

**Somerset Pensions Board**  
**Wednesday 6 February 2019**  
**10.00 am Quantock Room - County Hall,**  
**Taunton**



To: The Members of the Somerset Pensions Board

Cllr M Healey and Paul Deal and Nigel Behan

Issued by Scott Wooldridge, Strategic Manager - Governance and Risk - 29 January 2019

For further information about the meeting, please contact Peter Stiles on 01823 357268 or [pstiles@somerset.gov.uk](mailto:pstiles@somerset.gov.uk)

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)



**RNID typetalk**

# AGENDA

Item Somerset Pensions Board - 10.00 am Wednesday 6 February 2019

**\* Public Guidance notes contained in agenda annexe \***

1 **Apologies for absence**

2 **Declarations of Interest**

3 **Minutes from the previous meeting held on 24 July 2018** (Pages 5 - 8)

The Committee is asked to confirm the minutes are accurate.

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Board's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **Business Plan Update** (Pages 9 - 14)

To consider this report

6 **LGPS Pooling of Investments** (Pages 15 - 16)

To consider this report

7 **Review of Pension Fund Risk Register** (Pages 17 - 22)

To consider this report

8 **Update on Fair Deal** (Pages 23 - 26)

To consider this report

9 **Proposed Changes to LGPS Regulations** (Pages 27 - 28)

To consider this report

## Guidance notes for the meeting

### 1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Peter Stiles on Tel (01823) 357628; or Email: [pstiles@somerset.gov.uk](mailto:pstiles@somerset.gov.uk)  
They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)

### 2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: <http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

### 3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

### 4. Public Question Time

If you wish to speak, please tell Peter Stiles, the Committee's Administrator, by 5.00pm 3 clear working days before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

## **5. Exclusion of Press & Public**

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

## **6. Committee Rooms & Council Chamber and hearing aid users**

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

## **7. Recording of meetings**

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

## Pensions Board

Minutes of a meeting of the Pensions Board held in the Luttrell Room, County Hall, Taunton on Thursday 24 July 2018 at 10:00.

### Present

Cllr M Healey (Chairman)

Mr Paul Deal

Mr Nigel Behan

### Apologies:

None

### Officers present:

Stephen Morton – Finance Technical;

Anton Sweet – Funds & Investment Manager

Dan Harris & Shirley Cuthbert – Peninsula Pensions

### 68 Apologies for absence – agenda item 1

None

### 69 Declarations of interest – agenda item 2

Mr Deal and Mr Behan declared personal interests as members of the Local Government Pension Scheme.

### 70 Minutes of the meeting held on 21 December 2017 – agenda item 3

The minutes of the meeting held on 21 December 2017 were accepted as being accurate and were signed by the Chairman.

### 71 Public Question Time – agenda item 4

There were no members of the public present and no questions were asked, statements/comments made or petitions presented.

### 72 Business Plan Update – agenda item 5

The Board considered its Business Plan for the coming year and noted that future meeting dates would be amended to bring them in line with Pensions Committee meetings.

The Board requested that the Review of Administration Performance move from a 6 monthly to a quarterly reporting cycle.

There was a detailed discussion regarding ensuring Pensions Board

meetings are beneficial to all attendees, and it was agreed that the cycle of Board meetings would be amended to follow Pensions Committee meetings, after the September 2018.

**73 LGPS Pooling of Investments – agenda item 6**

The Board considered a report by the Funds & Investment Manager which gave an update on the work towards the pooling of the Fund's investment assets with other LGPS funds. It was noted that initial movement of global passive assets had been completed last week.

It was also reported that: Brunel were currently completing a tender for an asset manager for UK equity and low volatility equity portfolios; that private market moves were continuing; the need for additional resources to ensure savings are realised; and the revised timetable for asset transfers and how this may result in savings being slower to realise.

The report was accepted.

**74 Review of Pension Fund Risk Register – agenda item 7**

The Board considered this report that provided an update on the risk register since the last meeting. The risk register, attached to the report as Appendix A, was discussed and the Funds and Investments Manager provided an overview of each risk and the mitigating actions and control measures.

There were brief discussions about: PF2, PF4, and PF6; changes to the percentage of funding; the potential impact of Brexit; and the engagement with the Actuary.

The Committee accepted the report, noting that there had been no changes to the risk scoring.

