) including the ACCESS Business Plan for 2021/22, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2021/22 was £1.25m of which Hampshire's equal share would be £113,000.

RESOLVED:

- (a) That the ACCESS Business Plan for 2021/22 was approved.

309. **GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE TERMS OF REFERENCE – SUBSTITUTES**

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 10 in the Minute Book) proposing amendments to Terms of Reference for the Responsible Investment (RI) Sub-Committee. This follows previous observations from both the RI Sub-Committee and Panel and Board members of the benefits of adding substitute members to the RI Sub-Committee.

It is recommended that where possible, for continuity substitute members are drawn from the previous year's members of the RI Sub-Committee that have rotated off. It is additionally recommended that substitute members only attend the RI sub-committee when required to substitute for a Member who is absent. This ensures that when considering recommendations of the sub-committee, a majority of Panel and Board Members have not been part of the previous sub-committee discussion and for that majority there cannot be any suggestion of pre-determination. In this context it should also be noted that the sub-committee concept was for a small group that could efficiently consider issues in depth and formulate recommendations to the Panel and

Board. This in turn supports the Panel and Board to effectively reach informed decisions.

RESOLVED:

- a) That the amended Terms of Reference for the RI Sub-Committee was approved.
- b) That the Panel and Board agreed that the previous members of the RI Sub-Committee would be appointed as substitutes in the first instance for the RI Sub-Committee for the remainder of the 2020/21 municipal year.

310. **GOVERNANCE: TRADE UNION REPRESENTATION**

The Panel and Board received a report of the Deputy Chief Executive and Director of Corporate Resources (item 11 in the Minute Book) including a written deputation from the trade union UNISON making a case for creating an additional trade union representation on the Panel and Board, and the recommendation from the Deputy Chief Executive and Director of Corporate Resources that the current composition of the Panel and Board continues to be the most efficient and effective for the governance of the Pension Fund.

The request for an additional representative is based on improving representation, governance and communication for the Pension Fund. It is unclear how an additional trade union representative will be of benefit to the Fund's communications with its members. The Pension Fund's aim is to communicate directly with all its scheme members. Communication material is and will continue to be available to all of the trade unions, so that they can include it in their own communications if they wish to do so.

The Panel and Board has 9 County Councillors that are representatives of the Administering Authority, and an equal number of (3) scheme member and (3) employer representatives in line with the statutory requirements in respect of Pension Boards. Careful consideration was given in the current formation of the Panel and Board, balancing the representation of the Administering Authority, which has the legal responsibility for the management of the Pension Fund, with scheme member and employer representation. This format, which was approved by the Secretary of State, full access and voting rights on all issues, including governance, administration and investment of the Pension Fund. In this respect Hampshire has been well ahead of the recommendations of the Scheme Advisory Board's Good Governance recommendations.

Scheme Member Representative seats were specifically allocated across all membership groups of scheme members (active, deferred and pensioners), to ensure full and broad representation. All scheme members (with the exception of Hampshire County Council employees,

as set out the in the Council's constitution) are able to apply for the representative roles, which are allocated based on criteria set-out in the Representation Policy. All three roles (plus the substitute) are open to trade union members, and indeed the Panel and Board's first active scheme member representative was a trade union member. Therefore the current three scheme member representative roles are open to all scheme members, including trade union members as they have been in the past, with an equal opportunity of appointment.

Cllr Corkery stated his opposition to the recommended, and that a Trade Union representative should be added to the Panel and Board based on the principle of collective bargaining and because the resources of Trade Unions would benefit the Pension Fund's communication and supporting the diversity of potential candidates that would be a Trade Union representative.

Cllr Corkery, seconded by Dr Bartle, proposal to delete section 4. of the report and replace with:

That the Panel and Board agrees that the request for a trade union representative would improve the effectiveness of the Panel and Board and requests that permission is sought from the SoS for a revised structure that includes trade union representation.

This proposal was defeated.

RESOLVED:

- a) That the request received for an additional specific trade union representative on the Panel and Board and that any changes to the composition of the Panel and Board would require the approval of the Secretary of State was noted.
- b) That the Panel and Board agreed that the current composition of the Panel and Board, as approved by the Secretary of State, is most efficient and effective for the governance of the Pension Fund and continues to offer equality of opportunity to be a representative on the committee to all scheme members, including trade union members.

311. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraph 3 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all

the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

312. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 4 December 2020 were confirmed.

313. **INVESTMENTS – PENSION FUND’S CUSTODIAN PERFORMANCE REPORT**

Item 14 was deferred until the Panel and Board’s next meeting.

314. **GOVERNANCE – FIDUCIARY DUTIES**

Item 15 was deferred until the Panel and Board’s next meeting.

315. **INVESTMENTS – INVESTMENT REPORT**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 16 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund’s investments.
[SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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AT A MEETING of the PENSION FUND RESPONSIBLE INVESTMENT SUB-COMMITTEE of the County Council held virtually on Friday 5 March 2021.

Chairman:

* Councillor M. Kemp-Gee

Vice-Chairman:

*Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

* B. Tennent

*A. Joy

Employer Representatives (Co-opted members):

* Councillor C. Corkery (Portsmouth Council)

Scheme Member Representatives (Co-opted members):

* Mr N. Wood (active scheme member representative)

*present

38. **APOLOGIES FOR ABSENCE**

No apologies were received.

39. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

40. **CONFIRMATION OF MINUTES**

The minutes of the Responsible Investment (RI) Sub-Committee held on 20 October 2020 were confirmed.

41. **DEPUTATIONS**

Mr Mould-Ryan, a Hampshire Pension Fund scheme member, speaking on behalf of the Hampshire Pension Fund Divest Group to draw the RI Sub-Committee's attention to a report released on 23 February 2021 by

Platform and Friends of the Earth. It is reported that Hampshire Pension Fund's fossil fuel investments were £136m as at 31 March 2020, although local campaigners had previously been unable to obtain via three separate Freedom of Information requests. Mr Mould Ryan also quoted from the report that the Hampshire Pension Fund suffered the 7th largest loss amongst LGPS funds, of £68.4m between 2017 and 2020 from investments in oil company shares. Continuing to quote from the report, Mr Mould-Ryan stated that 'The biggest economic disruption of our modern era will be the transition from fossil fuels to renewable energy'.

Mr Mould-Ryan said he understood that Environmental, Social or Governance (ESG) issues are now a theme in all of the Hampshire Pension Fund meetings, that the Hampshire Pension Fund has appointed a Responsible Investment advisor, and that the ACCESS pool has recently appointed an ESG consultant at Minerva who are part of the Transition Pathways Initiative. These developments are welcomed and it is hoped will embed environmental considerations into every investment decision taken by the Fund, and he also welcomed the shift of the Fund's passive investments and one managed fund into lower-carbon alternatives. However, the Pension Fund must move farther and faster.

Mr Mould-Ryan highlighted that the Transition Pathways Initiative had assessed 125 oil and gas producers, coal companies, and electricity groups on their preparedness for a lower-carbon economy. They found that no major oil, gas or coal company is on track to align their business with the Paris climate goal of limiting global temperature rise to well below 2°C by 2050. Fund manager engagement alone will not change this, as it rarely results in a shareholder resolution to alter the course of the business that the asset is held in. Engagement as a negotiating position is meaningless without an explicit threat that you may withdraw your funds, which requires having a policy to divest.

Meaningful action on climate change requires a commitment to ending the expansion and extraction of fossil fuels, so the decision to end fossil fuel investments must be taken now as a priority, and this brief must be given to consultants, advisors and investment managers working on behalf of the Fund and the ACCESS pool. However, this is not just an ESG issue. It is a classic risk issue, because the transition is fundamentally disrupting markets in a way only comparable to the rise of the internet. The Bank of England has said that in the UK up to £16 trillion of assets could be wiped out if the climate emergency is not addressed effectively.

Mr Mould-Ryan observed that item 6 on sub-committee's agenda said that, 'correspondence to date on investments that relate to climate change...has been received from a very small minority of the nearly 179,000 scheme members'. However the sub-committee should also note that a 2020 poll revealed that the UK public wants a radical

response to climate change, with the same urgency as the response to the COVID-19 crisis, because after all, scheme members are part of the UK public.

Finally Mr Mould-Ryan noted that the Hampshire Pension Fund banked with NatWest, which itself has invested over \$12 billion in fossil fuels since the Paris agreement. He suggested that a conscious choice to bank ethically would go hand in hand with a decision to end fossil fuel investments.

Mr Mould Ryan concluded by urging the RI sub-committee to read the Friends of the Earth report and thanked them for their time in hearing his deputation.

42. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman gave the sub-committee a brief summary of the Hampshire Pension Fund's actions to increase and improve its RI activity, which pre-dated the County Council's declaration of a Climate Emergency, this included:

- In September 2018 forming a working group, that took advice from Dr Rupert Younger - Chair of Oxford University's SRI Committee, to review the Pension Fund's RI policy.
- A significant consultation exercise with the Pension Fund's scheme members and employers on the new RI policy in April 2019.
- Creating the RI sub-committee in September 2019, whose first actions included agreeing that the Pension Fund sign the UK Stewardship Code and the UN Principles of Responsible Investment.
- In April 2020 appointing the specialist RI consultants MJ Hudson Spring, who reported to the Panel and Board in September 2020 on the Fund's investment managers RI approaches.
- Agreeing in March 2020 to transfer the passive global equity investment to a Climate Aware fund and in November 2020 to transfer one of the Fund's active global equity portfolios to a Paris Aligned version of the strategy.
- In April 2020 reported the Pension Fund's first Annual Update on RI activities, including data on carbon output of the Fund's investments.
- In December 2020 building in GRESB ESG benchmarking into its new property investment management contract.

The Chairman confirmed that the substitute arrangements for the sub-committee are now in place as agreed by the Panel and Board at its last meeting, however as no apologies were made for the meeting, no substitutes have been required.

The Chairman highlighted for members the All-Party Parliamentary Group for Local Authority Pensions inquiry into Responsible investment

for a Just Transition. The Pension Fund has contacted its external investment managers to understand their response to the enquiry and is considering what if any response it makes itself. In line with the County Council's policy, if a response to the enquiry is made it will be reported to the following meeting of the Pension Fund Panel and Board.

43. **SCHEME MEMBER COMMUNICATIONS**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 6 in the Minute Book) updating the sub-committee on communication from scheme members since the last meeting of the sub-committee. The Director highlighted to the sub-committee that its terms of reference include the action to engage directly and indirectly with scheme members and employers to hear representations concerning ESG issues. Although the Pension Fund continues to receive correspondence expressing strong views, particularly on investments that relate to climate change, including deputations to the Pension Fund Panel and Board, the correspondence to date has been received from a very small minority of the nearly 179,000 scheme members.

The Director introduced the Pension Fund's second RI Annual Update for 2021, which has been written taking into account feedback received on the report last year and subsequent discussions at the Pension Fund Panel and Board, with a focus on making the report more accessible to non-specialist readers. A small amount of the budget agreed by the Panel and Board to enhance communications was used to commission the County Council's Communications and Marketing teams to assist in this process. The Director highlighted that minor further changes will be made to the draft Annual Update before it is published.

RESOLVED:

- a. That the Annual Update on RI activities was approved to be published to scheme members.
- b. That the communication to and from scheme members on RI issues was noted.

44. **SHAREHOLDER VOTING HIGHLIGHT REPORT**

The RI Sub-Committee received and noted the report from the Director of Corporate Resources (Item 7 in the Minute Book) providing a summary of how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in. How votes are cast by the Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held between equities directly held by the Pension Fund,

held in the ACCESS pool, or in pooled funds of external investment managers.

The analysis showed that the majority of votes cast against companies' management were for the following reasons:

- nominees for company directors being not sufficiently independent,
- remuneration policies where the level of pay was felt to be excessive
- to improve the empowerment of investors, and
- the appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear.

The full details of how votes have been cast for the Pension Fund is published on its RI webpage

<https://www.hants.gov.uk/hampshire-services/pensions/local-government/about-the-scheme/joint-pension-fund-panel/responsible-investment>

The Director also reported a number of examples of the company engagement activities that the Pension Fund's active equity investment managers had undertaken. The examples including addressing a range of ESG issues, such as disclosure of carbon emissions, worker health and safety and tax strategy. In response to the members' questions the Director confirmed that the Pension Fund's investment managers had all confirmed their agreement to comply with the Fund's RI policy, and would report on any exceptions to the Fund's voting and engagement policy.

45. **TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE (TCFD)**

The RI Sub-Committee received a report from the Director of Corporate Resources (Item 8 in the Minute Book) a draft report from the Hampshire Pension Fund reporting against the TCFD recommendations. TCFD is a global, private sector led group first assembled in December 2015 at the instigation of the international Financial Stability Board (FSB).

In August 2020 the Department for Work and Pensions (DWP) published a consultation aiming to ensure that pension funds follow the TCFD disclosure recommendations. The Local Government Association have confirmed that the DWP consultation will not apply to LGPS funds like Hampshire, however it is expected that the Ministry of Housing, Communities and Local Government (MHCLG) will publish similar proposals once the DWP consultation closes. The elements of TCFD are also part of the United Nations Principles of Responsible Investment (UN PRI) annual assessment which Hampshire

committed to participate in following agreeing to sign the PRI in 2019. It is therefore recommended that the Hampshire Pension Fund adopts the TCFD reporting in advance of legislation and other reporting requirements.

