Pension Fund Committee agenda

Date: Monday 21 March 2022

Time: 2.00 pm

Venue: Paralympic Room, The Gateway, Aylesbury

To be presented by Julie Edwards, Head of Pensions, Buckinghamshire Council.

Item		Page No
10	**Exclusion of the Press and Public** **To resolve to exclude the press and public as the following item is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)**	
11	**Confidential Minutes of the Last Meeting** To agree the confidential minutes of the meeting held 18 November 2021.	**47 - 50**
12	**Buckinghamshire Pension Board Confidential Minutes** To note the confidential minutes of the last Pension Fund Board meeting held 15 December 2021.	**51 - 52**
13	**Pension Fund Risk Register** To be presented by Julie Edwards, Head of Pensions, Buckinghamshire Council.	**53 - 72**
14	**Pension Fund Performance** To be presented by Julie Edwards, Head of Pensions, Buckinghamshire Council.	**73 - 148**
15	**Private Markets Update** To be presented by representatives from Mercer.	
16	**Date of the next meeting** 7 July 2022, 2pm	

If you would like to attend a meeting, but need extra help to do so, for example because of a disability, please contact us as early as possible, so that we can try to put the right support in place. For further information please contact: Anne-Marie Kenward on 01296 382236, email democracy@buckinghamshire.gov.uk.

Pension Fund Committee minutes

Minutes of the meeting of the Pension Fund Committee held on Thursday 18 November 2021 in Paralympic Room, The Gateway, Gatehouse Road, Aylesbury, commencing at 10.00 am and concluding at 11.15 am.

Members present

R Bagge, T Butcher, A Collingwood, E Gemmell, I Macpherson, P Marland and M Walsh

Others in attendance

J Edwards, K Farooqi, A-M Kenward, C Lewis-Smith and R Martinig

Agenda Item

1 Apologies for Absence / Changes in Membership

There were no apologies for absence recorded.

2 Declarations of Interest

There were none.

3 Minutes of the last meeting

RESOLVED

Members of the Committee AGREED the minutes of the meeting held 9 September 2021 as an accurate record.

4 Minutes of the last meeting of the Pension Fund Board

The minutes of the Pension Fund Board held 6 October 2021 would be circulated after the meeting for Committee Members to note.

5 Breaches of the Law

C Lewis-Smith, Pensions Administration Manager, Buckinghamshire Council, referred to the papers circulated with the agenda.

There had been no changes to the Procedure for Reporting Breaches of the Law (appendix 1). Breaches for the year were recorded under appendix 2.
The 4 breaches were discussed:

1. Employee contributions not returned within 5 years of members leaving the fund. It was noted that recording this as a breach could be seen as unfair as there was little action that could be taken if a member does not claim the

refund. There was an outstanding request to have the 5 year limit removed from the Regulations however the decision was expected to be delayed by the change of local government department from the Ministry of Housing, Communities & Local Government to the Department for Levelling Up, Housing and Communities (DLUHC).

2. Annual statements issued within statutory deadlines. All figures below 100% counted as a breach. Members of the Committee were happy with the achieved figure of 98.14%.
3. AVC Fund options not provided to fund members by AVC provider within designated timeframes. This was a national issue and officers continued to work with the provider and LGA who have raised this as a concern on behalf of all Funds.
4. Late payment of employees /employer's contributions. Officers chased all payments not received by 20th of the month.

A member of the committee asked how often was there a review of the AVC provider as there was a concern relating to the breach. C Lewis Smith confirmed a review of the AVC provider was on the work plan and confirmed the provider was popular and usually performed well.

A member of the committee requested this review would be brought forward and advised a salary sacrifice option would be more favoured. The Chairman confirmed there was a report being circulated relating to salary sacrifice however, this had not been agreed yet by the Council. The status of the report would be investigated. **Action Chairman T Butcher**

6 Annual Accounts Audit 2020/21

R Martinig, Pensions & Investment Accountant, Buckinghamshire Council (BC) advised the committee there were no changes to the accounts. It was highlighted that the accounts could not be signed off until the overall Buckinghamshire Council accounts were signed which had been delayed until January 2022.

RESOLVED
Members of the committee NOTED the accounts update.

7 Forward Plan

J Edwards, Head of Pensions, Buckinghamshire Council, referred to the document circulated with the agenda.

A member of the committee proposed that it may be useful to have a formal plan for total divestment from fossil fuel.

RESOLVED
Members of the committee NOTED the update.

8 **Exclusion of the Press and Public**

RESOLVED

To exclude the press and public as the following items are exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

9 **Confidential minutes of the last meeting**

Restricted.

10 **Buckinghamshire Pension Board Confidential Minutes**

Restricted.

11 **Pension Fund Performance**

Restricted.

12 **Taskforce for Climate Related Financial Disclosures**

Restricted.

13 **Assessment of Value (AoV)**

Restricted.

14 **Brunel Pension Partnership Update - Private Markets**

Restricted.

15 **Date of the next meeting**

To be agreed and circulated.

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Pension Fund Board minutes

Minutes of the meeting of the Pension Fund Board held on Wednesday 15 December 2021 in MS Teams, commencing at 10.00 am and concluding at 11.06 am.

Members present

B Black, P Dearden, R Ellis, S Mason, J McGovern, I Thompson and L Wheaton

Others in attendance

J Edwards, K Farooqi, A-M Kenward, C Lewis-Smith and S Price

Apologies

T Pearce

Agenda Item

1 Apologies / Declarations of interest

Apologies were received from T Pearce.

A declaration of interest was reported from T Pearce who was potentially affected by the £95k pension cap.

Chairman S Mason had resigned from the board and a replacement would be made in due course.

2 Minutes of the Pension Fund Board

The minutes of the previous meeting would be amended to include a declaration of interest for T Pearce. T Pearce was potentially affected by the £95k pension cap, which is expected to be under consultation later this year.

Regarding item 4 C Lewis Smith confirmed the employers were using i-Connect and there were 8,000 active members.

RESOLVED Members of the Board AGREED the minutes of the Pension Fund Board held 6 October 2021 subject to the above change.

3 Minutes of Pension Fund Committee

To follow.

4 Administration Performance Statistics

S Price, Assistant Pensions Administration Manager, Buckinghamshire Council, referred the report circulated with the agenda.

It was reported the administration team were performing well with a reduction in call waiting time for customers and 95% of priority tasks within relevant turnaround times. It was noted within the team the Pensions Officer role had changed to Member Liaison Officer which had helped improve the turnaround times for cases.