**75 Analysis of Receipt of Contributions from Employers for 2017/18 – agenda item 8**

The Board considered this report that provided an update on the effectiveness of the Fund in collecting Pensions contributions from Employers during the 2017/2018 financial year. It was noted that under the LGPS Regulations 2013 Employers are required to pay to the Administration Authority the contributions stated in the Fund Actuary's Rates and Adjustments Certificate as employer contributions and the employee contributions that have been deducted from members' pay.

Members heard that during 2017/2018 financial year (prior year comparative in brackets) there were 122 (140) instances of late payment, making up 7.06% (8.63%) of payments due. The corresponding figures for more than 10 days beyond due date were 36 (67) instances and 2.08% (4.13%) of payments due. There was a brief discussion as to the cause and circumstances of the late payments as the figure had worsened and it was

explained that there were a small number of late payments, from single employers for relatively small amounts.

It was further noted that instances of failure to pay by the due date had been spread over 38 (55) employers. Based on average monthly contributions from employers it was estimated that by value 96.21% (97.59%) of contributions had been received on or before due date. It was also confirmed that all contributions due during the year had been received. The report was accepted.

**76 Report of Grant Thornton – agenda item 9**

Representatives of Grant Thornton presented the Audit Findings for the Pension Fund for the year ended 31 March 2018, noting that the final statements would be considered by the Audit Committee.

This was a partial report as the final statements were being examined by the Audit Committee but the key messages were:

- The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018. The accounts were supported by good quality working papers.
- The draft financial statements were free from material error and supported by good quality working papers.
- Timely responses had been received to the external auditors' enquiries.
- A small number of adjustments were recommended to improve the presentation of the financial statements.
- As in previous years, the auditors highlighted that the Fund's journal policies did not require journals to be authorised by a second person. The officers maintained, however, that in their opinion, this was not necessary as compensating controls were in place.
- The audit fee had reduced by 23% in accordance with the new contract.

The Board welcomed Grant Thornton's comprehensive report and its very positive findings and thanked all involved for their work.

**77 Review of Pensions Committee Papers – agenda item 10**

The Board considered the agenda and reports from the 8 June 2018 meeting of the Pensions Committee, with the Funds and Investments Manager providing an overview of the reports. Topics included:

- The strong fund performance
- Fund manager changes would now be completed by Brunel
- The budget reporting mechanism

The Board briefly discussed its role as a policy development working group.

**78 Any Other Urgent Business – agenda item 11**

None.

(The meeting ended at 11.32 am)

**Mark Healey  
Chairman – Pensions Board**



## Business Plan Update

*Lead Officer:* Peter Lewis: Interim Director of Finance  
*Author:* Anton Sweet: Funds and Investments Manager  
*Contact Details:* (01823) 359584  
[asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)  
*Executive Portfolio Holder:* Not applicable  
*Division and Local Member:* Not applicable

### 1. Summary

- 1.1 To update the Board's forward work-plan and agree topics for consideration at future meetings.

### 2. Issues for consideration

- 2.1 Board should note that meeting dates have been changed to bring them in line with Pensions Committee dates where possible as requested by the Board. The next meeting will now be at 2pm on Friday 7<sup>th</sup> June.
- 2.1 The Board should indicate what they would like to consider at meetings during 2019 beyond standard items, specifically for the June 2019 meeting.

### 3. Background

- 3.1 To help manage the workload of the Board and allow officers to properly plan for and produce the necessary papers it is a practical necessity for the Board to adopt and populate a work-plan.

### 4. Consultations undertaken

None

### 5. Financial Implications

None

### 6. Background Papers

None

**Note** For sight of individual background papers please contact the report author.

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**SOMERSET COUNTY COUNCIL PENSION FUND**

**PENSION BOARD**

**MEETING WORKPLAN - 2019 to 2020**

<b>Date</b>	<b>Proposed Items of Business</b>	<b>Lead Officer</b>
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## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSION BOARD

## MEETING WORKPLAN - 2019 to 2020

Date	Proposed Items of Business	Lead Officer
07-Jun-19	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. Business Plan Update</b> To consider progress against the Board's approved work-plan.</p> <p><b>2. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>3. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>4. Review of Pensions Committee papers</b> To consider the most recent pensions committee papers and any arising matters</p> <p><b>5. Analysis of Receipt of Contributions from Employers</b> To consider the process and timeliness of the collection of contributions from employers</p> <p><b>6. External Audit 2019</b> To consider the report of the External Auditor on the Fund's Annual Report and Accounts for 2018/2019.</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>GT</b></p>
20-Sep-19	<p><b><u>ANNUAL MEETING</u></b></p> <p><b>Annual Employers Meeting of the Pension Fund at Taunton Racecourse</b></p>	