RESOLVED:

- a. That the report was noted and the draft TCFD disclosure report was agreed to be included in the Pension Fund's Annual Report to be published in July 2021.

46. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

47. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the RI Sub-Committee held on 6 March 2020 were confirmed.

48. **ACADIAN'S MANAGED VOLITILITY PORTFOLIO**

The Panel and Board considered the exempt appendix from the Director of Corporate Resources (Item 11 in the Minute Book) to propose a change to the Pension Fund's investment in Acadian's Managed Volatility global equities portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]



ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Virtual on Wednesday, 13th January, 2021.

PRESENT: Cllr Mark Kemp-Gee - Chair (Hampshire CC), Cllr Susan Barker - Vice-Chair (Essex CC), Cllr Vanessa Churchman (Isle of Wight), Cllr Gerrard Fox (East Sussex CC), Cllr Jeremy Hunt (West Sussex CC), Cllr Judy Oliver (Norfolk CC), Cllr Bill Parker (Northamptonshire CC), Cllr Terry Rogers (Cambridgeshire CC), Cllr Ralph Sangster (Hertfordshire CC), Cllr Charlie Simkins (Kent CC) and Cllr Karen Soons (Suffolk CC).

ALSO PRESENT: Kevin McDonald (ASU), Mark Paget (ASU), Dawn Butler (ASU), Sam Gervais-Jones (bFinance), Clifford Sims (Squire Patton Boggs), John Wright (Hymans Robertson) and Fraser Hope (Hymans Robertson)

OFFICERS: Andrew Boutflower (Hampshire), Glenn Cossey (Norfolk), Jody Evans (Essex), Paul Finbow (Suffolk), Sian Kunert (East Sussex), Alison Mings (Kent), Sharon Tan (Suffolk), Jo Thistlewood (Isle of Wight), Patrick Towey (Hertfordshire), Paul Tysoe (Cambridgeshire and Northamptonshire), Mark Whitby (Cambridge and Northamptonshire), Rachel Wood (West Sussex) and Joel Cook (Kent - Clerk).

UNRESTRICTED ITEMS

232. Apologies/Substitutes.
(Item. 1)

1. Apologies were received from Cllr Adrian Axford (Isle of Wight) and Cllr Jonathan Ekins (Northamptonshire). Cllr Vanessa Churchman substituted for Cllr Axford and Cllr Parker for Cllr Ekins.

RESOLVED that the apologies and substitutes be noted.

233. Declaration of interests in items on the agenda.
(Item. 2)

No declarations of interest were made.

234. Chairman's remarks.
(Item. 3)

1. A Communications workshop would be held on the rising of the ACCESS meeting.
2. The Chair offered his thanks to the ACCESS Support Unit (ASU) for their work during what had been a very busy time.

3. He alerted the Committee that the local elections (due to be held in May 2021) could have an impact on the Committee's membership.

RESOLVED that the Chair's remarks be noted.

235. Minutes of the meeting held on 12 November 2020.

(Item. 4)

RESOLVED that the minutes of the meeting on 12 November 2020 were a correct record and that they be signed by the Chairman.

236. Business Plan, budget & risk summary.

(Item. 5)

1. Kevin McDonald provided an update on the 2020/21 budget, which forecast an underspend, due in part to some planned procurements being delayed until the next financial year.
2. Mr McDonald explained the proposal to increase the number of staff posts in the ASU from three to five. This was considered necessary because of the increasing demand and complexity of the workload. The additional posts would be for a Client Manager (a link between the Pool authorities and Fund Manager) and an additional support officer.
3. Overall, the Committee supported the additional posts but highlighted:
 - The increased use of virtual meetings during the pandemic might allow for greater flexibility in the post's terms and conditions.
 - Officer workload in the Pool authorities had also increased and it was hoped the additional posts would be able to relieve some of this demand.
 - The benefit of a Client Manager in understanding and representing the differing requirements of 11 Authorities.
4. The Committee considered the 2021/22 draft budget, which included the full year effect of the two additional ASU posts. Overall, the budget was expected to increase from 2020/21.

RESOLVED that the Joint Committee:

- a) Note the 2020/21 updated business plan, the revised outturn and summary risk register.
- b) recommend the 2021/22 business plan to the ACCESS Authorities;
- c) accept the recommendation of the s151 Officers from ACCESS Authorities to determine the 2021/22 budget totalling £1.247m to support the proposed business plan.

237. Motion to Exclude the Press and Public.

(Item. 6)

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds

that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

238. Illiquid assets.

(Item. 7)

Sam Gervaise-Jones from bFinance was in attendance for this item.

1. The JC received a report on the progress made in developing pooled illiquid asset investment solutions for four asset classes (private equity, private debt, infrastructure and real estate).
2. Sam Gervaise-Jones from advisers bFinance outlined the recommended solution for each individual asset class. There was not a common model across the classes, and their implementation would be gradual with support from an Implementation consultant.
3. The JC questioned if the use of an Implementation Advisor, Allocator and Fund Manager would lead to complex and large fees. Mr Gervaise-Jones advised there would be flat fees and these would be payable once across the pool. The Implementation Advisor would not be the sole source of investment ideas, but a mechanism to support individual Authorities as they identified new needs.
4. The JC questioned the benefits and cost savings of the models. Mr Gervaise-Jones advised the structures would provide a greater level of control by giving access to markets otherwise unreachable and improving each Authority's negotiating position.
5. ACCESS's ambition was to enable opportunities that allowed Authorities in the pool to invest in new illiquid opportunities. The extent to which this was used would be down to individual Authorities.
6. The Chair confirmed he was happy with the proposals from bFinance, emphasising the support from the Officer Working Group.

RESOLVED that the Joint Committee:

- ix. Agree the proposed pooling structures for real estate, private equity, private debt and infrastructure.
 - i) Agree a procurement via the LGPS National Framework for Investment Management Consultancy Services of a consultant to support the implementation of the proposed illiquid asset pooling structures and manager/fund/allocator procurements as required.

239. ESG/RI.

(Item. 8)

1. Mark Whitby (Cambridgeshire & Northamptonshire) introduced the report on the procurement of external advice to support ACCESS's approach to ESG & RI (phase 1 of 2).

2. The company Minerva had received the highest score across the three procurement areas (written submission, interview and commercials).

RESOLVED that the Joint Committee:

- i) Note the outcome of the procurement process.
- ii) Agreed the appointment of Minerva to provide external advice to support ACCESS's approach to ESG/RI.

240. Performance.

(Item. 9)

1. Sharon Tan (Suffolk) provided an update on the performance of sub-funds, covering:
 - the progress of pooling assets (£25.471bn in December with increased indicative numbers following the launch of some sub-funds)
 - the performance of the sub-funds against benchmark
 - income generated by stock lending
 - voting by the investment managers
 - carbon footprint reporting

RESOLVED that the Joint Committee note the report.

241. Sub-fund implementation.

(Item. 10)

1. Andrew Bouflower (Hampshire) provided an overview of the progress in launching the ACS and the sub-funds within it. He highlighted that going forward the focus would increasingly be on additions as only eight of the originally planned sub-funds remained to be launched.
2. The expectations around the number of sub-funds were set before the initial MHCLG submission in 2016. A piece of work would be required that reviewed what sub-funds were held and how that aligned to which sub-funds were needed. There was no hard limit on the number possible, though Link had priced their fee up to 35.

RESOLVED that the Joint Committee note the progress in launching the ACS investment sub-funds.

242. Contract Management.

(Item. 11)

1. Mark Paget (ASU) provided an update on Contract and Supplier management which included; levels of insurance, an update on the virtual investor day on 17 December 2020, feedback around Link services and engagement from ACCESS Authorities.
2. Members discussed the insurance requirements for the Pool and how this was being managed by Link. It was confirmed that the ASU would be seeking advice from a specialist insurance advisor.

3. An Internal Audit review of the ASU had been completed. Essex County Council's Internal Audit department had awarded their highest rating of "good assurance", with one moderate recommendation. Ms Sarah Harris (Strategic Internal Audit Manager, Essex County Council) joined the meeting to answer questions about the report. It was agreed that in future similar reports would be published as standalone items in an open session of the Joint Committee. The next report would be available before Christmas.

RESOLVED that the Joint Committee note the matters highlighted within the report, the activity that has taken place and forthcoming plans.

243. Risk Register.
(Item. 12)

1. The Committee received an update on the Pool's key risks, the profile of which remained the same as the previous meeting. In the interim, the risk of a no-deal Brexit had been raised to red then reduced to amber following the late agreement between the UK and the EU. Mr McDonald assured the Committee that the register was closely monitored.

RESOLVED that the Joint Committee note the report.

244. Link presentation.
(Item. 13)

Karl Midl, James Zealander and Richard Thornton from Link Fund Solutions were present for this item.

1. Mr Karl Midl from the Link Group provided an update on the proposed acquisition of the company with two possibilities under consideration. He also confirmed that more money had been returned to Woodford's investors in late 2020.
2. Link staff delivered a presentation that included an overview of the total AUM as well as planned sub-fund launches. A sub-fund report had evolved over the past year and provided weekly updates for ACCESS members.
3. Mr Midl discussed insurance arrangements with the Committee, outlining progress and challenges involved.
4. Asked whether Link Group would still qualify as an Alternative Investment Fund Manager post the UK's EU exit, Mr Midl explained nothing had currently changed and the Group were expecting to maintain the title going forward.

RESOLVED that the presentation be noted.

245. Scheduled BAU Evaluation.
(Item. 14)

John Wright and Fraser Hope of Hymans Robertson were present for this item.

1. Kevin McDonald (ASU) introduced the item, followed by a presentation by Hymans. John Wright and Fraser Hope (Hymans Robertson) updated the Joint Committee on work undertaken as part of the evaluation, outlining the assessment of future options, relevant costs and next steps.

RESOLVED that the update be noted.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	26 March 2021
Title:	Governance: Draft policy on Employer Flexibility regulations
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 0370 779 4396 **Email:** lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Pension Fund Panel and Board with information about the changes to the LGPS Regulations which allow greater flexibility for employers who are likely to exit the Fund, and to seek the approval to consult with employers on the draft Employer Flexibilities policy.

Recommendation(s)

2. It is recommended that the Panel and Board:
 - agree in principle to allow the use of the employer flexibilities regulations
 - approve the draft Funding Strategy Statement and Administration Strategy for consultation with Scheme Employers
 - delegate authority to the Director of Corporate Resources for approval of the statements following the end of the consultation period.

Executive Summary

3. In September 2020, the LGPS 2013 Regulations were amended to allow for greater flexibilities for employers who were likely to exit from the Fund. These new regulations provide for:
 - a review of employer contributions between Fund valuations
 - the spreading of exit payments
 - allowing employers to continue to pay contributions after their last active member has left, and for those contributions to be revised at future valuations (known as Deferred Debt Agreements)

4. There is no requirement for Funds to make use of the new regulations but the amendments require that an authority may only do so where it has set out its policy in its Funding Strategy Statement (FSS). This is to ensure consistency and transparency.
5. The policy must adhere to the high level principles and points set out in statutory guidance issued by MHCLG. Officers have worked with the Fund actuary to draft a policy which does this, whilst ensuring that each case can be considered on its own merits. The overriding principle is for any agreement to be in the interests of the Fund as a whole.
6. Putting this policy into the FSS has meant that the document has become significantly more detailed than previously. The opportunity to revise the format of the FSS with the use of numbered headings and appendices has been taken, but it should be noted that this is a cosmetic change and has not resulted in changes to the wording other than described in paragraph 17 below.
7. Subject to the Panel and Board approving the draft policy, the next step will be to formally consult with employers on the changes to the FSS. The Panel and Board are asked to delegate authority to the Director of Corporate Resources to approve the final version of the statement following the period of consultation.

Review of employer contributions between valuations

8. The new regulations allow a review of employer contributions to take place between valuations for one of three reasons:
 - if it appears likely that the amount of liabilities for an employer has changed significantly since the last valuation;
 - if there has been a significant change in the ability of the scheme employer to meet its obligations;
 - if one is requested by a scheme employer.
9. The draft policy allows the Fund discretion as to whether a review will take place as it may not always be an appropriate use of resources and officer time. It is important that this is written into the policy so as to set expectations for employers that in the main, the contributions set at each triennial valuation will be appropriate for the coming three year period.
10. In order to assess whether a review might be appropriate, the policy allows for a regular covenant assessment of Tier 3 employers which is already carried out for the colleges and universities. In addition the Administration

Strategy has been updated to include a list of events which should be notified to Pension Services if they occur, as set out in paragraph 18 below.