The Chairman noted the hard work of the administration team and improvements in performance.

A member of the board requested further detailed information relating to the profile and timings of overdue cases. S Price noted this and reported the information in AOB.

S Price noted the action to include further context and explanation for the incoming communications table in the report.

RESOLVED Members of the Board NOTED the update

5 Internal Dispute Resolution Procedure

S Price, Assistant Pensions Administration Manager gave an overview of the report circulated with the agenda.

S Price highlighted the following:

- There had been 7 appeals to complaints for the year 2020-21, these related to benefit value or non-entitlement disputes. There was a slight increase in cases however this was not a high volume.
- There were 58 non-formal complaints 93% were responded to in 5 working days. It was noted the delay in resolving these complaints was linked to difficulties in receiving information from the employers.
- The administration team monitor and track formal and informal cases to review any patterns in complaints in order to make internal changes to processes. There would be a review of all orphan funds in the near future.

A member of the board requested the internal dispute data for 2021-22, S Price confirmed they would share this information. In addition, the member queried the process for awarding compensation to complainants. S Price confirmed the pension ombudsman reviewed the cases and typically awards between £250-£500. These cases could be escalated to pensions administration manager.

C Lewis Smith reported they attended the Pension Manager Conference and it was noted LGPS complaints have decreased showing a vast improvement.

RESOLVED Members of the Board NOTED the update

6 Training Opportunities

C Lewis Smith, Pensions Administration Manager, Buckinghamshire Council gave an update on training opportunities.

The report attached highlighted online webinars and seminars board members had attended throughout the year. Training opportunities for the next year would be circulated and board members could review these.

A Member of the board enquired about the pension dashboard webinar and the implications this project would have for the sector. C Lewis Smith advised the money and pensions service was setting up a dashboard for UK pension scheme members to enable access and contact for all schemes. The Council's software provider was working to integrate this however It was anticipated the dashboard would start the testing phase in 2023 with a view to go live in 2025. Information on the annual benefit statements could be on the dashboard however this would not replace My Pension.

RESOLVED Members of the Board NOTED the update

7 McCloud Update

C Lewis Smith, Pensions Administration Manager, Buckinghamshire Council gave an overview of the report circulated with the agenda.

It was noted due to the Cabinet reshuffle in government there was a delay in reporting the new regulations from the Department for Levelling Up, Housing and Communities. The draft regulations were anticipated for February 2022.

There had been 6 employers who had trialled the system to capture any issues and 251 data sets had been requested from scheme employers with a further 80 to be sent. It was noted employers with schools were taking longer to provide data, however it was hoped this would be completed soon.

A board member queried if the cost of the McCloud project had increased. In response it was noted the assumptions of the project had not widely changed and further data was required to assess the final cost.

A board member queried if immediate determent was an issue for the LGPS, in instances where members leave there scheme and benefits are manually calculated. C Lewis Smith advised this did not affect the LGPS and they did not have to deal with immediate determent. However, it was noted once the new regulations are issued there would be a second set of amendments to the regulations regarding amending tax positions.

RESOLVED Members of the Board NOTED the update

8 Forward Plan

C Lewis Smith requested board members to contact her if any items to be added to forward plan.

9 Annual Benefit Statements - Administration Year End Update

S Price, Assistant Pensions Administration Manager gave an overview of the report circulated with the agenda.

It was noted 98.5% of annual benefit statements had been issued to scheme members by the statutory deadline in August. The team had liaised with employers to issue any outstanding statements.

The volume of queries outstanding was fewer than usual for this time of the year however it was noted that the majority of outstanding queries related to schools or colleges. The team should clear all outstanding queries before the year end April 2022. The board commended the administration team for their work in reducing the number of queries.

A board member queried if the 1% outstanding annual benefit statements be issued at any point. It was noted if a scheme member requested the statement it could be issued however as the financial year end is approached it is unlikely these would be requested.

RESOLVED Members of the Board NOTED the update

10 Exclusion of Press and Public

RESOLVED

To exclude the press and public as the following items are exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because they contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

11 Annual Benefit Statements - Confidential Appendix

Restricted.

12 Confidential minutes of Pension Fund Board

Restricted.

13 Confidential minutes of Pension Fund Committee

Restricted.

14 Pension Fund Performance

Restricted.

15 Date of next meeting / AOB

16 March, 10am via MS Teams.

Report to Pension Fund Committee

Date:	21 March 2022
Title:	**Governance Compliance Statement**
Author and/or contact officer:	Claire Lewis-Smith, Pensions Administration Manager
Recommendations:	**The Committee is asked to approve the Governance Compliance Statement.**

1. Executive summary

1.1 The Governance Compliance Statement details whether the administering authority delegates its functions and if so, the terms, structure and operational procedures of the delegation, along with the frequency of meetings and voting rights. It also details the terms, structure and operational procedures of the local pension board. It provides a summary of the Fund's compliance with recommended good practice. The statement is used in conjunction with other statutory documents such as the pension fund annual report and audit report, as evidence that the Fund has robust governance in place.

2. Content of report

2.1 The attached Governance Compliance Statement (Appendix 1) was approved on 25 February 2021 and there are no material changes to the statement.

2.2 We are awaiting the implementation of recommendations set out in the LGPS Scheme Advisory Board's Phase III Good Governance report, which will increase the level of detail required in this statement. The Department of Levelling Up, Housing and Communities are reviewing the recommendations and will issue any associated legislation/guidance in due course.

3. Other options considered

3.1 Not applicable.

4. Legal and financial implications

4.1 Regulation 55 of the LGPS Regulations 2013 requires an administering authority to prepare a Governance Compliance Statement and to keep the statement under review.

5. Corporate implications

5.1 Not applicable.

6. Consultation and communication

6.1 A consultation was not required.

6.2 The Governance Compliance Statement will be published on our website.

7. Next steps and review

7.1 The Governance Compliance Statement will be reviewed annually or earlier if a material change has taken place.

Buckinghamshire Council
Buckinghamshire Pension Fund

1. Introduction

1.1 This is the governance compliance statement which sets out the Council's arrangements (in its capacity as administering authority of the Buckinghamshire Pension Fund), for discharging its responsibilities in accordance with the Local Government Pension Scheme (LGPS) Regulations 2013.