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSION BOARD

## MEETING WORKPLAN - 2019 to 2020

Date	Proposed Items of Business	Lead Officer
20-Sep-19	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. Business Plan Update</b> To consider progress against the Board's approved work-plan.</p> <p><b>2. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>3. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>4. Review of Pensions Committee papers</b> To consider the most recent pensions committee papers and any arising matters</p> <p><b>5. Review of Benefit Administration Performance</b> To consider the performance of Peninsula Pensions.</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>DH</b></p>
06-Dec-19	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. Business Plan Update</b> To consider progress against the Board's approved work-plan.</p> <p><b>2. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>3. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>4. Review of Pensions Committee papers</b> To consider the most recent pensions committee papers and any arising matters</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p>

**SOMERSET COUNTY COUNCIL PENSION FUND****PENSION BOARD****MEETING WORKPLAN - 2019 to 2020**

<b>Date</b>	<b>Proposed Items of Business</b>	<b>Lead Officer</b>
06-Mar-20	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. Business Plan Update</b> To consider progress against the Board's approved work-plan.</p> <p><b>2. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>3. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>4. Review of Pensions Committee papers</b> To consider the most recent pensions committee papers and any arising matters</p> <p><b>5. Review of Benefit Administration Performance</b> To consider the performance of Peninsula Pensions.</p> <p><b>6. Pension Fund Audit Plan for 2019/2020</b> To consider the Audit Plan as drafted by the Fund's External Auditor</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>DH</b></p> <p><b>GT</b></p>

## **LGPS Pooling of Investments**

<i>Lead Officer:</i>	Peter Lewis: Interim Director of Finance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 <a href="mailto:asweet@somerset.gov.uk">asweet@somerset.gov.uk</a>
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.
- 1.2 For the purposes of pooling SCC has aligned itself with 9 other funds in South West England and is working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).

### **2. Issues for consideration**

- 2.1 The report is for information only unless the Board deems that action is necessary having reviewed the report.

### **3. Progress in transition of assets to Brunel**

- 3.1 £507.8m of passive assets were transferred from management by the internal team to Brunel (sub-managed by LGIM) on 11<sup>th</sup> July.
- 3.2 £436.5m of active UK equity assets were transferred from management by Aberdeen Standard Investments to Brunel (sub-managed by Aberdeen Standard Investments, Baillie Gifford and Investec) on 21<sup>st</sup> November.
- 3.3 The Private Markets team is now fully established and has taken some initial commitments from funds. Preparations for the move of our Property assets from LaSalle to Brunel are underway
- 3.4 The timetable for transition through 2019 and beyond has been refreshed and agreed along with some extra resources within Brunel to ensure it is delivered. The next portfolio due to be available is Emerging Market equity, which is at the expressions of interest stage of the tender process. The EM portfolio is due to transition in Q3.

3.5 MHCLG have issued draft revised guidance on pooling of LGPS funds. Due to the nature of the way Brunel has been set up and the timetable we have in place we will not need to make significant changes to meet the new guidance assuming it is enacted in its current form.

#### **4. Consultations undertaken**

4.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point

4.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.

4.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30<sup>th</sup> November 2016.

#### **5. Financial Implications**

5.1 It is anticipated that the Brunel Pensions Partnership will allow the fund to make significant saving over time with the Somerset County Council Pension Fund estimated to make savings of £27.8m in the period to 2036 after costs. A significant portion of the likely costs are front loaded and it is anticipated that the Somerset Fund will breakeven in 2024.

5.2 By definition these are forecasts and there are significant risk to their timing and delivery. They are based on a core set of assumptions and actual savings could be significantly greater or smaller over time.

#### **6. Background Papers**

6.1 None

**Note** For sight of individual background papers please contact the report author.



## **Review of Pension Fund Risk Register**

*Lead Officer:* Peter Lewis: Interim Director of Finance  
*Author:* Anton Sweet: Funds and Investments Manager  
*Contact Details:* (01823) 359584  
[asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)

*Executive Portfolio Holder:* Not applicable

*Division and Local Member:* Not applicable

### **1. Summary**

- 1.1 The Pension Board have requested that a review of the risk register is a standing item on the agenda for each meeting.