Spreading of exit payments

11. The spreading of exit payments is already an option which has been informally exercised by the Fund in certain circumstances, usually to mirror the arrangement by which employers can spread early retirement strain charges over a three year period (with interest). This flexibility has been useful for employers where it is clear that they cannot afford a one off capital sum such as some of the smaller charities or parish councils, but where there is little risk to the Fund of allowing payment by instalments.
12. The policy therefore formalises this approach to make it clear that in most circumstances a single payment will be required but that spreading the payment can be considered where it does not pose an undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Deferred Debt Agreements

13. Deferred Debt Agreements (DDAs) are designed to remove the immediate obligation on an employer to make good any deficit when their last active member leaves employment. Instead, under a DDA, an employer will continue to be an employer in the Fund with all the same obligations as an active employer other than paying primary contributions (the contributions which fund future service being built up by employees). Instead the Fund actuary will certify an amount of secondary contributions (the contributions which fund shortfalls accruing from historic service) such that the level of deficit should reduce over time. The level of secondary contributions will be reassessed at each triennial valuation. The DDA then terminates at the earlier of certain prescribed events including:
 - the fixed end date agreed in the DDA
 - the employer admitting a new active member into the LGPS
 - the Fund actuary assessing that the deficit has been paid in full
 - the Fund serving notice on the grounds that the employer's ability to make the necessary contributions has weakened materially.On the termination of the DDA, the employer's exit position is recalculated and any remaining liability must be paid in full.
14. DDAs are a new concept within the LGPS, however the Fund has previously worked with some of the housing associations to develop a similar

arrangement. The draft policy reflects some of the matters which have previously been included in these bespoke agreements whilst leaving maximum flexibility to ensure that each case is taken on its own merits.

Funding Strategy Statement and Administration Strategy

15. The regulations state that Funds can only make use of these new flexibilities if the Fund's policy is documented in the Funding Strategy Statement (FSS). Accordingly the FSS has been updated with a draft policy on the three new powers. As described above, the policy is deliberately written to allow each case to be considered on its own merits but the process is described to allow for transparency. The overriding principle of the policy is to ensure that the Fund only agrees to the use of these new provisions if it is in the interests of the Fund as a whole.
16. The policy has been drafted with significant input from the Fund actuary and in accordance with both the statutory guidance from MHCLG and the further guidance from the Scheme Advisory Board on the use of these provisions. In making these changes to the FSS, the opportunity to update the format of the document has been taken. The main detail of the policy is contained in section 4 and Appendix 4 of the draft FSS attached as Appendix 1 to this report. All changes that have been made to the FSS in relation to the new policy have been highlighted in yellow.
17. Two further small amendments to the FSS have also been made which are highlighted in green in Appendix 1. The first is in section 2.1.2 where amended wording has been added to reflect actual practice for determining recovery periods. The second is in section 2.2 which has been updated to include more detail on the funding targets which have been in use since the 2016 valuation.
18. It is critical that scheme employers engage with the Fund on any matters which affect their liabilities or ability to pay contributions. Therefore to tie in with the new policy in the FSS, the Administration Strategy has been updated to codify the existing expectation that employers will contact Pension Services when they have information about a change which may affect their ability to fulfil their employer responsibilities in the LGPS. The list of notifiable events is not exhaustive but serves as a formal marker for employers to provide information to the Fund as needed, to protect the interests of all Scheme employers. The updated draft Administration Strategy is attached as Appendix 2 with the changes highlighted in a new section 10 on page 5.
19. Paragraph 8.7 in the Administration Strategy has been amended to make it clear that an employer will be recharged for all expenses in relation to the

investigation and implementation of a DDA, even if an arrangement is not subsequently entered into.

20. The FSS and Administration Strategy can only be updated after scheme employers have been consulted on the proposed changes. The Panel and Board are therefore asked to approve the draft documents for consultation.

Next steps

21. It is proposed that, subject to Panel and Board approval at this meeting, scheme employers will be consulted on the draft employer flexibilities policy contained within the FSS, as well as the amended Administration Strategy. Employers will be invited to make comments on the new policy but will be specifically asked for their views on the timescales set out in the policy to ensure that these are reasonable.
22. It is anticipated that the consultation will run for 8 weeks from 29 March until 21 May. This will give sufficient time for employers to consider the policy whilst also ensuring that the Fund can proceed with employer requests to use the new flexibilities in a reasonable timeframe. To facilitate this, the Panel and Board are asked to delegate authority to the Director of Corporate Resources to approve the final versions of the FSS and Administration Strategy following the close of the consultation period. However, if the statements require material changes following the employer feedback, these would instead be brought back to the Panel and Board for approval.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve changes to statutory statements.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

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Funding Strategy Statement

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1. Introduction

This section sets out the legislative context for the Funding Strategy Statement as well as the aims and purpose of the Fund and the responsibilities of the key parties.

1.1. Background

The Local Government Pension Scheme Regulations 2013 require the Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's Actuary must have regard to this statement when setting employers' contribution rates.

As required by 2013 Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

1.2. Consultation

In accordance with Regulation 58, all Fund employers have been consulted on the contents of this FSS and their views have been considered in formulating it.

However, the FSS describes a single strategy for the Fund as a whole.

The Fund's Actuary, Aon Solutions UK Limited, has also been consulted on the content of this FSS.

1.3. Purpose of the Funding Strategy Statement

The purpose of this FSS is to set out the processes by which the administering authority establishes a clear and transparent funding strategy, that will identify how employers' pension liabilities are best met going forward.

The processes set out in this FSS detail the strategy which:

- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding those liabilities.
- makes use of the provisions of Regulation 64(7A), 64A, and 64B

The overriding focus of the FSS are on those actions that are in the best long term interests of the Fund. Therefore, to ensure that all parties to the FSS share a common understanding, the aims and purpose of the Fund are set out below.

1.4. Aims of the Fund

The Fund has three main aims which are to:

- manage the 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 nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to 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.
- seek returns on investment within reasonable risk parameters.

The main aims of the Fund are explained in more detail in Appendix 1.

1.5. Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013 and as required in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.6. Roles and responsibilities of key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. There are a wide range of stakeholders in LGPS funds, all of whom have a role in its effective management. For the purpose of the FSS, the roles and responsibilities of the three key parties; the administering authority, individual employer and the Fund actuary are set out in Appendix 2.

1.7. Links to the Fund's Investment Strategy Statement

The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Investment Strategy Statement (available from the Pension Fund's [website](#)).

1.8. Future monitoring

The Administering Authority plans to review this FSS as part of the three-yearly actuarial valuation process unless circumstances arise that require earlier action.

The Administering Authority and the Fund's Actuary will monitor the Fund's solvency position at regular intervals between valuations. Discussions will be held with the Fund's Actuary to establish whether any changes are significant enough to require further action, such as informing employers of the need for different employers' contribution rates after the next valuation.

2. Funding Strategy

2.1. Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund's actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.

These three terms are considered in more detail in sections 2.1.1 to 2.1.3 below.

2.1.1. Solvency

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For secure scheduled bodies, and certain other bodies deemed to be of similarly sound covenant whose participation is indefinite in nature (including where the employer's liabilities would be funded by a secure scheduled body employer post-exit), the Solvency Target is set:

- at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,
- based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in

pensions and pensions accounts (CPI).

Thus the Solvency Target for secure Scheduled Body employers and certain other bodies generally assumes indefinite investment in a broad range of assets of higher risk than risk-free assets. At the 2019 valuation the Solvency Target was set at 2% above the long term assumed rate of CPI.

For certain admission bodies, bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Solvency Target will be set at a more prudent level dependent on circumstances.

For such bodies the Administering Authority will normally adopt a funding target which:

- in the case of admission bodies where there is no commitment from a secure scheduled body to subsume the assets and liabilities on exit, particularly those which do not admit new members, anticipates the approach to valuing the liabilities on exit – the "ongoing orphan funding target" as defined later in this statement;
- in the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities – the 'intermediate funding target(s)'.

For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement (DDA) ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the DDA.

2.1.2. Recovery and Trajectory periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date which solvency is targeted to be achieved. A Trajectory Period of 25 years has been adopted for the secure scheduled bodies at the 2019 valuation.

When an actuarial valuation shows that an employer is in deficiency, the employer's contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the Recovery Period), while ensuring that the probability of achieving solvency over the Trajectory Period remains acceptable. In consultation with the Fund's Actuary, the Administering Authority has set a common maximum recovery period of 16 years for all employers in the Fund from 1 April 2020. The maximum recovery period is determined at each actuarial valuation by balancing the Fund's solvency and long-term cost efficiency requirements against considerations of affordability and stability of contributions, taking account of the financial strength of the Fund's main scheduled employers.

The same principles apply when an employer is in surplus except for employers of reduced covenant whose position is in deficit on an exit basis, where the Administering Authority may not permit reduced contributions below the primary contribution rate.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the Administering Authority has agreed a recovery period of 16 years for the secure scheduled bodies in the 2019 actuarial valuation. In determining the recovery period which applies to other employers the Administering Authority may take into account, without limitation, the following factors:

- the expected remaining period of participation
- the type/group of the employer
- the size of the funding shortfall or surplus;
- the business plans of the employer;
- the assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.
- the views of the subsuming employer where the funding target adopted is dependent upon another employer subsuming the assets and liabilities post-exit.

2.1.3. Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

2.2. Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. The valuation calculations, including the future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable. The discount rate is a key driver of the Funding Target and is set allowing for the assumed investment strategy and level of risk considered appropriate in light of the employer covenant and treatment of liabilities on exit. For the secure scheduled bodies who collectively comprise around 85% of the Fund's liabilities the discount rate is set by considering the Fund's long-term investment strategy and the Administering Authority's risk preference, measured via the chance of achieving the Solvency Target at the end of the Trajectory Period

(defined above).

Different funding targets are adopted for different employers as set out in the Employer Policy. At the 2019 valuation the funding targets adopted were as follows:

- secure scheduled body funding target for scheduled bodies expected to participate indefinitely, and any employers with a subsumption commitment from such an employer, other than academy contractors admitted prior to 1 April 2019
- intermediate funding targets for Tier 3 scheduled bodies based on a risk assessment carried out by the Fund Actuary, and any employers with a subsumption commitment from such an employer
- ongoing orphan funding target for admission bodies expected to leave orphan liabilities on exit, and any academy contractors admitted prior to 1 April 2019
- low risk (gilts) funding target for the liabilities of former employers where these are orphaned

Employers who are able to provide security, including but not limited to a charge over assets may be permitted to pay ongoing contributions below the appropriate target level. The employer should recognise that underpayment of contributions is more likely to lead to additional contributions being required at subsequent reviews.

For deferred employers where a DDA is in place, the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the DDA is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the DDA;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to

members over the period until they die, leave the Fund or retire.

- For bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, the administering authority will take into account the potential for participation to cease, the potential timing of such exit, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of exit.

2.3. Grouping of Employers

2.3.1. Group funding framework

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

All employers in the Fund are grouped together regarding the risks associated with payment of ill health pensions and partner's pensions and lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the Administering Authority, in view of the size of the Fund, does not see it as cost effective or necessary to insure these benefits externally.

The group funding framework is set out in more detail in Appendix 3.

2.3.2. Funding principles applying to grouped employers

Risk sharing exists within groups. The Administering Authority accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the Fund's Actuary to cover the costs of unreduced early retirements, which is a major distinction between employers over time. The Administering Authority and the Fund's Actuary periodically review whether separate rates for individual employers or groups of employers are required.

Within each group, employers share risk according to a set of clearly defined principles which are as follows:

- The group exists to produce a common percentage of pay contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate
- Funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite (or, if participation is not indefinite, that a secure scheduled body has committed to subsume the assets and liabilities of the employer on exit)
- Employers are liable to fund deficiencies emerging at each valuation in

proportion to their own liabilities at the time of the valuation

- When employers exit the Fund they will be assumed to leave the group, even where a DDA is entered into. The funding target adopted at that time will depend on whether the liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any future funding for those liabilities).

2.4. Further aspects of funding strategy

2.4.1. Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer had its own notional sub-fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

2.4.2. Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be updated allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

2.4.3. Attribution of investment income

Where the Administering Authority has agreed with a scheme employer that the scheme employer will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

The Fund is not formally unitised for the purpose of notionally allocating assets to employers. The Fund Actuary calculates a notional asset allocation for each employer (or group of employers) at each triennial valuation, or at interim dates as may be required, based on cashflows relating to the employer (or group of employers) and investment returns earned by the Fund. Unless the Fund Actuary is notified of specific and material one-off payments, including bulk transfers and prepayment of employer contributions, cashflows in each scheme year ending 31 March will be assumed to be accrued evenly over the scheme year and will attract half of the investment returns earned over that year. For specific and material one-off payments such as bulk transfers and advance payment of employer contributions (see below), investment returns on those payments (estimated where appropriate) for the relevant scheme year will be credited from the date of payment to the end of the relevant scheme year, unless otherwise

notified by the Administering Authority.

For additional employer contributions, investment returns on those payments will be credited from the first day of the next quarter following payment to the end of the relevant scheme year.

2.4.4. Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

2.4.5. Advance payment of employer contributions

The Administering Authority will allow any employer apart from those in the Academies Group to pre-pay secondary contributions. In addition, any employer who is not part of a group can choose to pre-pay their primary contributions.