1.2 Regulation 55 of the LGPS Regulations 2013 requires an administering authority to prepare and publish a governance compliance statement. It should cover whether the administering authority delegates its functions in relation to the pension fund to a committee, a sub-committee or an officer of the council; and where this is the case, details of:

- the terms, structure and operational procedures of the delegation
- the frequency of any committee or sub-committee meetings
- whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- details of the terms, structure and operational procedures relating to the local pension board.

Pension Fund Committee

2. Governance Arrangements

2.1 Under the terms of the Council's Constitution, the functions of the Council as administering authority of the Pension Fund are delegated to the Pension Fund Committee and are excluded from the delegation of authority to the Cabinet and other Committees.

2.2 The Pension Fund Committee consults within their advisory framework and with the Head of Projects & Pensions before making decisions within the scope of their delegated powers. The Committee receives professional advice from an investment consultant and support from an independent adviser on investment strategy and other investment matters.

2.3 The Pension Fund Committee are responsible for administering, investing and managing the Fund. The Terms of Reference for the Pension Fund Committee are to agree and ensure the continual review of:

- the overall investment objective for the Fund;
- the Fund's Investment Strategy Statement;
- the Fund's asset allocation policy;
- the appointment of firms to provide investment and actuarial advice to the Fund; and,
- any other matters relating to the management and investment of the Pension Fund, as requested.

Terms of reference are available on the Council's website at:

[Our constitution | Buckinghamshire Council]

2.4 The Chairman reports annually to the Cabinet and the Council on the discharge of the Committee's delegated responsibility and the performance of the Fund.

2.5 The Pension Fund Committee meets at least four times a year. At each meeting the Committee receives a report on the investment performance of the fund in the quarter and the fund's longer term performance. Its members act in a quasi-trustee capacity and consequently, no substitutions are permitted.

2.6 The membership of the Pension Fund Committee is:

- Seven elected members from Buckinghamshire Council
- One elected member from Milton Keynes Council
- One elected Police and Crime Commissioner (PCC) or Deputy PCC member from Thames Valley Police

3. Functions and Responsibilities

3.1 The Pension Fund Committee approves the Pension Fund's Funding Strategy Statement, the Investment Strategy Statement, the Governance Compliance Statement, Pension Administration Strategy, and the Communications Policy. Other key responsibilities of the Committee include:

- Policy approval
- Appointing Advisers and monitoring Fund performance
- Monitoring Scheme Governance

3.2 The Funding Strategy Statement, required by regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, sets out the aims and purpose of the Fund and the responsibilities of the administering authority as regards funding the scheme.

3.3 The Investment Strategy Statement also required by regulation 7, recommends an authority formulates, publishes and maintains an Investment Strategy Statement. This must include: -

a) a requirement to invest money in a wide variety of investments;
b) the authority's assessment of the suitability of particular investments and types of investments;
c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) the authority's policy on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments; and
f) the authority's policy on the exercise of rights (including voting rights) attaching to investments.

3.4 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

3.5 The Fund's Funding Strategy Statement and Investment Strategy Statement can be found at: Investment and fund management | Buckinghamshire Council (buckscc.gov.uk)

3.6 The Communications Policy details the overall strategy for involving stakeholders in the Pension Fund. The Pension Fund also has a Breaches of Law Policy. Additionally, an administering authority discretions document has been developed stating those discretions found within the scheme that it has adopted.

3.7 The Pension Administration Strategy is an important tool in managing and improving the administrative performance of the Fund. It formally sets out the requirements of both Buckinghamshire Council as the administering authority and participating employers/third party payroll providers in the Fund in a single document within one framework. A formal review is undertaken every three years.

3.8 The Fund's administration policies can be found at:

Policies | Buckinghamshire Council (buckscc.gov.uk)

Local Pension Board

4. Governance Arrangements

4.1 The purpose of the Local Pension Board is to assist the administering authority in its role as a scheme manager of the Scheme. This covers all aspects of governance and administration of the LGPS, including funding and investments. Such assistance is to secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme and any requirements imposed by the Pensions Regulator in relation to the Scheme. The Board must also ensure the effective and efficient governance and administration of the Scheme and help the administering authority, including undertaking work requested by the administering authority.

4.2 The Local Pension Board meet four times a year. Substitutions are not permitted.

4.3 The membership of the Local Pension Board is:

- Four Scheme employer representatives
- Four Scheme member representatives

Details of the Local Pension Board's membership, Terms of Reference, Code of Conduct Policy, Conflicts Policy and Knowledge and Understanding Framework are available on the Council's website at:

Buckinghamshire Pension Board | Buckinghamshire Council (buckscc.gov.uk)

5. Stakeholder Engagement

5.1 A triennial meeting of the Pension Fund, called the 'Pensions General Meeting', is held in December in the year of the Fund valuation (the year prior to when the revised contribution rates from the valuation are due to come into effect), to which all employer representatives and scheme members are welcome. The purpose of the meeting is to report on investment performance and current issues of concern to the Fund stakeholders.

5.2 Mechanisms used to involve stakeholders include:

- Communication with Scheme employers
- Dedicated Employer Liaison Officers and LGPS Technical Officer
- Training Events
- Meetings with the Actuary and the Auditors
- Meetings with Advisors
- Meetings with Brunel Pension Partnership
- Meetings with Finance Directors of Scheme Employers
- The annual report for the Pension Fund
- Scheme member newsletters/updates

6. Review and Compliance with Best Practice

6.1 This statement will be kept under review and will be revised and published annually or following any material change.

6.2 The Pension Fund is regularly audited, and no material findings have arisen from either our internal or external auditors.

6.3 The Council recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pension fund's decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

6.4 The Regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This statement is confirming that all the above mentioned mechanisms are in place and are effective and embedded. Any breach will be reported to the Chairman of the Pension Fund Committee. A summary of our compliance with recommended good practice is outlined below.

Good Practice Requirement	Met/Not Met	Evidence
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Met	Pension Fund Committee (PFC) Terms of Reference
That representatives of LGPS Scheme employers and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Met	PFC Terms of Reference and Buckinghamshire Pension Board (BPB) Terms of Reference
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Met	PFC meets at least four times per year and BPB meets four times per year. BPB minutes are on the PFC agenda and vice-versa
Representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: - i) Scheme employers (including non-local government employers, e.g. admitted bodies); ii) Scheme members (including deferred and pensioner scheme members), iii) Independent professional observers, and iv) Expert advisors (on an ad-hoc basis).	Met	Key stakeholders on PFC or BPB as per Terms of Reference i) PFC and BPB ii) BPB iii) PFC and BPB iv) PFC and BPB
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Met	All PFC members and advisers get all papers except where it concerns them. BPB members are provided with relevant training as required under The Pensions Regulator's Code of Practice 14.
Selection and role of lay members		
That committee or panel members are made fully aware of the status, role and function they are	Met	This is set out in the Committee's terms of reference.