### **2. Issues for consideration**

- 2.1 The paper is for information only.

### **3. Changes since last meeting**

- 3.1 Some of the commentary in the “additional information and commentary column” has been refreshed. There have been no changes to the risks or the risk scoring.

### **4. Background**

- 4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund’s risks in a single document.
- 4.2 Guidance issued by CIPFA on the application of the Myner’s Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

4.3 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

**5. Consultations undertaken**

None

**6. Financial Implications**

6.1 No direct implications

**7. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.

## Somerset County Council Pension Fund Risk Register - February 2019

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function.  Monthly review of asset allocation and cash levels	2	4	8		2	4	8		on-going with quarterly review		
1. PF2 2. Pensions Committee  Page 19	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement  Investment Strategy Statement	3	5	15	The triennial valuation includes provision for restoring the fund to full funding over 25 years  The current risk score partly reflects that the fund was 77% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10		Review again at next Valuation - 2019		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance.  There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible.
1. PF3 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements  Guarantee bonds	3	3	9	Ensure the on-going suitability of the guarantees in place with a review after each formal valuation  Review of actuarial results to consider employer specific funding ratios and employer 'Hot Spots'	2	2	4	Stephen Morton	on-going with quarterly review		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period.
1. PF4 2. Peter Lewis	Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.	None, other than experience of other staff within the sections	3	3	9		2	3	6		on-going with quarterly review	Updated to include positive impact of pooling September 2016	Shared service with Devon makes this less of an issue with respect to benefits administration staff. The move to pooling of investments should make the fund less reliant on a small number of internal officers

## Somerset County Council Pension Fund Risk Register - February 2019

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF5 2. Peter Lewis	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SCC IT support	As IT systems are refreshed or replaced build in support mechanisms	3	4	12		2	3	6		on-going with quarterly review		Shared service with Devon makes this less of an issue with respect to benefits administration IT. Pooling will also remove the need for some systems.
1. PF6 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with MHCLG and other interested stakeholders	4	4	16		2	3	6		on-going with quarterly review		The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme.
1. PF7 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Internal audit coverage  Annual report to committee with feedback from stakeholders  Internal procedures and checks	3	3	9		2	3	6		on-going with quarterly review		The greater resilience gained from the Peninsula Pensions shared service has been balanced by greater complexity coming into the scheme benefits.
1. PF8 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12		2	4	8		on-going with quarterly review	Updated June 2017 to reflect turnover of Committee following County Council elections	
1. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian	2	4	8		2	4	8		on-going with quarterly		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration.

Somerset County Council Pension Fund Risk Register - February 2019

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
		Review of credit worthiness and inherent business risk of custodian at tender phase									quarterly review		As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption
1. PF10 2. Pensions Committee	Failure of Brunel to deliver either Fee savings or investment performance	Representation on the Brunel Client Group and Oversight Board.	2	4	8			2	4	8		on-going with quarterly review	Added as per Committee request at September 2017 meeting.

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## Update on Fair Deal

<i>Lead Officer:</i>	Peter Lewis: Interim Director of Finance
<i>Author:</i>	Dan Harris: Head of Peninsula Pensions
<i>Contact Details:</i>	(01392) 383000 <a href="mailto:daniel.harris@devon.gov.uk">daniel.harris@devon.gov.uk</a>
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### 1. Summary

- 1.1 The Ministry of Housing, Communities and Local Government (MHCLG) released a consultation in May 2016 regarding the introduction of greater pension protection for employees of LGPS employers who are compulsorily transferred to service providers.
- 1.2 The 2016 consultation proposed that, in line with the Government's Fair Deal guidance of October 2013, most LGPS members in this position should have continued access to the LGPS with the new service provider.
- 1.3 A further consultation regarding Fair Deal will be running from 10th January to 4th April 2019, which takes into consideration some of the concerns raised in the initial consultation.

### 2. Issues for consideration

- 2.1 The report is for information only unless the Board deems that action is necessary having reviewed the report.

### 3. The consultation and proposed changes

- 3.1 The latest consultation is requesting views on the following proposals:
  - Amendments that would require service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer, removing the option of offering a broadly comparable scheme.
  - Automatic transfer of LGPS assets and liabilities when employers in the scheme are involved in a merger or takeover.