Pre-payments can be made annually or triennially in advance, and will attract a discount as agreed with the Administering Authority on the advice of the Fund's Actuary. Pre-payments of primary contributions will be subject to an annual true up once actual annual pensionable payroll is known.

To adhere to the LGPS Regulations all employers must contribute at least an amount in each scheme year equivalent to the administration charge of 0.3% of payroll each year. Employers who pay their primary contributions triennially in advance must make a payment equal to 0.3% of payroll on 1 April in years 2 and 3. This payment will also attract a discount and be subject to an annual true up once actual annual pensionable payroll is known.

Any employer wishing to enter into a pre-payment arrangement must engage with the Administering Authority prior to the scheme year in which the pre-payment is being made.

Full details of how the discount is calculated and the administrative process for the payment of the annual administration charge and the end of year true up procedure will be made available to employers who wish to consider taking this option.

2.4.6. Additional payments by employers

Employers must contribute the amounts certified by the Fund's Actuary in each valuation period. However, these are the minimum contributions required and employers (other than those in the Academies Group) can choose to make additional payments.

The additional payment will be credited to the employer and will be allocated investment returns from the start of the quarter following the receipt of the payment.

3. Security

3.1. Guarantors

Some employers may have been admitted to the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the Fund, the Administering Authority will require a Guarantor. The Administering Authority, unless notified otherwise, sees the role of a Guarantor to include the following:

- If an employer leaves the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide the Fund with the amount certified by the Fund's Actuary as due, including any interest payable.
- If the Guarantor is also an employer in the Fund and is judged by the Administering Authority to have suitable financial security, the Guarantor may clear some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor may at any time agree to the future subsumption of any residual liabilities of that employer. That action may reduce the funding target for the employer, which may, in turn, lead to reduced contribution requirements, although in determining the contributions the Administering Authority would have regard to the intentions of the Guarantor and its agreement with the Admission Body. The Guarantor should ensure that it is clear what would happen to any surplus arising on the subsequent exit of the Admission Body, in particular whether or not an exit credit would become payable.

The Guarantor will be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency or surplus. However, where the Guarantor is a grouped employer, the Administering Authority will insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor (whether immediately or over an appropriate period), to protect the other employers in the Guarantor's group from this element of the group's deficiency. Conversely a Guarantor may receive a reduction to its contributions to ensure that the benefit of a surplus is provided to the Guarantor rather than spread across the Guarantor's group.

3.2. Bonds and other securitisation

Paragraph 7 of Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the administering authority (and the Relevant Scheme Employer in the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond,

the body is required to secure a guarantee in a form satisfactory to the administering authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, and other admission bodies with a Guarantor, so long as the Administering Authority judges the relevant scheme employer or Guarantor to have suitable financial security, any bond exists purely to protect the relevant scheme employer against default of the admission body. It is entirely the responsibility of the relevant scheme employer or Guarantor to arrange any risk assessments and decide the level of required bond. The administering authority can supply some standard calculations provided by the Fund's actuary to aid the relevant scheme employer or Guarantor, but this should in no way be taken as advice on this matter. Levels of required bond cover can fluctuate and the administering authority recommends that relevant scheme employers review required cover regularly, at least once a year.
- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, where the administering authority does not judge the relevant scheme employer to have suitable financial security, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will require the relevant scheme employer to review required cover jointly with it regularly, at least once a year.
- In the case of bodies other than paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will review required cover regularly, at least once a year.

In relation to existing employers, including Scheduled Bodies, the Administering Authority will consider whether provision of security, including but not limited to a charge over assets; Government guarantee; or subsumption commitment from a long-term secure scheduled body is sufficient to justify reviewing an employer's contributions between triennial valuations in line with Regulation 64A and its policy on use of these provisions.

4. Exiting the fund

4.1. Exiting the Fund

Where an employer meets the relevant criteria, an exit valuation will be carried out in accordance with Regulation 64. The exit valuation and any associated exit payment due will take account of

- any bulk transfer payments due or other activity as a consequence of exiting the Fund; and
- the future funding arrangements for any liabilities that will remain in the Fund, including any agreement to spread the exit payment or Deferred Debt Agreement.

The exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers or otherwise continue to be funded to the satisfaction of the Administering Authority.

"orphan liabilities" arise where an employer is leaving the Fund, the Administering Authority will have no further access for funding from that employer once any exit valuation has been completed and any sums due have been paid to the Fund, and no particular employer or group of employers will be responsible for the future funding of those liabilities.

For orphan liabilities the funding target in the exit valuation will anticipate investment in low risk investments, currently assumed to be Government fixed-interest and index-linked bonds. This is to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. The Administering Authority currently operates a single investment strategy and so the remaining employers in the Fund assume the risk of the Fund's assets delivering returns less than the assumed rate in the exit valuation in respect of orphan liabilities.

"subsumed liabilities" refer to the situation where another employer, or group of employers, in the Fund agrees to provide future funding in respect of any emerging deficiencies in relation to the liabilities of a former (exited) employer. The subsuming employer will also normally benefit from any emerging surplus on those liabilities.

On exit the non-active liabilities of admission bodies in paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund on or after 1 April 2018 will be attributed to (i.e. assumed to be subsumed by) the relevant Scheme employer as defined in the regulations.

For subsumed liabilities the exit valuation will be calculated using a funding target (and hence assumptions) consistent with that used to set ongoing contributions for the exiting employer. This will be the ongoing orphan funding target for employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and, for transfers on or after 1 April 2019, more than 10 employees transferred to the admission body. For all other employers, and for transfers on or after 1 April 2019 where 10 or fewer employees transfer from an academy to an admission body, the administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.

For subsumed liabilities the exit valuation will take account of a number of other factors such as the funding target used to calculate the initial asset transfer where the exiting employer is a short term admission body under paragraph 1(d)(i) of Schedule 2; the funding target used to calculate the ongoing contributions for the employer; whether the exiting employer is a going concern or is ceasing to exist, and whether there is a Guarantor.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, **unless a Deferred Debt Agreement is entered into**, the departing employer (or Guarantor if the employer is unable to pay) will generally be expected to make good the funding obligation revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required nor of a surplus credit being repaid.

An allowance for the costs of the McCloud remedy and GMP equalisation will be included for exit payments calculated on or after 27 September 2019. As an interim measure given the uncertainty, exit payments will be calculated assuming that McCloud will lead to a 0.4% increase in the liabilities, and GMP indexation will be provided in full for all of the exiting employer's members whose State Pension Age is on or after 1 April 2016. This allowance will be kept under review and will be updated as agreed by the Administering Authority on the advice of the Fund Actuary.

4.2. Spreading exit deficits

Any exit deficit would normally be levied on the departing employer as a single capital payment although the Administering Authority may allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is summarised below and set out in more detail in Appendix 4. below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

4.3. Deferred debt agreements

Regulation 64(7A) permits the Administering Authority to enter into a written

agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement," or "DDA"). An employer which has entered into a DDA is known as a 'deferred employer'.

The Administering Authority's policy in relation to the entering into DDAs under Regulation 64(7A) is set out in Appendix 4 and summarised below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;
- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time, or where the employer's financial capacity to support an increase in the exit debt is limited, the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full. The Administering Authority is also unlikely to enter into a DDA for very small employers where it considers the administration and advisory costs of doing so are disproportionate.

4.4. Surpluses

Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the payment of an exit credit will be made at the discretion of the Administering Authority, after taking into account the factors set out in the LGPS 2013 regulations namely;

- a) the extent to which there is an excess of assets in the fund relating to that employer over the liabilities
- b) the proportion of this excess of assets which has arisen because of the value of the employer's contributions;
- c) any representations to the administering authority made by the exiting employer or letting authority;
- d) any other relevant factors.

Other relevant factors include but are not limited to the basis of the exit valuation, the extent to which the exiting employer was responsible for the funding risk during their participation in the Fund and the existence or otherwise of a commitment from another ongoing employer in the Fund to subsume liabilities on exit.

This may mean that no exit credit is due for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from a secure scheduled employer to subsume the liabilities on exit.

Employers who are letting contracts need to ensure their contractual arrangements cover the treatment of exit credits and that they notify the Fund if these arrangements mean that a surplus should be retained by the letting authority. Representations from employers will be considered on a case by case basis although if a contract pre dates 14 May 2018 and is silent on the treatment of an exit credit, payment will usually only be made to the departing employer if they would have also paid for an exit deficit.

Where an exit valuation is carried out on a low risk basis, the exit credit will usually be equal to the excess of assets over the liabilities, less any costs.

The exit credit will be paid to the departing employer within six months of the date of exit or such longer period as is agreed with the exiting employer. It will be deemed that an employer agrees to a longer period where all relevant information is not provided within one month of the exit date.

Any actuarial or legal costs of the exit will be deducted from the exit credit before payment, unless there is a good reason to accept separate payment for these.

4.5. Potential exits

Where the Administering Authority considers that it is possible that an employer may leave the Fund at some point in the future and the employer would leave orphan liabilities on its exit from the Fund, an ongoing funding target (the "ongoing orphan funding target") will, unless the circumstances dictate otherwise, be used to determine the employer's ongoing contributions at the triennial valuation. The ongoing orphan funding target anticipates the approach which will be taken to valuing the employer's liabilities on exit. It will generally be calculated using a discount rate or rates set by reference to the yield on long-dated government bonds on the valuation date. Allowance may be made, at the Administering Authority's discretion and on the advice of the Fund's Actuary, for some out-performance of the Fund's assets relative to gilts in determining the discount rate which applies to the period during which the employees are assumed to remain active members and for future expected increases in gilt yields in determining the discount rate which applies to pensioner and deferred liabilities and for active members in the period after they are assumed to have left service.

4.6. Interim reviews for employers which may exit the Fund

Regulation 64(4) provides the administering authority with the power to carry out valuations in respect of admission bodies and other employers which are expected to cease at some point in the future, and for the Fund's Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years away, or is unknown and participation is assumed to be indefinite, interim valuations under Regulation 64(4) will generally not be required by the Administering Authority.
- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the Administering Authority sees it as the responsibility of the relevant scheme employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant scheme employer unless otherwise agreed.
- A material change in circumstances, for example the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to review the situation informally and subsequently request a formal interim valuation (using Regulation 64A if required – see next section).
- Where an employer is due to leave the Fund within the next three years, the administering authority will monitor developments and may see fit to request an interim valuation at any time in order to try to effect a smoother transition to exit.

The Administering Authority reserves the right to request an interim valuation of any employer's liabilities at any time in accordance with Regulation 64(4).

4.7. Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

(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(s) to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer(s) has requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

The Administering Authority's policy on use of these provisions is set out in Appendix 4.

5. Identification of risks and counter measures

The Administering Authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are summarised in Appendix 5.

Appendix 1 – Aims of the Fund

The Fund has three main aims:

- to manage the employers' liabilities effectively
- to enable primary contribution rates to be kept as nearly constant as possible
- to seek returns on investment within reasonable risk parameters.

These are detailed below.

To manage the employers' liabilities effectively

Hampshire County Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively.

The administering authority also commissions additional work in relation to the specific issues described below.

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. For the purpose of determining the Solvency Target for individual employers, the Administering Authority may without limitation, take into account the following factors:

- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.;
- whether the employer has set up a subsidiary company to employ staff which does not participate in, or admit new employees to, the Fund

The Fund is deemed to be solvent when the assets held are equal to 100% of the Solvency Target.

The administering authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income, to avoid the cost of selling any of the Fund's investments. The position is reviewed every three months to make sure enough cash is available to meet the Fund's obligations.

The Administering Authority publishes an Employer Policy which explains in more detail the funding policies for certain categories of employer

To enable primary contribution rates to be kept as nearly constant as possible

Achieving nearly constant primary contribution rates requires stability of employers' active membership profile and use of assumptions which are relatively constant

over time. The Administering Authority has no control over employers' active membership although the methodology used to calculate the future service rate does vary according to whether or not the employer admits new members to the Fund. In relation to the assumptions, the Administering Authority believes that the same assumptions should be used to determine the past service liabilities (and hence the funding target) as are used to determine employers' primary contribution rates.

The demographic assumptions are reviewed by the Actuary on a triennial basis and updated as required to allow for recent Fund experience and other national factors as required. It is not expected that material changes would be made to these assumptions from one valuation to the next.

In relation to the financial assumptions, these can vary quite materially from one valuation to the next as market conditions alter. A substantial proportion of the Fund's investments are held in asset classes such as shares and property, with the aim of increasing investment returns and keeping costs to employers reasonable. However, the expected returns on these asset classes can be quite volatile and so the real discount rate can change materially from one triennial valuation to the next, leading to a material change in employers' primary contribution rates.

In determining the extent to which stability measures are needed to keep primary contributions as nearly constant as possible, the Administering Authority will also consider how secondary contributions are changing, i.e. where possible, and consistent with other regulatory objectives, this objective will in practice relate to employers' total contributions (primary and secondary).

Where justified, and as long as it doesn't run counter to the main aims of ensuring solvency and long-term cost efficiency, the Administering Authority will permit phasing in of changes to employers' contribution rates over a period of up to three years. Care needs to be taken in relation to employers closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant (for example, non-local authority employers awarded contracts to provide local authority services, and less secure scheduled bodies), where use of phasing to smooth contribution rate changes is less appropriate.