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required to perform on either a main or secondary committee.		
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Met	Section 1.17 of the PFC Terms of Reference confirms all 9 members have voting rights. Section 1.18 confirms members have quasi-trustee status and substitutions are not permitted. PFC's Quorum is 3 members. BPB has 4 employer representatives and 4 scheme member representatives. The Terms of Reference confirms the Quorum is 4 Board members, comprising of at least 2 employer and 2 scheme member representatives. Substitutions are not permitted.
Training/facility time/expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Met	Training for PFC members is undertaken annually as detailed by the PFC training plan. This organisation has adopted the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills. Reimbursement of Expenses is defined in the BC constitution. Training for BPB members is undertaken in accordance with The Pensions Regulator's Code of Practice 14.
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Met	Reimbursement of expenses is defined in BC Constitution.
Meetings (frequency/quorum)		
That an administering authority's main committee or committees meet at least quarterly.	Met	PFC Terms of Reference.

That an administering authority's secondary committee or panel meet at least quarterly and is synchronised with the dates when the main committee sits.	Met	BPB Terms of Reference.
Access		
That subject to any rules in the council constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Met	Confirmed that this applies by Democratic Services.
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Met	PFC forward plan requires Pensions & Investment Team managers to attend meetings to discuss and raise issues outside the usual scope of Pension Fund Investment.
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Met	All non-confidential agendas, papers and minutes are on Buckinghamshire Council's external website. There is a separate policies section on the website where all governance policies are available.

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Report to Pension Fund Committee

Date: 21 March 2022

Title: **Admission Agreements - Passthrough Arrangements**

Author and/or contact officer: Claire Lewis-Smith, Pensions Administration Manager

Recommendations: **The Committee is asked to approve the passthrough approach for admission agreements.**

1. Executive summary

1.1 This report considers the options available to letting authorities when commissioning services (outsourcing), to another employer that intends to participate as an admission body in the Buckinghamshire Pension Fund.

The proposal from 1 April 2022 is to move from the existing approach, where a bond or form of indemnity is required when a contractor enters into an admission agreement with the letting authority and the Fund, to a "passthrough" admission agreement arrangement. The default position for the Fund will be a simple fixed rate passthrough basis. Consideration will be given to a passthrough arrangement based on a variable rate in line with the cost of benefit accrual, where the contract being let is for a long period.

Whether using the existing approach or passthrough, the letting authority retains long term responsibility for the risks, as all the members' accrued benefits transfer back to the letting authority at the end of the contract. The letting authority remains the ultimate guarantor for all pension obligations throughout the duration of the contract in the event of the contractor becoming insolvent.

2. Content of report

2.1 Under the Funds' current policy for outsourcing, the following principles apply:

- all past service pension benefits in respect of outsourced members are transferred within the Fund from the letting authority to the new contractor;

- the contractor enters into an admission agreement with the Fund and the Scheme employer;
- the contractor is set up on a “fully funded” basis with the assets notionally allocated at outset equal to the value of the transferring pension liabilities based on market conditions at the transfer date (or earlier calculation date) and the funding valuation basis applicable at that time;
- the starting contribution rate is the amount required in respect of the cost of future accrual only, assessed by reference to the outsourced staff;
- the contribution rate is reviewed at every formal valuation date during the contract period to allow for experience and changes to assumptions/market conditions, and adjusted to take account of any past service surplus or deficit that has arisen since the last valuation (or outset);
- as required by the LGPS Regulations, a bond or other form of indemnity is taken out by the contractor and is triggered in the event of its failure during the contract period. The bond value is reassessed following each Fund valuation; and
- when the contractor reaches the end of its contract, the LGPS Regulations require a cessation valuation to be undertaken and any deficit or surplus is required from or paid to the exiting employer.

2.2 Letting authorities may choose to outsource services to improve service delivery, increase efficiency and reduce service costs. However, under the Fund’s current approach to outsourcing, all of the key pension risks transfer from the letting authority to the contractor for the duration of the contract.

This approach can lead to a great deal of uncertainty over costs for contractors during volatile market conditions, e.g. large increases to regular contributions, large cessation debts etc. Bidders for contracts are aware of these uncertainties and may seek to price this into contracts via additional service charges which can undermine the purpose of outsourcing.

The letting authority’s aim will be to obtain the best price for the outsourced service. Offering contractors passthrough arrangements as a way of removing some of the uncertainty surrounding the cost of paying for the outsourced member’s pension benefits, is a way to help achieve this.

3. Other options considered

3.1 Retain the current method – although the current method provides all that is legally required, the uncertainty over pension costs for contractors can lead to additional service charges being included in contract prices. This does not assist letting authorities in achieving the best price for a service when they are aiming to improve service delivery, increase efficiency and reduce service costs. From the Fund's perspective the requirement to obtain a bond or other form of indemnity is administratively intensive and requires additional monitoring, particularly where the contract is for a short period of time. For the contractor, the cost of securing a bond or other form of indemnity is often expensive.

3.2 Passthrough arrangement which varies in line with the cost of benefit accrual – this approach is more appropriate for longer contracts and although not the default position, will be considered where the outsourcing is for a long period of time. In these cases, an initial rate is set and then adjusted at each valuation in line with the change in the cost of future benefit accrual.

This means the contractor is liable for the costs of changes in the profile of their membership, life expectancy of their members and the actuary's updated assumptions, such as future investment returns, inflation and salary increases. The letting authority retains much of the market risk (e.g. asset performance) and experience (e.g. if inflation has been higher or lower between the valuation periods than that assumed). This arrangement also involves no exit deficit or credit at the end of the contract for the contractor and the letting authority retains all of the past service deficit risk.

4. Legal and financial implications

4.1 Letting authorities will need to ensure details regarding the passthrough arrangement are included in the contract or side agreement when outsourcing the contract. The admission agreement template will be updated to reference the contract/side agreement but will not materially change.

