



Pension Fund Committee agenda

Date: Thursday 22 April 2021

Time: 2.00 pm

Venue: MS Teams

Membership:

C Adams, D Anthony, A Bacon, R Bagge, Mr M Barber (Thames Valley Police), T Butcher (Chairman), J Chilver, J Gladwin (Vice-Chairman) and Mr N Miles (Milton Keynes Council)

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Council.

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| 6 | Forward Plan
To be presented by Julie Edwards, Head of Pensions, Buckinghamshire Council. | 75 - 78 |
| 7 | 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) | |
| 8 | Confidential minutes of the last meeting
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| 12 | Investment Strategy Implementation
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| 13 | Responsible Investment Update
To be presented by Mercer. | 137 - 146 |
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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 25 February 2021 in Via MS Teams.

Members present

D Anthony, A Bacon, R Bagge, T Butcher, J Chilver and J Gladwin

Others in attendance

C Dix, C Dobson, J Edwards, R Ellis, T English, A-M Kenward, C Lewis-Smith, R Martinig, S Mason and M Passey and D Vickers.

Apologies

Mr M Barber and Mr N Miles

Agenda Item

1 Apologies for Absence / Changes in Membership

Apologies were received from Mr M Barber and Mr N Miles.

2 Declarations of Interest

There were no declarations of interest.

3 Minutes of the last meeting

Regarding actions from the last meeting it was confirmed the final audit sign off had taken place as ahead of the 30 December 2020 deadline.

RESOLVED

The minutes of the Pension Fund Committee, 19 November 2020 were AGREED as an accurate record.

4 Buckinghamshire Pension Board minutes

RESOLVED

The minutes of the Pension Fund Board, 16 December 2020 were NOTED.

5 Governance Compliance Statement

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

The Committee were being asked to approve changes to the Governance Compliance Statement originally adopted by Buckinghamshire Council in July 2020. Mrs Lewis-Smith confirmed the only changes made were to relevant dates and web site links.

RESOLVED

Members of the Committee APPROVED changes to the Governance Compliance Statement as per the report circulated with the agenda.

6 Treasury Management Service Level Agreement

Ms R Martinig, Pensions & Investment Accountant, Buckinghamshire Council, referred to the report circulated as a supplement to the agenda.

The Committee were being asked to agree the continued use of the Treasury Management Service Level Agreement. This allowed officers to manage the treasury management bank account including moving surplus cash as necessary.

RESOLVED

Members of the Committee AGREED the continued use of the Treasury Management Service Level Agreement as per the report circulated with the agenda.

7 Forward Plan

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

Ms Edwards highlighted the following points:

- New Ministry of Housing, Communities and Local Government (MHCLG) and the Scheme Advisory Board of the Local Government Pension Scheme (SAB) have both issued new guidance that will assist employers in managing their ongoing LGPS liabilities and the costs triggered on exit is due to be announced by the end of February 2021 which will required the Funding Strategy Statement to be updated.
- The delays in signing the 2020 pension accounts had been caused by delays in preparing and signing the wider Buckinghamshire Council accounts, which must be signed at the same time. For this reason no changes were needed to the Committees timeframes to improve compliance.
- The schedule for signing off accounts was expected to change from 31 to the end of September but there had not been formal confirmation of this.

RESOLVED: Members of the Committee NOTED the update.

- 8 Exclusion of the Press and Public**
- 9 Confidential minutes of the last meeting**
- 10 Buckinghamshire Pension Board Confidential Minutes**
- 11 Pensions Administration - Additional Resources**
- 12 Pension Fund Risk Register**
- 13 Pension Fund Performance**
- 14 Brunel Pension Partnership Update**
- 15 Responsible Investment Update**
- 16 Pension Fund Cashflow Modelling**
- 17 Committee Adviser Update**
- 18 Any Other Business**
- 19 Date of the next meeting**
22 April 2021

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Pension Fund Board minutes

Minutes of the meeting of the Pension Fund Board held on Wednesday 17 March 2021 in Virtual meeting via MS Teams, commencing at 10.00 am and concluding at 12.14 pm.

Members present

B Black, P Dearden, R Ellis, S Mason, J McGovern, T Pearce and I Thompson

Others in attendance

E Cook, M da Costa, J Edwards, C Lewis-Smith and S Price

Apologies

L Wheaton

Agenda Item

1 Apologies

Apologies received from Mrs L Wheaton.

2 Declarations of Interest

Ms T Pearce declared as interest regarding 95k exit cap legislation.

3 Minutes of the Pension Fund Board

RESOLVED that the minutes of the Pension Fund Board held on 16 December 2020 be agreed.

4 Minutes of Pension Fund Committee

It was noted that the minutes of the Pension Fund Committee held on 25 February 2021 would be circulated to members of the Board for noting once published.

5 Scheme member and employer communications

Ms M da Costa, LGPS Technical Officer, introduced the report which provided an overview of Member and Employer communications for 2020/21.