The Administering Authority recognises that a balance needs to be struck regarding the financial demands made of scheme employers of reduced covenant. On the one hand, the Administering Authority requires all scheme employers to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing (phasing), may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers. The Administering Authority will therefore consider phasing periods longer than three years if unusual and difficult budgetary constraints make this necessary, or if other changes, such as changes to the funding target, justify this approach. Whenever contribution changes are being phased in, this can only be achieved if the regulatory requirements of setting employer contributions to ensure the solvency and long-term cost efficiency of the Fund would still be met.

Seek returns on investment within reasonable risk parameters

Returns should be higher over the long term than those from index-linked stocks by investing in other asset classes such as shares, property and alternative investments.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time the Administering Authority reviews the potential risks of investing in the various asset classes, with help from the Fund's investment advisors and its investment managers.

The Fund's funding strategy, based on the discount rate adopted for the majority of employers/liabilities at the 2019 actuarial valuation, requires the assets to deliver a long-term return above 4.4% p.a., (the discount rate) compared to the Fund Actuary's best estimate for the Fund's average return of 5.7% p.a. as at March 2019. An investment management structure has been developed and managers appointed to deliver a long-term return in excess of returns on cash and gilt investments within an acceptable level of risk. Details of the updated structure and managers are in the Investment Strategy Statement.

Appendix 2 – Roles and responsibilities of key parties

The administering authority is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts
- due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS 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 valuation process in consultation with the fund's actuary
- prepare and maintain an FSS and an SIP/ISS, both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the administering authority promptly of all changes to active membership that affect future funding.
- pay any exit payments on ceasing participation in the fund.

The fund actuary should:

- 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 LGPS 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 to the administering authority on bonds or other forms of security against the financial effect on the fund 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 that may be of relevance to his or her role in advising the fund.

Appendix 3 - Group funding framework

Group funding framework

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with employers either entering new group funding arrangements (see below) or having their contributions assessed on an individual basis.

With effect from 1 April 2019 there are three groups of employers for funding purposes; the Town and Parish Councils Group (TPCG), the Academies Group (AG) and the Admission Body Group (ABG). Employers within a group share all risks of participation with other employers in the group, with the exception of liability for:

- ill health pensions, partner's pensions and lump sum benefits payable on death in service (which are shared across all employers in the Fund)
- secondary contributions (in relation to the ABG and TPCG only).

The Administering Authority will keep under review the funding arrangements of all employers and may remove additional employers from the grouping arrangements should their situations change.

New funding groups would be considered by the Administering Authority, but only through consultation with the employers involved.

Town and Parish Council Group

The Town and Parish Council Group was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The TPCG includes Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations who, due to being relatively small employers, benefit from being able to share risks with a wider pool.

A Town or Parish Council was able to elect by 15 August 2019 to opt out of the TPCG at the 2019 valuation and instead have an individual contribution rate. An option to leave the TPCG will be given as part of all subsequent valuations. An election to leave the TPCG is irrevocable.

Employers within the TPCG share all risks arising in the TPCG since the previous valuation in proportion to liabilities at the valuation date. The first such valuation date at which this risk sharing will be calculated will be 31 March 2022. There is an exception for secondary contributions paid by employers over the intervaluation period, which will not be shared, and will be credited to each employer's notional asset allocation of the TPCG.

Most employers within the TPCG will have a common recovery period for deficit contributions, which was set as 16 years at the 2019 valuation. Where an employer

in the TPCG notifies the Administering Authority of a decision to stop designating posts as being eligible for membership of the LGPS a shorter recovery period may be used.

Employers of the TPCG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Academies Group

The Academies Group (AG) was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The AG includes all Academies, Free Schools and Multi Academy Trusts under Part 1 (paragraph 20) of Schedule 2 of the Regulations, which are covered by the Department for Education guarantee.

For the avoidance of doubt, the AG includes any academy created from a former higher or further education body. However, the organisation can choose to make an irrevocable decision not to join the AG at the later of the date of conversion or the signing of the 2019 valuation rates and adjustments certificate.

Employers within the AG share all risks in proportion to liabilities. Employers will be responsible for paying a share of the deficit contributions to the AG in proportion to their liabilities in the AG at the relevant valuation.

Employers in the AG will have a common recovery period for deficit contributions which was set as 16 years at the 2019 valuation.

Employers of the AG are not credited with individual notional asset allocations at each valuation for the purposes of setting contribution rates, as deficit contributions are certified based on the funding level of the group. For the purpose of calculating an exit valuation or calculations under FRS102/IAS19, employers in the AG are assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

notional assets held in respect of the group divided by value of benefits accrued to date for the group as a whole.

Admission Body Group

The Admission Body Group (ABG) consists of a number of charitable and not for profit admission bodies. The Administering Authority views the purpose of the ABG to be primarily to smooth contributions for charities and other not-for-profit organisations which would otherwise be exposed to the potential of volatile contributions. With effect from 1 April 2019 all employers within the ABG have a commitment from a secure scheduled employer to subsume their liabilities on exit.

Employers participating in the ABG on 31 March 2019 without such commitment

exited the grouped funding arrangement on that date and became stand-alone employers. Those employers were credited with a notional asset allocation equal to a share of Fund of the Admission Body Group at 31 March 2019.

From 1 April 2019 employers within the ABG will share all risks arising in the ABG since the previous valuation in proportion to liabilities at the valuation date. The first such valuation date at which this risk sharing will be calculated will be

31 March 2022. There is an exception for secondary contributions paid by employers over the intervaluation period, which will not be shared, and will be credited to each employer's notional asset allocation of the ABG.

Employers in the ABG will have individual recovery periods for deficit contributions based on the average future working lifetime of their active members. This will be subject to the maximum 16 year recovery period set at the 2019 valuation for secure scheduled body employers.

Employers of the ABG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Appendix 4 – Employer flexibilities and exits

The Administering Authority's policy on the use of Regulation 64 in relation to employer flexibilities is set out below.

Spreading exit payments

The spreading of exit payments will only be considered at the request of an employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period. Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within **2 months** of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be **three years** but longer periods of up to ten years may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level **annual** amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where the Administering Authority has agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement,

including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision. The Administering Authority will endeavor to notify the employer of its decision within 2 months of the provision of the required information by the employer. The employer will be given a period of 1 month to respond to the decision. Payments will be expected to commence by the later of 2 months following the Administering Authority's decision, or 6 months of the exit date. If there is no agreement between both parties within this timeframe the Administering Authority will instruct the Fund Actuary to certify the exit payment due as an immediate capital payment.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Deferred debt agreements

It is envisaged that DDAs will only be entered into at the request of an employer. In all cases the Administering Authority will then engage/consult with the employer determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but

- excluding the requirement to pay the primary rate of contributions;
- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
 - a provision that the DDA will terminate on the first date on which one of the following events occurs-
 - (a) the deferred employer enrolls new active members;
 - (b) the period specified, or as varied, elapses;
 - (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
 - (d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
 - (e) the Fund Actuary 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.
 - the responsibilities of the deferred employer
 - the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above
 - It is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely **annually**, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund
- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, as long as, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred employer's ability to meet the contributions

payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months

- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d). It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Inter-valuation funding valuations

Regulation 64A enables employer contributions to be reviewed between triennial valuation where:

- (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(s) to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer(s) have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Factors used to determine when a review is appropriate

In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a council due to a move to unitary status, the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract
- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

Assessment of the risk/impact on other employers

In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Scheme employers.

Where contributions are being reviewed for an employer with links to another Fund employer, particularly where there is a formal organisational or contractual link, e.g.

there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Employer involvement and consultation

It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. A list of notifiable events is set out in the Administration Strategy.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that just because a review is being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any employer which provides a guarantee or subsumption commitment or, if none exists, will take the decision on behalf of all employers noting Hampshire County Council is the largest employer in the Fund and any unmet liabilities on exit are shared in proportion to each employer's liabilities.

Process for requesting a review

Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact Employer Services and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees and administrative expenses incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Other considerations

The Administering Authority will carry out an annual assessment of the risk for Tier 3 employers as considered appropriate. This will help identify whether a contribution review is required and is expected to be carried out as at each 30 September with any contribution changes effective from the following 1 April.

More generally, the Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within **one month** of request and the review will be completed within **6 weeks** of the provision of all requested information, or completion of the risk/covenant assessment if later.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of **4 weeks'** notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Appeals process

In the event of any dispute, employers should contact Pension Services for an informal discussion. Any formal appeal will be heard under the Fund's Internal Dispute Resolution Process.

Appendix 5 – Risks and counter measures

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly taking advice from its Investment Advisors as appropriate. The Investment Strategy is considered annually and a formal review is also undertaken at least following each Actuarial Valuation, with advice taken from Investment Advisors and Fund Managers. The Administering Authority also reviews the effect of any significant market movements on the Fund's overall funding position between Actuarial Valuations.

Employer risk

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Scheme. The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in the Employer Policy, are met.

The Administering Authority maintains a knowledge base on their employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. In addition, the Administering Authority commissions the Fund Actuary to

carry out a high level risk assessment for employers, as appropriate to inform its funding strategy. In due course it will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, noting that the Regulations specifically provide for a deferred debt agreement to end when the Actuary 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 (review) date.

Liquidity and maturity risk

The Fund's membership has matured in recent valuations and this, together with the improvement in the funding position and hence reduction in contributions from the long-term secure employers has potential cash flow implications. In addition, it is possible that proposed changes to cap exit payments may lead to employers bringing forward redundancy programmes, cuts and their implications resulting in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in the short-term.

The Administering Authority reviews the Pension Fund's cashflow position annually as part of setting the Fund's budget and may commission further work on cashflow projections from the Fund's Actuary or Investment Advisors as required. In addition the Fund will engage in regular communication with employers to ensure it is informed of significant changes that would affect maturity at overall Fund and employer level where material issues are identified.

Liability risk

Inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.

The Administering Authority will make sure the Fund's Actuary investigates these matters at each valuation, or more often if necessary and expects that the demographic assumptions will be largely based on experience of the Fund's membership, on which the Fund's Actuary will report to the Administering Authority as appropriate. The Administering Authority will then agree with the Fund's Actuary any necessary changes to the assumptions used in assessing solvency.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the likely effect on their contributions after the next full valuation, and consider whether any bonds that are in place for admission bodies require review.

Regulatory and Compliance risk

Occupational pensions in the UK are heavily regulated. Both general and LGPS-specific legislation must be complied with.

The Administering Authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Administering Authority will ask the Fund's Actuary to assess the effect of any changes on employers' contribution rates as appropriate.

The Administering Authority will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Governance risk

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the Administering Authority promptly.

To limit this risk, the Administering Authority:

- monitors the membership of employers on an annual basis; and
- requires the other participating employers to communicate regularly with it on such matters
- has formalised its notification requirements within the notifiable events section of the Pension Administration Strategy.

The Administering Authority also undertakes to inform the Fund's Actuary promptly of any such matters. How the Administering Authority generally engages and communicates with its employers is set out in its Communications policy. In addition, the Panel and Board includes members which represent employers in the Fund other than the Administering Authority.

Climate Change

The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Statement of compliance with the UK stewardship code for institutional investors. In relation to the funding implications, the Administering Authority keeps the effect of climate change on future returns and demographic experience, e.g. longevity, under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

Recovery period

Allowing deficiencies to be eliminated over a recovery period of up to 16 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's Actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency and that deficit contributions are compared to the amount of interest accruing on the deficit.

Phasing

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process or, in relation to the primary rates of contributions, that employers are not paying enough to meet the cost of benefits being accrued in future. The Administering Authority's policy is to limit the number of permitted steps to three, but it may permit a longer period if the employer can demonstrate unusual and difficult budgetary constraints. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

Cost Management, McCloud / Sargeant judgement and GMP indexation and equalization

For the 2019 valuation there is currently significant uncertainty as to whether improvements to benefits and/or reductions to employee contributions will ultimately be required under the cost management mechanisms introduced as part of the 2014 Scheme, and the improvements that may be required to benefits consequent to the “McCloud” equal treatment judgement. There is also uncertainty regarding the nature of the steps that will need to be taken by the Scheme to compensate for the effects of Guaranteed Minimum Pensions being

unequal for men and women and there being no mechanism for increases in GMP to be topped up to full CPI for those reaching State Pension Age after 5 April 2021.

The Administering Authority will consider any guidance emerging on these issues during the course of the valuation process and will consider the appropriate allowance to make in the valuation, taking account of the Fund Actuary’s advice. At present the Administering Authority considers an appropriate course of action for the 2019 valuation is to include a fixed loading of 0.9% of Pay within the employer contribution rates certified by the Fund Actuary that reflects the possible overall extra costs to the Fund as advised by the Fund Actuary. It is possible that the allowance within contribution rates might be revisited by the administering authority and Fund Actuary at future valuations (or, if legislation permits, before future valuations) once the implications for Scheme benefits and employee contributions are clearer.