Whether using the existing approach or passthrough, the letting authority retains long term responsibility for the risks, as all the members' accrued benefits transfer back to the letting authority at the end of the contract. The letting authority remains the ultimate guarantor for all pension obligations throughout the duration of the contract in the event of the contractor becoming insolvent. The financial risk to the Fund therefore remains unchanged.

5. Corporate implications

5.1 Not applicable.

6. Consultation and communication

6.1 All Fund employers were issued with the consultation document attached at appendix 1. No comments have been received to date.

6.2 If approved, further communication will be issued to Fund employers confirming the new passthrough arrangements.

7. Next steps and review

7.1 Employers will be notified that the proposal has been approved and the admission agreement manual and any associated documentation and templates issued to employers will be updated. There is no requirement to review this decision.

Buckinghamshire Council
Buckinghamshire Pension Fund

Buckinghamshire Pension Fund
Pass-through Consultation
February 2022

Protecting employment rights for transferring employees (TUPE)

Under provisions in the Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE), the pay, terms and conditions of employment for transferred local authority employees are protected, preventing these entitlements from being changed without agreement. The Transfer of Employment (Pension Protection) Regulations 2005 cover the pension and contribution arrangements for employees to which TUPE applies.

With effect from 1 October 2007, best value contracting authorities in England have been required to comply with The Best Value Authorities Staff Transfers (Pensions) Direction 2007. This means that, in outsourcings, a best value authority must secure pension protection for each TUPE transferring best value authority employee which must be the same as, broadly comparable to, or better than those they had a right to acquire prior to the transfer. In practice, this usually means that the new service provider will become an admission body in the relevant LGPS fund and continue to offer LGPS membership to the TUPE transferring staff.

Fair Deal for staff pensions: staff transfer from central government (new Fair Deal)

The Fair Deal for staff pensions: staff transfer from central government does not apply to best value authorities, but it does apply to maintained schools, including academies. In respect of schools, new Fair Deal applies to maintained schools in England where the employer is **not** a best value authority. It therefore applies directly to employees of foundation schools, foundation special schools and voluntary aided schools, as although such schools are maintained schools, the staff in those schools are employees of the governing body of the school and not the local authority. New Fair Deal also applies directly to academies.

Where new Fair Deal applies, staff who

- are members of a public service pension scheme, and
- who are compulsorily transferred from the public sector to an independent contractor by way of a transfer to which TUPE applies, or who move by way of a non-voluntary transfer to a public service mutual or to other new models of public service delivery

should, while they continuously remain wholly or mainly employed by the contractor, any subsequent contractor or sub-contractor on the delivery of the outsourced service or function, be provided with ongoing access to the public service pension scheme they were in immediately before the transfer. In the LGPS, this would be achieved by way of an admission agreement.

Current Fund Policy

Under the Fund's current policy, the following principles apply in relation to pension provision for the relevant outsourced staff:

- all past service pension benefits in respect of outsourced members are transferred within the Fund from the letting authority to the contractor;
- the contractor enters into an admission agreement with the Fund and the Scheme Employer;

- the contractor is set up on a "fully funded" basis with the assets notionally allocated at outset equal to the value of the transferring pension liabilities based on market conditions at the transfer date (or earlier calculation date) and the funding valuation basis applicable at that time;
- the starting contribution rate is the amount required in respect of the cost of future accrual only, assessed by reference to the outsourced staff;
- the contribution rate is reviewed at every formal valuation date during the contract period to allow for experience and changes to assumptions/market conditions, and adjusted to take account of any past service surplus or deficit that has arisen since the last valuation (or outset);
- as required by the LGPS Regulations, a bond or other form of indemnity is taken out by the contractor that is triggered in the event of its failure during the contract period. The bond value is reassessed following each Fund valuation; and
- when the contractor reaches the end of its contract, the LGPS Regulations require a cessation valuation to be undertaken and any deficit or surplus is required from/paid to the exiting employer.

The Fund also requires any early retirement pension strain and augmentation costs that arise during the contract to be paid via an immediate additional lump sum payment.

Under the current approach, all of the main pension risks transfer from the letting authority to the contractor for the duration of the contract. Volatile market conditions can lead to uncertainty over costs for contractors e.g. large increases to contributions, large cessation debts etc. In addition, membership for contractors is typically small and therefore their funding is particularly sensitive to changes in membership. Bidders for contracts are increasingly aware of these problems and may seek to price them into contracts via additional service charges which can undermine the purpose of outsourcing.

The letting authority will want to obtain the best price for the outsourced service. Offering contractors pass-through as a means for removing some of the uncertainty of the cost for paying for the outsourced member's pension benefits may be a way of helping to achieve this.

Whether using the current approach or pass-through, the letting authority still retains the long term responsibility for the risks as all of the members' accrued benefits transfer back to the letting authority at the end of the contract. Furthermore, the letting authority remains the ultimate guarantor for all pensions obligations throughout the contract in the event of the contractor becoming insolvent. This position remains whether adopting the current approach or the pass-through approach.

Proposed Fund Policy from 1 April 2022
The Fund is proposing to adopt a default position of a pass-through arrangement for all contractors who are required to participate in the Fund after 1 April 2022.

A pass-through arrangement is one in which the risks inherent in participating in the LGPS are shared between the contractor and the letting authority, typically with the majority of the pensions risk being retained by the letting authority rather than passing to the contractor. Importantly it also means that the contractor would not be required to fund any deficit at the end of the contract. Any deficit/surplus at the end of the contract will be consolidated into the letting authority's deficit/surplus, subject to any agreed exceptions. By removing this difficult to quantify risk from bidders, bids for an outsourced service will be much more closely aligned to the actual cost of providing the service.

In most cases the contractor would still be expected to pay for the cost of any enhancements to members' benefits, including those payable via early retirement redundancies as well as meeting the contributions payable. If the contractor does not want to take responsibility for these risks, it needs to be clearly stated in the contract or side agreement with all parties being clear what their responsibilities are at the outset.

For accounting purposes, under a full pass-through arrangement where all the pensions risk remains with the letting authority, the liability would be included on the balance sheet of the letting authority.

Approaches to pass-through arrangements
There are three common approaches to setting the contributions payable under a pass-through arrangement which are:

Simple fixed rate
A simple fixed rate approach is one in which the pass-through contribution rate is fixed at the outset and not re-calculated during the remainder of the contract. This will usually be set out as part of the commercial contract between the letting authority and the contractor. Where this rate differs from the cost of future benefits calculated by the actuary, the balance would be incorporated into the letting authority's certified rate.