- 3.2 It is also proposed that all LGPS scheme employers will be considered as Fair Deal employers with the exception of:
- further education corporations, sixth form college corporations and higher education corporations (i.e. post-1992 universities)
  - admission bodies.
- 3.3 Contractors who provide services to the organisations listed above will continue to provide access to the LGPS for transferred staff via an admission agreement with the pension fund (subject to meeting requirements and with the agreement of the contracting employer); however, there would be no obligation for them to do so under the scheme regulations.
- 3.4 A Fair Deal employer must ensure that protected transferees are given access to the LGPS for as long they remain a protected transferee and have an entitlement to membership of the scheme.
- 3.5 Transitional arrangements will cover those staff who have already been outsourced, in order for them to become protected transferees if and when services are re-tendered.
- 3.6 The consultation also proposes that service providers do not necessarily need to become admission bodies to participate in the LGPS. Instead, employers could be given 'deemed employer' status, a classification of employer which already exists within LGPS regulations.
- 3.7 For an employee of a deemed employer, the scheme employer in the LGPS would not be their employer under employment law. For example, the deemed employer of a voluntary school is the associated local authority.
- 3.8 The LGPS Scheme Advisory Board (SAB) will issue guidance to assist employers under Fair Deal with service contracts and to help protect them from potential risks.
- 3.9 The admission body route will remain an option so that Fair Deal employers can decide if they wish for a service provider to become a full scheme employer in the LGPS. This approach may be more appropriate for larger, longer term contracts where it is more fitting for a service provider to have full employer responsibilities under the LGPS regulations.
- 3.10 The draft regulations include an additional paragraph within part 3 of schedule 2 of the LGPS Regulations 2013, confirming that admission agreements may contain details of the risk sharing arrangements agreed between the Fair Deal employer and the service provider. We anticipate that advice issued by the SAB will contain further details regarding the risk sharing provisions that may be included within admission agreements.
- 3.11 The full consultation can be found via the following link:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>



**4. Conclusion**

- 4.1 The Fair Deal proposals are intended to strengthen the pensions protections that apply following an outsourcing and it is expected that all transferred staff of relevant LGPS employers will benefit equally from the new provisions.

**5. Financial Implications**

None

**6. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.

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## Proposed changes to LGPS regulations

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*Executive Portfolio Holder:* Not applicable

*Division and Local* Not applicable

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### 1. Summary

1.1 Under the public service pension framework, the costs of the pension schemes are periodically assessed to ensure the reforms remain affordable and sustainable.

1.2 In the LGPS there are two mechanisms used to do this:

- The Employer Cost Cap (ECC), which currently stands at 14.6%
- The Future Service Cost (FSC), which currently stands at 19.5%. The FSC is operated by the LGPS Scheme Advisory Board (SAB) and includes employer and member contributions at a ratio of 2:1 (13% employers' contributions and 6.5% relating to members).
- 

1.3 If the total employer contribution rate changes by 2% or more in either direction, changes are required in order to bring the Scheme cost back into target.

### 2. Issues for consideration

2.1 The report is for information only unless the Board deems that action is necessary having reviewed the report.

### **3. The proposed changes**

- 3.1 A recent review by the Government Actuary Department (GAD) has determined that the costs of the LGPS are now below the target rate. To address this, the SAB has proposed the following improvements to the Scheme, which are due to be implemented on 1st April 2019:
- Removal of Tier 3 Ill Health;
  - Minimum Death-in-Service lump sum of £75,000 per member (not employment);
  - Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
  - Revised member contribution rates and bandings, which take account of varying tax relief:
    - a) a 2.75% contribution rate for salaries between £0 and £12,850
    - b) an expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from 5.8% to 4.4%
    - c) an expansion of the 6.8% contribution band from £45,200 to £53,500
- 3.2 The proposals take into consideration the change in the annual revaluation of CARE (Career Average Revalued Earnings) benefits to CPIH (Consumer Price Index including owner occupiers' housing costs), as opposed to CPI (Consumer Price Index) announced in the October 2018 budget.
- 3.3 It is expected that the proposals will result in an increase to the average employer future service rate across the scheme of approximately 0.9% of payroll costs. However, the impact on individual employers will vary and will be dependent on the 2019 valuation process.

### **4. Consultations**

- 4.1 A short consultation is due in February and is expected to only be open for 3 weeks.

### **5. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.