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Hampshire Pension Fund Administration Strategy

I Introduction

- 1.1 Hampshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the Hampshire Pension Fund (HPF). The LGPS is governed by statutory regulations.
- 1.2 HPF provides a high quality pension service to members and employers, to ensure members receive their correct pension benefits. This is best achieved where HPF and the employers are clear about their roles and responsibilities and work in partnership.
- 1.3 This strategy statement:
 - sets out the roles and responsibilities of HPF and the employers
 - specifies the level of services HPF and the employers will provide to each other
 - explains the performance measures used to evaluate them
 - is an agreement between HPF and the employers

2 Pension Administration Strategy

- 2.1 This strategy is an agreement between the Hampshire Pension Fund and all participating bodies. All parties commit to the following principles:
 - provide a high quality and low cost pension service to members
 - continually develop efficient working arrangements
 - meet HPF's service standards
 - an annual report of performance
 - take responsibility to provide accurate and timely information
 - keep the pension administration strategy under review and revise where appropriate.
- 2.2 This strategy statement was produced by HPF in consultation with the employers and is effective from 16 December 2017 . It is hereby agreed that each of the parties as defined in this agreement and the scheme regulations, shall abide by the requirements of this agreement.
 - HPF shall monitor the requirements of this agreement and report its findings to the Hampshire Pension Fund Panel and Board.
 - Changes are subject to consultation with the employers. Variations must be agreed with HPF and confirmed in writing.
- 2.3 Please keep a copy of this strategy for your records. The original will be held at the offices of the Hampshire Pension Fund and will be made available to any scheme member, past or present, wishing to have sight of the document.

3 Roles and responsibilities

- 3.1 The quality of service to members depends on the supply of accurate and timely information.
- 3.2 Employer duties, responsibilities and discretions are listed in Appendix A to this agreement.
- 3.3 HPF's duties and responsibilities are listed in Appendix B to this agreement.

4 The Regulations – effect on strategy

- 4.1 This strategy sets out certain duties and responsibilities.
 - It does not override any provision or requirement in the Regulations or any overriding legislation.
 - The intentions of the Regulations in their application to current members, potential members, deferred members and retired members must be complied with.
- 4.2 This agreement is based on:
 - Current regulations:
 - the Local Government Pension Scheme Regulations 2013, and any amendments;
 - the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, and any amendments;
 - Any earlier LGPS regulations as they continue to apply
 - Overriding legislation including, but not limited to,
 - the Public Service Pension Act 2013
 - the Local Government (Early Termination of Employment) (Discretionary Compensation) (England & Wales) Regulations 2006
 - Occupation and Personal Pension Scheme (Disclosure of Information) Regulations 2013

5 Definitions

- 5.1 For the purpose of this Administration Agreement:
 - “**Administering Authority**”, ‘Hampshire Pension Fund (HPF) and the Fund means Hampshire County Council;
 - “**Employing authority**” or “**employer**” means an employer within the Hampshire Pension Fund; and
 - “**Scheme**” means the Local Government Pension Scheme, and
 - “**The Panel**” means the Hampshire Pension Fund Panel and Board’

6 Communication

- 6.1 The HPF Communications Policy Statement outlines how the Fund communicates with all stakeholders, including employers.
- 6.2 HPF routinely provides information and resources for employers using
 - its website, www.hants.gov.uk/pensions with an employers' section
 - an electronic newsletter called Pension Matters
 - an employer manual and other guides available on the HPF website.
- 6.3 HPF will make available to the employer an up to date list of LGPS publications which will be available from the HPF website or as otherwise indicated.
- 6.4 HPF will communicate to the employer on an ad hoc basis and as required in respect of matters relating to the LGPS.
- 6.5 HPF will ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of The Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2013.
- 6.6 HPF will notify the employer of changes to administrative procedures that may arise as a result of changes in pension scheme regulations and update standard documentation on the HPF website.
- 6.7 HPF will issue electronic forms, newsletters, booklets and such other materials as are necessary in the administration of the LGPS, for members and the employers.
- 6.8 Employers should provide contact details at least annually, and whenever a named contact changes, on the Employer Contacts and Authorisation form.
- 6.9 Employers may provide information about members to HPF in a variety of ways, including electronic and paper forms or directly updating electronic pension records. Forms used must be up to date, and are available on the HPF website. Employers who update electronic pension records directly are fully supported via initial and refresher training and day to day support.

7 Performance measurement and reporting

- 7.1 Pensions Services will monitor, measure and report compliance with the agreed service standards. This information will be reported to the Panel, and improvement plans put in place if necessary.
- 7.2 Where this information reveals problems in employers meeting the standards, HPF will consult and work with the relevant employers to improve compliance and performance levels by providing appropriate support, guidance, and training.
- 7.3 Where as part of the annual return process or any other monitoring activity, there are concerns about the accuracy of an employer's data, the employer will be required to undertake a data cleanse exercise and make a declaration that they have fulfilled all of their requirements to notify the fund of changes. Details of the data cleanse requirements will be provided as part of the annual returns process.
- 7.4 Where poor performance affects Pension Services meeting statutory deadlines, consideration will be given to the requirement to report this to the Pension Regulator.

8 Costs

- 8.1 The Fund Actuary determines employer contribution rates for the three years following each triennial valuation. The rates and adjustments certificate provides details of all payments which are due from employers in the fund.
- 8.2 The costs of the standard administration service, including actuarial fees for the triennial valuation, are charged directly to HPF. These administration costs are taken into account by the Fund Actuary when assessing the employers' contribution rates.
- 8.3 Where Pension Services incur additional administration costs due to the pension implications of an Employer activity (e.g. outsourcing, creation of a company, change of legal status etc) a separate additional administration charge will be made. The charge will be based on estimated staff time and will be notified to the employer before any work is carried out.
- 8.4 Where additional actuarial or legal services are required by, or result from the decisions and actions of, the employer, the employer will be required to reimburse HPF for the costs involved. Where appropriate, an estimate of these costs will be provided and the employer's agreement obtained before proceeding to instruct the service provider.
- 8.5 If HPF incurs interest charges as a result of a late notification of retirement from the employer, it may recharge to the employer the interest incurred on the late payment of the lump sum.
- 8.6 Employers may also be required to pay for additional work, including estimates which are in addition to the agreed allocation, or for requesting work to be completed faster than the normal service standards. The employer's agreement to the charge will be obtained prior to the work being carried out.
- 8.7 Employers may be required to pay for administrative expenses in relation to the investigation and implementation of a Deferred Debt Agreement (DDA) or other measure under Regulation 64. Employers will be informed if additional administration charges are likely. Professional fees will be recharged to the Employer in all cases, regardless of whether an arrangement is subsequently entered into.
- 8.8 If in exceptional circumstances HPF agrees to an employer deferring payment of their employer contributions, interest will be charged on the deferred contributions at a rate equal to the underlying discount rate used to calculate the employer contribution.

9 Penalties

- 9.1 Commitment to the principles of this statement (see 2.1) should mean that any non-compliance is addressed promptly, with no need to resort to a penalty. However, the following actions are possible:
 - Where payment over of contributions is late more than once in any 12 month period, HPF will issue the employer with a written notice of unsatisfactory performance and may charge interest on the late payment at a daily rate equal to the Bank of England's base rate plus 1%.
 - Persistent failure to comply with contributions payment requirements will result in HPF informing The Pensions Regulator as required of Scheme Administrators by the Pensions Act 2004.
 - Where the employer fails to comply with their scheme duties, including failure to pay contributions due, HPF reserves the right to notify the member(s) involved and to notify all members employed by the employer in the event of serious or persistent failure.

- If additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged to the employer according to powers available under scheme regulations. Written notice will be given of the reasons for the re-charge, how the cost was calculated, and the part of this statement which, in HPF's opinion, was contravened.
- Where orders or instructions issued by The Pensions Regulator, the Pensions Ombudsman or other regulatory body require financial compensation or a fine to be paid by HPF, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.
- Where, as a result of the employer's failure to notify HPF of the final retirement details in a timely manner, payment of any retirement lump sum is not made within 30 days from the date of the member's retirement, HPF may issue the employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.
- Where it is proven that the employer is not responsible for any fine or penalty imposed by The Pensions Regulator or any other statutory body as a result of non-compliance of this Service Level Agreement, any such charge will automatically default to HPF.
- From time to time, HPF offer training and support to employers through 'Employer Days' and workshops. There is no charge made to an employer for attending this event, however HPF reserves the right to charge a late cancellation fee of £100 + VAT, where at least one week's notice has not been given of non attendance.

10 Notifiable events

10.1 Employers should ensure that they engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities, 'notifiable events'. These include, but are not limited to, the following:

- A decision which will restrict the employer's active membership in the Fund in future, or lead to a significant reduction in LGPS pensionable pay
- Any restructuring or other event which could materially affect the employer's membership, including a decision to cease business
- A change in the employer's legal status or constitution which may jeopardise its participation in the Fund
- If the employer has been judged to have been involved in wrongful trading
- If any senior personnel, e.g. directors, owners or senior officers have been convicted for an offence involving dishonesty, particularly where related to the employer's business
- Where the employer has, or expects to be, in breach of its banking covenant
- Details of any improvement notice (or equivalent) served by the appropriate regulator, e.g. Education Funding and Skills Agency, Office for Students, Charity Commission, Regulator for Social Housing etc, or SI 14 notice for local authorities

Employers should provide this information in advance of the event occurring (where possible) and as soon as practicable thereafter.

11 Hampshire Pension Fund contacts

Member and general employer queries
Pensions customer support team 01962 845588 pensions@hants.gov.uk Website www.hants.gov.uk/finance/pensions
Technical employer queries
Employer services team pensions.employer@hants.gov.uk
End of year and associated matters
Employer services team pensions.eoy@hants.gov.uk

Appendix A - Employer Responsibilities

The main duties of the employers as set out in the Regulations are set out in the table below, together with timescales for completion where appropriate.

Employer responsibility	Timescale
Decide who is eligible to become a member of the LGPS and the date from which membership of the LGPS starts). Notify HPF of the new member details and provide employee with details of the pension scheme.	Within 10 working days following the end of the month in which the employee joined the LGPS.
Determine the rate of employee contributions to be deducted from the employee's pensionable pay and, where the employee holds more than one post, the rate that should be applied to each post. This should be reviewed at least annually or more often where employer policy states	For the first pay period in which the employee joins the LGPS
Move employees into the 50:50 section Provide an amendment form to advise of change to/from 50:50 section	From the next pay period after receiving the employee's request Within 10 working days following the change
Collect and pay to the HPF the deduction of, the correct rate of pension contributions payable by the employee and the employer, including any additional employee contributions of any kind.	Payment over to HPF by 19 th of the month following deduction (22 nd if electronic)
Complete monthly remittance form containing detail of the contributions payment.	Send to Pensions Services with payment of contributions every month
Collect and pay over AVC contributions to the specified AVC provider in accordance with statutory timescales Notify HPF of a member's election to pay, vary or cease AVCs.	Payment over to AVC provider by 19 th of the month following deduction (22 nd if electronic)
Refund contributions through the payroll to any employee who opts out of the scheme with less than 3 months membership. Notify HPF of opt out and refund through payroll by providing a copy of the opt out form	From the next pay period after receiving the employee's request to opt out Within 10 working days following the end of the month in which the employee left the scheme

Employer responsibility	Timescale
Calculate assumed pensionable pay for any employees who met this requirement under the regulations.	As required
Leavers (excluding retirements/casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month in which the employee was last paid
Leavers (casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month the employer is aware they have left or were last paid
Retirements When an employee's LGPS membership ends on the grounds of retirement, determine the reason for retirement and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 20 working days before an employee's retirement date
Use an independent registered medical practitioner qualified in occupational health medicine in determining requests for ill health retirement.	As required
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify HPF and members of any changes to those policies within one month of setting a policy and the changes taking effect.
Appoint a person to consider applications from members regarding decisions, acts or omissions and to decide on those applications.	On entry to the HPF and review as required
Provide annual information to HPF with full details of the contributions paid by members in the year. Respond to queries on the annual return raised by HPF.	By 30 April each year Respond to queries within 10 working days of receipt
The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits.	As required

Employer responsibility	Timescale
The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	
Notify HPF of a member's death and next of kin's details.	Within 5 working days of the member's death.
Supply details required for completion of an estimate.	Within 10 working days of the member's request
Distribute annual benefit statements and any other notifications to active members as requested by HPF.	Within 20 working days of receipt
Notify HPF of any TUPE transfer. Complete TUPE forms for each member transferring.	Notify HPF of the transfer as soon as possible in advance of the transfer date. Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.
Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS Where an admission agreement is required, the Scheme employer should complete an 'Outsourcing data capture' form, transferring 'staff data capture' form and 'Undertaking of costs' form Ensure admission agreement is finalised Provide individual TUPE forms for transferring staff to HPF	As soon as possible but no later than 20 working days before change As soon as possible but no later than 20 working days before change No later than date of transfer Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place

Employer responsibility	Timescale
Notify HPF of a change of payroll provider by completing a 'Employer Change of payroll provider' form	As soon as possible but no later than 20 working days before change
Submit individual 'Change of payroll provider' forms to HPF for all transferring employees	Within 20 working days post transfer
Provide notification of new payroll numbers (if applicable) to HPF	Within 20 working days post transfer
Complete a mid year return if date of change is not 1 April	Within 40 working days post transfer

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Appendix B - HPF Responsibilities

The overriding responsibility of HPF is to maintain the Hampshire Pension Fund in accordance with the regulations.