It may be that the contractor pays contributions into a Fund throughout the life of the contract based on the pass-through contribution rate agreed at the outset. Another approach may be that the rate the contractor pays into the Fund varies (for example, following each triennial valuation) but the difference between the rate and the original pass-through contribution rate is reimbursed to the contractor/letting authority in some way, for example via adjustment to the contract pricing. Under this approach, as any differences are reimbursed, the overall effect remains that the contractor pays the pass-through contribution rate. Actuarial calculations will be required on commencement and at each triennial valuation to determine the calculated rate.

At the end of the contract, there would be no exit deficit or credit for the contractor as the letting authority has retained all of the funding risk.

For accounting purposes, the contractor's obligation is simply to pay a fixed contribution rate so they would not be expected to include any liability in respect of their LGPS pension participation on their balance sheet. Instead the letting authority would include it in their disclosures. The contractor may report its participation in the LGPS as if it were a defined contribution scheme.

Varies in line with the cost of benefit accrual
This approach is most likely to be found on longer contracts. An initial rate is set and then adjusted at each valuation in line with the change in the cost of future benefit accrual. This means that the contractor picks up the cost of changes in the profile of their membership, the life expectancy of their members and the actuary's updated assumptions, such as future investment returns, inflation and salary increases. The letting authority retains much of the market risk (e.g. asset performance) and experience (e.g. if inflation has been higher or lower between the valuation periods than assumed).

This arrangement also involves no exit deficit or credit at the end of the contract for the contractor and the letting authority retains all of the past service deficit risk.

This approach means that if there are any updates to the future expected cost of benefits, the contractor's rate is updated. For accounting purposes, under this approach it is less clear whether the contractor needs to include a liability on their balance sheet, they are subject to some pensions risk but they never have the possibility of a past service funding deficit so it could be argued that they have no accounting balance sheet obligation. In these cases, the contractor and letting authority should check with their auditors what their requirements are.

Matches the letting authority
This is a simple approach which means that the contractor starts out 100% fully funded and pays the same future service rate as the letting authority. When the letting authority rate is updated, the contractor's rate is also updated. This is similar to conventional pooling in an LGPS Fund where employers are grouped and pay the same contribution rate. This arrangement also involves no exit deficit at the end of the contract for the contractor as any deficit is added to the letting authority's deficit.

In this approach, the contractor shares in all pensions risks while they are operating the contract but, assuming the letting authority is much larger than the contractor, the rate that they pay should be less volatile than it would have been if the risk had been fully transferred to the contractor.

As the contractor is now sharing in some of the pensions risk, it may be that there is stronger argument that they should include a liability on their balance sheet. However, it may be that the absence of an exit deficit or credit means that this is not required. Auditor's advice should be sought in these cases.

Academies
The Department for Education (DfE) expect academies to obtain permission before entering into passthrough provisions. The DfE guarantee covers members who have been employed by the academy at some point. Therefore, difficulties arise if a member starts their LGPS membership with the contractor via an 'open' admission agreement.

Proposed Fund Policy
From 1 April 2022 the default position for the Buckinghamshire Pension Fund will be on a simple fixed rate passthrough basis. Consideration will be given to a passthrough arrangement based on a variable rate in line with the cost of benefit accrual where the contract is for a long period.

The Fund will require a copy of the legal agreement between the letting authority and the contractor. In particular, the letting authority will require confirmation of whether the difference in pricing between the fixed rate and the actual cost will be re-imbursed elsewhere, as this will require additional actuarial calculations.

Comments
If you have any comments regarding the Fund's proposal, please email them directly to Claire.Lewis-Smith@buckinghamshire.gov.uk by 12pm on Friday 11 March 2022.

Report to Pension Fund Committee

Date:	21st March 2022
Title:	**Treasury Management Service Level Agreement**
Contact officer:	Julie Edwards, Head of Pensions
Recommendations:	**The Committee is asked to review and note the Pension Fund treasury management service level agreement.**

1. Executive summary

1.1 This report updates the Committee on the provision of treasury management services by Buckinghamshire Council to the Pension Fund in 2021/22 and asks the Committee to discuss and note the arrangements for investing the Pension Fund's surplus cash balances in 2022/23.

2. Content of report

2.1 The Pension Fund maintains relatively small balances of cash arising from the receipt of employer and employee contributions exceeding payments made on behalf of the Fund. Most of the Fund's cash is managed externally, either by the investment managers or State Street, the Fund's custodian bank. The cash held by the administering authority is usually less than 1.0%, or £40m, of the Fund's assets providing a working balance for the Fund to meet its short-term commitments. From time to time, if surplus cash balances held approach £40m and are greater than the amounts required to meet the Fund's commitments, then they are invested in accordance with the Investment Strategy.

2.2 During 2021 (2020) the Pension Fund earned £0.5k (£10.8k) interest on its working cash balances, the average balance of £8.3m (£3.1m). With bank rate at the historic low of 0.1% interest rates available for instant access cash were 0%. The cash balances ranged from £6.8k to £45.9m during 2021 (£0.1m to £20.4m during 2020). A separate bank account operates for the Pension Fund. The Council's treasury team invested all the Pension Fund's working cash in the Pension Fund bank account or money market funds. Members are asked to review and note the SLA for 2022/23 attached as Appendix 1.

2.3 Local Government Pension Regulations (Management & Investment) 2009 gave the Pension Fund the power to arrange a temporary loan from a bank for up to 90 days in order to pay benefits due under the Pension Fund Scheme or to meet investment commitments. However, there are no counterparties in the market that will temporarily lend cash to the Pension Fund. In previous years members of the Pension Fund Committee had indicated that they would prefer to borrow from the market rather than the Council. However, with no external market willing to temporarily lend to the Fund, the Pension Fund Committee members agreed that they would prefer the Fund to borrow temporarily from the Council rather than maintain a higher cash buffer to meet any unexpected cash requirements. There was one instance during 2021 where the Fund temporarily borrowed cash from the Council. The amount borrowed was £42m for 8 days at 0.25% interest rate to fund an investment commitment, the borrowing was required due to a delay in receiving cash from a redeemed investment.