HPF will provide the following within the timescales shown. A reduced timescale may be agreed in exceptional cases at an employer's request.

HPF responsibility	Timescales
Invest pension contributions and account for and manage the Pension Fund's assets.	Daily.
Allocate all contributions submitted by the employer to their respective income codes and reconcile the total contributions paid on a yearly basis.	Annually.
Appoint Additional Voluntary Contributions provider(s).	As required.
Appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.	As required, in line with procurement provisions.
Provide accurate, timely data to the Fund actuary.	As required.
Correspond with and commission any information required of the Fund Actuary on behalf of the employer.	As required.
Arrange for the triennial valuation of the Pension Fund and provide the employer with a copy of the valuation report and the annual report and statement of accounts.	Every three years.
Arrange for the annual accounting report to be provided to all employers requiring such a report.	Annually.
Publish and review the Pension Fund's Policies and Funding Strategy Statement, and prepare annual report and accounts.	Annual review and publication.
<p>Notify the employers of any significant changes to:</p> <ul style="list-style-type: none"> • Regulations that might affect members in their employ; • policies made by the administering authority under the Regulations; or • procedures adopted by it in accordance with this strategy. <p>Advice will be given to the employers in respect of matters arising from the interpretation and implementation of the Regulations.</p>	As required.
Maintain a complaints procedure including the appointment of a specified person to act as a local referee at Stage 2 of the dispute process.	As required.

HPF responsibility	Timescales
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify employers and members of any changes to those policies within 30 working days of the changes taking effect.
Answer enquiries made by members	Within 5 working days or sooner where possible Where an enquiry will take longer than 5 days to resolve, HPF will notify the member and keep the member updated.
Set up a record for each new member and issue a statutory notification.	Within 20 working days from when notified of their membership.
Make payment of a refund of contributions to an eligible member who leaves with less than 2 years service.	Within 15 working days of receipt of the election form from the member
Issue annual benefit statements on member self service to active members or via their employer where written notification is received to opt out of member self service	By 31 August after relevant annual return information from the employer is received and uploaded
Provide an estimate of pension benefits on request from the employer, and details of any capital costs to be paid by them.	Within 15 working days of receipt of all relevant information
Amend a member's record.	Within 15 working days from when the change was notified.
Calculate benefits due when a member leaves employment and send details to the member.	Within 15 working days for retirements, or within 30 working days for deferred benefits, on receipt of all information needed to make the final calculation
Send a benefit statement to all deferred members showing the accrued benefits to the date of leaving and the other options available to them in accordance with the Regulations.	Annually by 31 August

HPF responsibility	Timescales
Pay retirement lump sums.	Within 10 days of the retirement date or of receipt of all information from the employer and member if later.
Provide details of the final capital costs to be paid by the employer into the Pension Fund.	Within 10 working days of completing the calculation.
Calculate and process transfers of members' pension rights inwards and outwards.	Within 15 working days of receipt of all information
Acknowledge in writing the death of a member.	Within 5 working days of being notified of the death.
Supply survivor beneficiaries with notification of their entitlements including the method of calculation.	Within 15 working days of all the information being received.
Pay any death grant due and set up dependant on pensioner payroll.	Within 10 working days of completing the calculation of entitlement
Apply pensions increases annually to the relevant pensions in payment and deferred pensions retained in the Fund in accordance with the Pensions Increase (Review) Order issued by the Government.	Annually

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Appendix C – Administering Authority discretions and delegated authority for approval

The table below sets out how the Hampshire Pension Fund (HPF) chooses to exercise its discretions under the LGPS regulations, together with the delegated authority for approval where a further decision exists.

	Discretion	Regulation	Policy	Delegated authority for approval
1.	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority, Care Quality Commission or any other body applying to be an admission body	R4(2)(b), R5(5) & RSch 2, Part 3, para 1	HPF will enter into an admission agreement where the requirements that it has set down and issued to prospective bodies are met.	Team Manager –Employer Services
2.	Whether to terminate a transferee admission agreement in the event of: <ul style="list-style-type: none"> - Insolvency, winding up or liquidation of the body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so 	RSch 2, Part 3, para 9(d)	HPF will decide any case on its merits.	Director of Corporate Resources
3.	Define what is meant by ‘employed in connection with’	RSch 2, Part 3, para12(a)	HPF admission agreements specify this as the employee spending at least 50% of his time employed by the admission body carrying out duties relevant to the provision of the services.	N/A
4.	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	R16(1)	HPF has not set a minimum payment threshold.	N/A
5.	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC	R16(10)	HPF does not require those applying to take out an APC to pass a medical.	N/A
6.	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	R16(10)	HPF will turn down an application if there are sound reasons to believe the applicant is not in good health	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
7.	Whether to charge member for provision of an estimate of additional pension that would be provided by the Scheme in return for transfer in of in house AVC /SCAVC funds (where AVC / SCAVC arrangement was entered into before 1 / 4/ 14)	TP15(1)d & A28(2)	HPF charges for estimates in accordance with its estimates policy.	N/A
8.	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	R17(12)	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	Team Manager – Member Services
9.	Pension account may be kept in such form as considered appropriate	R22(3)(c)	HPF will decide the form in which pension accounts are kept based on any published guidance, best practice and in an efficient manner.	N/A
10.	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	TP10(9)	HPF will aggregate with the earliest remaining employment.	N/A
11.	If an Employer has become defunct, the administering authority is required to make decisions on ill health and early payment of benefits. Including whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement or on benefits which a member voluntarily draws before normal pension age.	R30(8) TP12(6) R38(3) R38(6) B30(2) B30(5) B30A(3) B30A(5) B31(4) B31(7) TPSch 2, para 1(2) & 1(1)(c) TP3(1), TPSch 2 para 2(1)	HPF will exercise this discretion in accordance with, and to the extent of (if any) the policy and practice of the former employer. If no policy exists, HPF will not waive any reduction or otherwise agree to a retirement which would incur an employer strain charge. HPF will assess ill health retirement decisions, including the use of 2008 certificates, on a case by case basis.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
12.	Whether to require any strain on Fund costs to be paid 'up front' by employing authority following payment of benefits under: flexible retirement; redundancy / business efficiency; the waiver (in whole or in part) of any actuarial reduction that would have otherwise been applied to benefits which a member voluntarily draws before normal pension age; release of benefits before age 60.	R68(2) TPSch 2, para 2(3) L80(5) B30 or B30A	HPF requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).	N/A
13.	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	R32(7)	No extension will be granted, unless appropriate to the individual circumstances of a case.	Head of Pensions
14.	Decide whether to commute small pension	R34(1) R39 (1) (b) & (c) B39 T14(3) L49 & L156	HPF will allow commutation of eligible small pension pots.	N/A
15.	Approve medical advisors used by employers (for ill health benefits)	R36(3) L97(10)	HPF requires employers to provide details of medical advisors used for assessing entitlement to ill health benefits and will liaise with any employer who is using a medical advisor of which HPF does not approve.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
16.	Decide to whom death grant is paid	TP17(5) to (8) R40(2) R43(2) R46(2) B23(2) & B32(2) B35(2) TSch1 L155(4) L38(1) L155(4) E8	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	Head of Pensions
17.	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	R49(1)(c) B42(1)(c)	HPF will choose the benefit entitlement that yields the highest level of benefits for the member.	Team Manager - Member Services
18.	Whether to set up a separate admission agreement fund	R54(1)	HPF has decided not to set up a separate admission agreement fund.	Director of Corporate Resources
19.	Maintain a governance policy which contains the information set out in the regulations	R55	HPF has a written governance policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
20.	Decide on Funding Strategy for inclusion in funding strategy statement	R58	HPF has a funding strategy which is included in the funding strategy statement.	Pension Fund Panel and Board
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	R59(1) and (2)	HPF has a written pensions administration strategy.	Pension Fund Panel and Board
22.	Maintain a communication policy which contains the information set out in the regulations	R61	HPF has a written communication policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	R64(4)	HPF will decide each case on its merits, with advice from the Fund Actuary.	Director of Corporate Resources

	Discretion	Regulation	Policy	Delegated authority for approval
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under R63	R65	HPF will make this decision as it arises, with advice from the Fund Actuary.	Director of Corporate Resources

	Discretion	Regulation	Policy	Delegated authority for approval
25.	Decide the frequency of payments to be made over to the Fund by employers and whether to make an admin charge	R69(1) L81(1) L12(5)	<p>HPF has determined the interval for payment of employer contributions to be monthly (other than for employers who make advance payment of their contributions on 1 April). Payments are due monthly by 19th of the month (22nd if electronic) following deduction.</p> <p>However if in exceptional circumstances an employer makes a request to defer payment of employer contributions, consideration to this will be given on a case by case basis. Factors which will be considered include, but are not limited to; the overall financial security of the organisation making the request, the likelihood that deferring may lead to contributions not being paid within the year, the support of any guarantor or related local authority to the deferment. If a request is agreed, then deferred payments will be subject to interest at the underlying discount rate for the employer.</p> <p>HPF reserves the right to ask the Fund Actuary to take into account the timing of deferred payments when determining the allocation of assets. This is so that any material increase in markets is not unfairly attributed to employers during a period of non payment.</p> <p>Administration costs are taken into account by the actuary when setting employer contribution rates.</p>	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
26.	Decide the form and frequency of information to accompany payments to the Fund	R69(4) L81(5)	Employers are required to complete a monthly remittance form with their payment showing a breakdown of contributions.	Team Manager - Finance
27.	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	R70 and TP22(2)	HPF will work with employers to improve performance but if additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged.	Head of Pensions
28.	Whether to charge interest on payments by employers which are overdue	R71(1) L82(1)	HPF will charge interest on payments which are more than one month overdue.	Head of Pensions
29.	Decide whether to extend six month period to lodge a stage one IDRPs to be heard by the administering authority	R74(4)	HPF will not extend the 6 month period, unless the circumstances of the individual case warrant an extension.	Head of Pensions
30.	Decide procedure to be followed when exercising its IDRPs functions and decide the manner in which those functions are to be exercised	R74(6) R76(4) L99	HPF has a documented and compliant IDRPs process.	N/A
31.	Whether admin authority should appeal against employer decision (or lack of a decision)	R79(2) L105(1)	HPF would take the decision to appeal based on the merits of the individual case.	Head of Pensions
32.	Specify information to be supplied by employers to enable admin. authority to discharge its functions	R80(1)(b) & TP22(1)	HPF provides employers with full guidance as to the information they must supply.	N/A
33.	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in the Administration of Estates (Small Payments) Act 1965.	R82(2) A52(2) L95	HPF will pay death grants that are under the amount specified in the Administration of Estates (Small Payments) Act 1965 without the need for grant of probate / letters of administration.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	R83 A52A	HPF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	R89(5) L106A(5)	HPF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
36.	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	R100(6)	HPF will not extend the 12 month limit, except if warranted by the individual circumstances of the case.	Head of Pensions
37.	Allow transfer of pension rights into the Fund.	R100(7)	HPF will allow transfers into the Fund.	N/A
38.	Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.).	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) TSch 1 L23(9) B10(2)	HPF will choose the pay figure that would yield the highest overall level of benefits for beneficiaries.	Team Manager – Member Services
39.	Decide to treat child as being in continuous education or vocational training despite a break.	RSch 1 & TP17(9) B39 T14(3)	HPF will treat a child as being in continuous education or vocational training despite a break.	N/A
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	RSch 1 & TP17(9)(b) B25	HPF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	Team Manager - Member Services

	Discretion	Regulation	Policy	Delegated authority for approval
41.	Decide policy on abatement of pensions following re-employment, including the pre April 14 element for post 14 leavers.	TP3(13) & A70(1)* & A71(4)(c) T12 L109 L110(4)b	HPF will not abate pension for any re-employment starting after 1 April 2014. Pensions already abated at this date will continue to be abated until the re-employment ends.	N/A
42.	Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	HPF will not extend the time limit for applications to pay off added years contracts.	N/A
43.	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	A45(3) L89(3)	HPF will usually recover as a deduction from benefits.	Team Manager - Member Services
44.	Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	B27(5) L47(2) G11(2)	All pensions due to children under 16 will be paid to another person for the benefit of the child. After age 16, HPF will normally pay to the child, unless the circumstances of the individual case mean that the payments should continue to be made to another person.	N/A
45.	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service.	L17(4),(7),(8), & L89(4) & Sch 1	HPF will not extend the 12 month period.	N/A
46.	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.).	L22(7)	HPF will choose the appropriate pay period that would yield the highest overall level of benefits for beneficiaries.	Team Manager - Member Services
47.	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08. leavers).	L47(1) G11(1)	HPF will apportion children's pension equally amongst eligible children.	N/A
48.	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	L50 and L157	HPF will commute benefits due to exceptional ill health, provided regulatory conditions are met.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
49.	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	L60(5)	HPF does not set a minimum payment threshold for AVCs	N/A
50.	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	L91(6)	Employer payments are paid monthly on account, with an annual balancing charge after the year end.	N/A
51.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	L118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
52.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	L147	HPF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
53.	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	HPF will pay spouse's LGPS pensions for life.	N/A
54.	Agree to pay annual compensation on behalf of employer and recharge payments to employer.	DC31(2)	HPF will pay compensation on behalf of an employer, subject to acceptable recharge arrangements.	Head of Pensions
55.	Whether to agree to that an admission agreement may take effect on a date before the date on which it is executed.	RSch2, Part 3, para 14	As set out in the Employer Policy, HPF requires employers to notify the Fund of any outsourcing as soon as possible and complete an admission agreement with sufficient time before the contract start date. However each case will be decided on its merits, with advice from the Fund Actuary.	Head of Pensions
56.	Whether to extend the period beyond 3 6 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	R64 (2ZA)	As set out in the Employer Policy, HPF will agree a later date with an employer if circumstances mean that an exit credit cannot be paid within 3 6 months of the employer exiting the Fund.	Head of Employer Services

	Discretion	Regulation	Policy	Delegated authority for approval
57.	To determine the amount of an exit credit, which may be zero	R64 (2ZAB)	HPF will determine the amount of any exit credit to be paid with regard to the factors set out in the regulations, in accordance with the policy in the Funding Strategy Statement and Employer Policy.	Head of Pensions
58.	Whether to suspend (by way of issuing a suspension notice) for up to 3 years an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	R64(2A)	As set out in the Employer Policy, HPF will exercise this discretion in relation to Town or Parish Councils. Any other circumstance will be considered on its merits with advice from the Fund Actuary.	Head of Employer Services
59.	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so.	RPS 2	HPF will allow a request for Voluntary Scheme Pays (VSP) where the tax charge is over £1,000 and under £2,000 in relation to an excess over the standard annual allowance. Any request for VSP below this minimum will be considered on a case by case basis with regard for the administration cost of administering a small pension debit. In addition, HPF will allow a request for VSP in relation to a tax charge of £1,000 or more which has arisen in relation to an excess over a tapered annual allowance (including any amount up to £2,000 over the standard annual allowance if the total tax charge is more than £1,000).	Head of Pensions

Key to regulations:

Prefix	Regulation
R	Local Government Pension Scheme Regulations 2013
TP	Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
A	Local Government Pension Scheme (Administration) Regulations 2008
B	Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007

T	Local Government Pension Scheme (Transitional Provisions) Regulations 2008
L	Local Government Pension Scheme Regulations 1997 (as amended)
None	Local Government Pension Scheme Regulations 1995
DC	Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
RPS	The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 March 2021
Title:	Governance: Pension Fund Panel and Board meetings
Report From:	<i>Deputy Chief Executive and Director of Corporate Resources</i>

Contact name: Andrew Bouflower

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Purpose of this Report

1. This report introduces changes to the calendar of meetings for the Panel and Board, starting from the 2021/22 municipal year.

Recommendation

2. That the Panel and Board note the changes to Panel and Board meetings starting for the 2021/22 municipal year.
3. That the Panel and Board recommends to County Council that its Terms of Reference are amended as shown in Annex 1, and approves that corresponding changes are made to the Pension Fund's Representation Policy.

Background

4. For a number of years the Pension Fund Panel and Board have met seven times a year, with meetings generally scheduled for 3 hours. In most meetings the committee consider papers covering both the governance and investments of the Pension Fund, as well as hearing presentations from and then questioning the Fund's investment managers. Whilst the meetings have successfully transitioned to virtual meetings through the Coronavirus pandemic, there continues to be a pressure from the number of items on some agendas. The Deputy Chief Executive and Director of Corporate Resources' officers and officers from Legal Services and Democratic and Member Services (DMS) have considered the current arrangements and options for improvements.

5. Alongside these meetings, internal training sessions are provided for the members of the Pension Fund Panel and Board and Audit Committee. There are no plans to change the arrangements for internal training sessions.

2021/22 Municipal year new approach

6. Starting for the 2021/22 municipal year it is intended that Panel and Board meetings should specifically focus on reports on the necessary governance and investment issues required for the management of the Pension Fund. The number of Panel and Board meetings will therefore reduce to four per year, once a quarter.
7. To enable the Panel and Board to fulfil their role of scrutinising the Pension Funds investment managers, specific briefings will be arranged for Members to hear presentations and question the investment managers. There will be a programme of six to seven briefings a year for Members to see the Pension Fund's full roster of investment managers. As these briefings are informal, no decisions can be taken. If decisions are required or as a means of escalation an investment manager is required to present to a formal meeting of the Pension Fund Panel and Board, this will be arranged.
8. Both the quarterly meetings of the Pension Fund Panel and Board and briefings with investment managers will be scheduled for about 2 hours, therefore resulting in a similar overall time commitment for Members in comparison to the current schedule of seven 3 hour meetings.
9. Following the successful adaption to virtual meetings of the Panel and Board it is intended that Members' briefings with investment managers will continue to be virtual. This will reduce travelling for both Members and the Fund's investment managers, many of whom are not based in the UK.
10. The Pension Fund's officers will work with their counterparts in DMS to arrange additional dates for meetings or briefings in the 2021/22 Municipal year. The dates for meetings already scheduled for 2021/22 will be kept and used for either formal meetings or briefings.

Pension Fund Panel and Board Terms of Reference

11. The Panel and Board's Terms of Reference require a minor change to reflect the reduced number of formal meetings. In addition, the opportunity is being taken to update the Terms of Reference to align with the County Council's other committees and remove the requirement for Members to give 5 days notice in order for a substitute to attend the meeting in their place. Members should continue to give as much notice of possible if they cannot attend a meeting and have asked a substitute to attend in their place and inform DMS.

The changes to the Terms of Reference are shown in Annex 1. The changes to the Terms of Reference need to be approved by County Council and reflected in a corresponding update to the Pension Fund's Representation Policy.

REQUIRED CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENTS:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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Pension Fund Panel and Board

Terms of Reference

1. Introduction

- 1.1. Hampshire County Council has appointed a combined Pension Fund Panel and Board for Hampshire and delegated to it responsibility for its statutory functions as the administering authority for the Hampshire Pension Fund and its responsibilities in respect of operating a Pension Fund Board for Hampshire.

2. Composition

- 2.1. The Pension Fund Panel and Board for Hampshire includes within its membership:
 - Nine elected members from the Administering Authority.
 - Three employer representatives appointed in accordance with the Hampshire Pension Panel and Board Appointment Policy approved by the Pension Fund Panel and Board from time to time.
 - Three scheme Member representatives appointed in accordance with the Hampshire Pension Panel and Board Appointment Policy approved by the Pension Fund Panel and Board from time to time.
- 2.2. The Administering Authority members will be appointed by Hampshire County Council. The nomination process for the employer and scheme member representatives is contained in the Appointments Policy and they will be appointed by the County Council in accordance with that Policy.
- 2.3. Employer representatives and scheme member representatives should remain as members of the Pension Fund Panel and Board during their appointed term of office unless in the opinion of the County Council they are not adequately performing their role, they become incapable of acting, they cease to represent their constituency, they resign by giving written notice to the Proper Officer of the County Council, a replacement member is nominated by their relevant nominating body or they are removed from the Panel and Board pursuant to Paragraph 6.8.
- 2.4. Each employer and scheme member representative should endeavour to attend all Panel and Board meetings during the year and are required to attend at least 2 meetings each year.

3. Appointment of Substitute Members

- 3.1. **Allocation** - As well as allocating seats on the Pension Fund Panel and Board, the County Council will at the Annual General Meeting of the County Council in each year appoint a designated Substitute Member for each Scheme and Employer member of the Pension Fund Panel and Board.

- 3.2. **Powers and duties** - Substitute Members will have all the powers and duties of the designated Scheme and employer Members of the Board.
- 3.3. **Substitution** - Substitute members may attend meetings in that capacity only:
 - a. to take place of the designated Scheme and Employer Member for whom they are the designated substitute;
 - b. where the member for whom they are the designated substitute will be absent for the whole of the meeting; and
 - c. after notifying Democratic and Member Services (on behalf of the Chief Executive) before the scheduled start of the meeting of the substitution.

4. Voting rights

- 4.1. All members of the Panel and Board, including all the Employer and Scheme Member representatives shall have full voting rights.
- 4.2. Any independent advisers appointed by the Panel and Board are invited to attend all meetings of the Pension Fund Panel and Board but independent advisers will not be a member of the Pension Fund Panel and Board and have no voting rights.

5. Role of the Pension Fund Panel and Board

- 5.1. In its role as the Pension Fund Panel for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for the County Council's statutory functions as administering authority of the Hampshire Pension Fund under the Local Government Pension Scheme Regulations and associated legislation under sections 7, 12 and 24 of the Superannuation Act 1972. This includes dealing with all matters arising that relate to the Hampshire Pension Fund, including the management and investment of the Fund.
- 5.2. In its role as the Pension Board for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for assisting Hampshire County Council as the administering authority of the Hampshire Pension fund to secure compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Local Government Pension Scheme ('LGPS'), for securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and for ensuring the effective and efficient governance and administration of the Hampshire Pension Fund.
- 5.3. When acting in its capacity as the Pension Fund Board the Pension Fund Panel and Board shall have the power to do anything which is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

6. Conflicts of Interest

- 6.1. In addition to the obligations on Members of the Pension Fund Panel and Board under the County Council's Member's Code of Conduct arising out of

their position as either members or co-opted members of the County Council the following provisions apply.

- 6.2. No member of the Panel and Board may participate in any business of the Panel and Board if they have a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Panel and Board (this does not include a financial or other interest arising merely by virtue of membership of the Scheme or any connected Scheme) ('Conflict of Interest').
- 6.3. All Panel and Board members must before becoming a member of the Panel and Board declare any potential Conflict of Interest to the Monitoring Officer of the County Council.
- 6.4. After appointment all Panel and Board members must within 14 days of becoming aware of any new potential Conflict of Interest declare that potential Conflict of Interest to the Monitoring Officer of the County Council.
- 6.5. A member of the Panel and Board must at any time provide the Monitoring Officer of the County Council with such information as he or she requires for the purpose of establishing whether or not the Panel or Board member has a Conflict of Interest.
- 6.6. A Panel and Board member should disclose any Conflict of Interest in any business of the Panel and Board either at the commencement of the meeting, the commencement of the consideration of the item or when the Conflict of Interest becomes apparent.
- 6.7. If a Panel and Board member has a Conflict of Interest in any business of the Board then that Member may not participate in any discussion of, vote on or discharge any function in relation to the matter. In addition the Panel and Board member should withdraw from the room where the meeting is being held.
- 6.8. Any alleged non-compliance with this paragraph 5 shall be referred to the County Council's Conduct Advisory Panel for consideration and in the event that the Conduct Advisory Panel find that a member of the Panel and Board has failed to comply with the provisions of this paragraph then the Conduct Advisory Panel may recommend to the County Council that the Member is to immediately cease to be a member of the Panel and Board or take such other action as the Conduct Advisory Panel regard as appropriate which can include but is not limited to requiring the member to apologise or requiring the member to undertake such training as the Panel believe is appropriate.

7. Knowledge and Skills

- 7.1. A member of the Panel and Board must have knowledge and understanding of:
 - the law relating to pensions, and
 - any other matters which are prescribed in Regulations.
- 7.2. The County Council has therefore adopted the requirements of the CIPFA Pensions Finance Knowledge and Skills Framework recognising the

importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Hampshire Pension Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

- 7.3. Members of the Pension Fund Panel and Board are required to acquire and maintain the appropriate level of expertise, knowledge and skills as set out in the CIPFA Pensions Finance Knowledge and Skills Framework in order to remain members of the Panel and Board.
- 7.4. A formal training plan for the Pension Fund Panel and Board is prepared every year to identify and meet the training needs for the Panel and Board as a whole and for individual members. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Framework.

8. Publication of Pension Fund Panel and Board information

8.1. Details of the Pension Fund Panel and Board are published on the County Council's website, including:

- The names and details of the members of the Pension Fund Panel and Board
- How the Scheme members are represented on the Panel and Board
- The responsibilities of the Panel and Board as a whole
- The Terms of Reference and policies of the Panel and Board and how they operate
- The appointment process for the Employer and Scheme members of the Panel and Board
- Who each Employer and Scheme member represents
- Any specific roles and responsibilities of individual Board Members

8.2. The procedure for the publication of Pension Fund Panel and Board meeting information and reports is contained in Part 3 Chapter 4 Paragraph 2 of the County Council's Constitution.

9. Reporting Breaches

9.1. Any potential or actual non compliance with a duty relevant to the administration of the LGPS which is likely to be of material significance to the Pensions Regulator in the exercise of any of its functions that comes to the attention of the Panel and Board shall be dealt with in accordance with the Protocol for Reporting Breaches agreed from time to time by the Panel and Board.

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

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