3. Other options considered

3.1 Not applicable.

4. Legal and financial implications

4.1 There are none arising directly from this report.

5. Corporate implications

5.1 There are none arising directly from this report.

6. Communication, engagement & further consultation

6.1 Not applicable.

7. Background papers

7.1 None.

Appendix 1

PROVISION OF TREASURY MANAGEMENT SERVICES BY BUCKINGHAMSHIRE COUNCIL TO THE BUCKINGHAMSHIRE PENSION FUND

This is an agreement between the Pension Fund Committee and the Administering Authority Buckinghamshire Council, such that:

1 A separate bank account operates for the purpose of the Pension Fund.

2 Based on the projected daily balances for the Pension Fund bank account, the Council's Treasury Team will invest cash in the Pension Fund bank account so that the balance in the Pension Fund bank account is within the limit as determined by the Council's treasury management strategy.

3 The Council's Treasury Team will invest the Pension Fund's remaining cash balances with counterparties on behalf of the Pension Fund in accordance with the Council's treasury management strategy. Investments will usually be in an instant access call account / Money Market Fund since the Fund's money is primarily held to meet immediate payments from the Fund. Interest will be paid into the Fund's bank account at the agreed rate.

4 For any surplus balances estimated to be significant in cash terms and likely to remain for a significant period of time, the Council's Treasury Team will make every effort to place these surplus funds in accordance with the Fund's Investment Strategy.

5 The Council's Treasury Team may arrange a temporary loan from the Council for up to 90 days in order to pay benefits due under the Pension Fund Scheme or to meet investment commitments.

6 The Council's Treasury Team will check balances on the Pension Fund / Council cash adjustment codes every Friday and on the last working day of the month. Any balances on the cash adjustment account will be transferred to / from the Pension Fund.

This agreement is effective from 1 April 2022 and will be subject to annual review by the Pension Fund Committee.

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Report to Pension Fund Committee

Date: 21st March 2022

Title: **Section 13 Report on the 2019 Actuarial Valuation**

Contact officer: Julie Edwards, Head of Pensions

Recommendations: **The Committee is asked to review and note the Section 13 report.**

1. Executive summary

1.1 The Government Actuary Department (GAD) has undertaken a Section 13 valuation of the 91 English and Welsh LGPS funds. The Section 13 valuation adopts standard assumptions for all LGPS funds with the aim of providing a level playing field so that Funds can be compared on a like for like basis.

2. Content of report

2.1 GAD has been appointed by the Department of Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme'). The Section 13 valuation carried out by GAD is based on the formal actuarial valuations of the 91 English and Welsh LGPS funds, as carried out by their Fund actuary.

2.2 The Section 13 valuation adopts standard assumptions for all LGPS funds with the aim of providing a level playing field so that Funds can be compared on a like for like basis. In summary, the purpose of the Section 13 valuation is to identify any outlying funds measured against the following objectives:

- Compliance – whether the actuarial valuation has been carried out in accordance with the Regulations;
- Consistency – whether the actuarial valuation has been carried out "not inconsistently" with other funds;

- Solvency – whether a fund has sufficient assets together with employer and employee contributions to pay all the benefits due over the long term; and

- Long term cost efficiency – whether a Fund is paying sufficient contributions to meet the cost of benefits accruing and repair any existing deficit over an appropriate period.

2.3 An executive summary of the LGPS England and Wales Section 13 Report – 31 March 2019 is attached as Appendix 1. The main findings from the report are:

- Compliance – fund valuations met the requirements of the LGPS regulations.

- Consistency – all fund had adopted a consistent "dashboard", as recommended in the 2016 section 13 report. However, there are some areas of inconsistency.

- Solvency – Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. Many funds reduced their contribution rates as a result of the improvement in their funding position. GAD's view is that the prevailing economic conditions deteriorated between 2016 and 2019. Their opinion is that, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.

- Long term cost efficiency – GAD raised concern about four funds as raising potential concern in relation to long term cost efficiency.

2.4 There were four recommendations in the report:

- The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

- The Scheme Advisory Board should consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

- Fund actuaries should provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

- The Scheme Advisory Board should review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

2.5 All LGPS actuarial valuation reports complied with Section 13, meeting the requirements of the LGPS regulations and containing appropriate detail in relation to primary and secondary contribution rates for employers. There were no flags raised for any fund under the objective of consistency. Buckinghamshire Pension Fund achieved a green flag on solvency. The Fund achieved green flags for all measures used to check if the long term cost efficiency objective was met.

2.6 The key point for the Pension Fund Committee is that the Fund met all the criteria of the Section 13 valuation. There is an increasing amount of scrutiny on the LGPS from external parties and it is becoming increasingly important to ensure the Fund is well governed and takes a balanced, sensible approach to funding and investment strategy, which the Fund has of course been doing.

3. Other options considered

3.1 Not applicable.

4. Legal and financial implications

4.1 There are none arising directly from this report.

5. Corporate implications

5.1 There are none arising directly from this report.

6. Communication, engagement & further consultation

6.1 Not applicable.

7. Background papers

7.1 Local Government Pension Scheme England and Wales Section 13 Report as at 31 March 2019.

Section 13 report as at 31 March 2019 (publishing.service.gov.uk)

7.2 Local Government Pension Scheme England and Wales Section 13 Report as at 31 March 2019 Appendices.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040200/S13_Appendices.pdf

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LGPS England and Wales Section 13 Report – 31 March 2019: Executive Summary

Executive Summary

1.1 The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the Scheme").

1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

1.3 This is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in September 2018.

1.4 This report is based on the actuarial valuations of the funds, other data provided by the funds and their actuaries, and a significant engagement exercise with relevant funds. We are grateful to all stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Progress since 2016

1.5 We made five recommendations as part of the 2016 section 13 report. In summary we recommended that:

1. Standard information should be provided in a uniform dashboard format to facilitate comparisons between funds.
2. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved.
3. A common basis for academy conversions should be sought.
4. Within a named closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments.
5. Recovery plans could be demonstrated to be consistent with CIPFA guidance.

1.6 We are pleased to note good progress in relation to recommendations 1, 4 and 5. However we note that further progress is needed in relation to recommendations 2 and 3.

1.7 We set out our comments on this progress in more detail in Chapter 3.

Overall Comments

1.8 In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position, specifically:

- Total assets have grown in market value from £217 bn to £291 bn
- Total liabilities disclosed in the 2019 local valuation reports amounted to £296 bn. The local bases are required to be set using prudence
- The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)
- The improved funding level is due in large part to strong asset returns over the 3 year period to 31 March 2019. Equities in

particular performed strongly, averaging a return of circa 10-12% pa over the period. Funding also improved due to the continuation of substantial financial contributions from most LGPS employers
- The aggregate funding level on GAD’s best estimate basis is 109% (at 2019). GAD’s best estimate basis is the set of assumptions derived by GAD without allowance for prudence. There is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption, in our opinion
- We note that the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes.

1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

1.10 Our review indicated that fund valuations were compliant with relevant regulations. However greater clarity on the assumptions used to determine contributions in the Rates and Adjustment certificate for some funds would be helpful.

Consistency

1.11 We interpret “not inconsistent” to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports. Local circumstances may merit different assumptions. For example financial assumptions are affected by the current and future planned investment strategy, and different financial circumstances might lead to different levels of prudence being adopted.

1.12 Further to our recommendation as part of the 2016 section 13 report, we are pleased to note all funds have adopted a consistent “dashboard”. We consider this a useful resource to aid stakeholders’ understanding, because information is presented in a consistent way in the dashboards. We have suggested a few minor changes to further assist stakeholders going forward.

1.13 However, even given consistency in presentation in the dashboards, differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We encourage further discussion on how assumptions are derived based on local circumstances in valuation reports.

1.14 We welcome the improvements of the evidential consistency of key assumptions, fund actuaries have provided more consistent rationalisation of assumptions in funding strategy statements.

However, we note there appear to remain some areas of inconsistency. Furthermore, there are particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches. We believe that there are substantial benefits to improving consistency which are discussed later in the report.

Recommendation 1:

The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Solvency

1.15 As set out on the CIPFA website in [CIPFA’s Funding Strategy Statement Guidance](), the employer contribution rate is appropriate if:

- the rate of employer contributions is set to target a funding level for the whole fund of 100% over an appropriate time period and using appropriate actuarial assumptions

and either:

- 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%

or

- there is an appropriate plan in place should there be an expectation of a future reduction in the number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

1.16 Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. However, the size of the employers has not grown at the same pace. This increases the risk to funds if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the LGPS as a whole, so we provide a general risk comment (rather than focus on any individual funds).

1.17 In GAD's view, the prevailing economic conditions have deteriorated between 2016 and 2019. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.

1.18 We have performed an asset liability modelling (ALM) exercise for the scheme as a whole. This modelling illustrated:

- potential for material variability around future employer contribution rates (the current investment strategy includes a high proportion of equity investments which contribute to this variability but has the upside potential of greater expected long term investment returns)
- the potential impact on funding levels if there were to be constraints on the level of employer contributions

1.19 The following risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting administering authorities and their advisors are unaware of this risk, but we have illustrated possible implications in our ALM.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor it over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Long term cost efficiency

Under solvency and long term cost efficiency we have designed a number of metrics and raised flags against these metrics to highlight areas where risk may be present, or further investigation is required, using a red/amber/green rating approach. Where we do not expect specific action other than a general review, we have introduced a white flag.

1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

1.21 In 2019 we are flagging four funds as raising potential concern in relation to long term cost efficiency; this is two fewer than in 2016.

1.22 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures.

1.23 For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

1.24 During our review, we engaged with a number of funds with concerns in relation to a combination of deficit period, required return and return scope measures. We are pleased to note that, following these discussions, we were able to take into account a post valuation asset transfer in respect of one fund and allow for a firm commitment to make additional contributions in respect of a further fund. As a result, we have not raised long term cost efficiency amber flags in respect of these two funds.

1.25 In the 2016 section 13 exercise, we noted that several funds were extending their deficit recovery end points and recommended that funds reviewed their funding strategy. Whilst we note the improved funding position has reduced or removed deficits for some funds, where a deficit remains, we are pleased to observe that most funds in 2019 have maintained their deficit recovery end points.

1.26 However, this does not appear to be the case for two funds which we have flagged on this measure.

1.27 We note that different approaches have been taken by different actuarial advisors to determine deficit recovery plans. Whilst we acknowledge that different approaches may be appropriate, it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. We have therefore made a recommendation to extend the information provided, and the appendices include the information to be provided.

Recommendation 2:

We recommend the Scheme Advisory Board consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:

We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

1.28 Some councils have made or may be considering asset “gifts” to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

Recommendation 4:

We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

Pension Fund Committee Forward Plan

21 March 2022

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes		Every 3 months
Governance Compliance Statement	Claire Lewis-Smith	Annual
Admission Agreements Pass Through Arrangements	Claire Lewis-Smith	Ad hoc
Treasury Management Service Level Agreement	Julie Edwards	Annual
Section 13 Valuations	Julie Edwards	Triennial
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes		Every 3 months
Pension Fund Risk Register	Julie Edwards	6 monthly
Pension Fund Performance	Julie Edwards	Quarterly
Private Markets Update	Mercer	Ad hoc
Date of next meeting / AOB	--	

July 2022

Agenda Item	Author	Cyclical Item?
Appointment of Vice-Chairman		
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Buckinghamshire Pension Board Draft Minutes		Every 3 months
External Audit Plan	Grant Thornton	Annual
Draft Pension Fund Accounts		Annual
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes		Every 3 months
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update	Brunel Pension Partnership	Ad hoc
Environmental, Social and Governance Considerations	Mercer	Ad hoc
Date of next meeting / AOB	--	

Pension Fund Committee Forward Plan

September 2022

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes		Every 3 months
Annual Accounts Audit 2021/22	Grant Thornton	Annual
Pension Fund Annual Report 2021/22		Annual
Breaches of the Law	Claire Lewis-Smith	Annual
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes		Every 3 months
Pension Fund Risk Register	Julie Edwards	6 monthly
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update - Responsible Investment	Brunel Pension Partnership	Ad hoc
Private Markets Training	Mercer	Ad hoc
Date of next meeting / AOB	--	

November 2022

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes		Every 3 months
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes		Every 3 months
Pension Fund Performance	Julie Edwards	Quarterly
Actuarial Valuation as at 31 March 2022	Barnett-Waddingham	Triennial
	Mercer	Ad hoc
Brunel Pension Partnership Update	Brunel Pension Partnership	Ad hoc
Date of next meeting / AOB	--	

February 2023

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes		Every 3 months
Governance Compliance Statement	Claire Lewis-Smith	Annual
Treasury Management Service Level Agreement		Annual
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes		Every 3 months
Pension Fund Risk Register	Julie Edwards	6 monthly
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update		Ad hoc
Private Markets Update	Mercer	Ad hoc
Date of next meeting / AOB	--	

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Appendix

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Appendix

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Agenda Item 14

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