Ms M da Costa highlighted the following points:

- COVID-19 had an important influence on communications during the past year. Despite the requirement for adjustment, the digital communications agenda had continued to be promoted and a variety of digital medium for member and employer engagement had been utilised.

- With face to face meetings on hold, employer training had been conducted as webinar presentations via MS Teams Live events platform. The first presentation, 'The SLA, The PAS and Submitting information' was held on 25 January 2020. The event had a total of 41 attendees, which was the best turnout for employer training on record. The webinar was aimed at a general level to appeal to a broad cross-section of employers. 14 attendees completed feedback surveys following the webinar, the details of which were attached at appendix 1 to the report. Two subsequent events have since been held which were also well attended. There were some issues originally with logging in, but these have now been resolved and there have been no further issues.
- The employer's newsletter had been relaunched to give it a more user friendly format. The new format includes Fund and scheme updates, bitesize training, employer FAQs and special feature articles.
- In terms of members, work had been carried out to make forms and web content more accessible and digitally enabled to improve the customer experience.
- With the support of Buckinghamshire Council's graphic design team, the In-Touch pensioners newsletter had been revamped to make the overall look and feel of the publication easier to read and more visually appealing.
- Work was underway to make future improvements to the website and a new section on the website specifically for deferred members was due to be launched in April.

The following points were discussed as a result of questions/comments from members of the Board:

- Given the positive impact that holding training online had on attendance, a suggestion was made that it would be beneficial to continue to offer training online even after restrictions had been lifted.
- With regard to the inserting of digital signatures on the digital forms, members of the Board were advised that the signature has to be added digitally once the pdf document has been downloaded. Instructions on how to do this were on the website and the form as a reminder.
- It was confirmed that members of the Board would receive a copy of the new employer's newsletter. There would be an opportunity for members of the Board to raise any questions that they have on the content of the newsletter at the next Board meeting.

RESOLVED that the report be noted.

Peter Dearden joined the meeting at 10.15am

6 i-Connect/Pensions 'Online' Update

Ms S Price, Assistant Pensions Administration Manager, introduced the report which provided the Board with an update on the roll-out of i-Connect to scheme employers and the 'my pension online' service for scheme members.

Ms S Price highlighted the following points:

- The online service continues to be used as standard practice for scheme members to receive communications from the Administration Team, as well as being used to update personal details and obtain pension estimates.
- Overall, 28.54% of membership of the Buckinghamshire Pension Fund were fully registered to use this service, with a further 7.09% partially registered. A breakdown between membership status was set out in a table in the report.
- There was a surge in pensioner opt outs in April last year as a result of the pensioner newsletter going out in March 2020, which confirmed that paper copies of p60s and payslips would not be sent unless the scheme member opts out of the online service. However, since then there had not been an increase in opt outs and the number of pensioner opt outs had remained around 2600.
- Targeted communications to those who have partially registered or not registered was being worked on and a letter was due to be issued to all pensioner scheme members who were partially registered or not registered.
- Through the 'my pension online' service, scheme members could run benefit calculations, update contact details and death grant nominations and view communications from the Benefit Administration Team including benefit statements and retirement packs. The table in the report provided a breakdown of the number of actions taken by scheme members between 1 October 2020 and 28 February 2021 and showed that the service was being used.
- At the end of February 2021, 122 employers had been onboarded onto i-Connect and were successfully submitting data on a monthly basis via this service, which covers approximately 25% of active scheme membership. Since then, a further 3 employers had also been onboarded.
- All employers who were not yet using i-Connect had been issued with communication confirming that they would either need to be live from 1 April 2021 or have an onboarding date agreed otherwise charges would be imposed on a monthly basis if data was submitted in an alternative format.
- The Systems team had re-started discussions with the fund's biggest employer, which had previously been put on hold. This employer accounts for approximately 35% of all active scheme membership. It was hoped that testing with 37 Academies that fall under this employer would begin shortly with the main payroll to follow.

The following points were discussed as a result of questions/comments from members of the Board:

- It was noted that the facility to update bank details on 'my pension online' was not available to members. Officers had requested that this facility be made available to members and it was hoped that this was something that would be developed in the future. At present, members could submit a letter with any bank changes by uploading it onto 'my pension online' as long as a signature was included.
- To increase the number of members registering for 'my pension online', the

team had used a number of methods to increase registration uptake including reminders in employer's newsletters and member communications. The team had also been encouraging members to register when speaking to them on the telephone.

- Following a question regarding whether there were any plans to create an app for 'my pension online', officers explained that they were not aware of any plans to create one, but that it was something that could be raised at the next review meeting. **Action: Ms S Price**
- The rationale for the amount being charged to employers for not using i-connect was explained to members of the Board. Whilst it was recognised that this was not a large amount of money for the larger employers, discussions were underway with these larger employers regarding the next steps forward. The members of the Board were advised that the impact of the charge and the amount being charged would be kept under review.

RESOLVED that the report be noted.

7 Annual Review of Buckinghamshire Pension Board

Mrs C Lewis-Smith, Pensions Administration Manager, introduced the report which reviewed the work of the Buckinghamshire Pension Board for the year 2020/21. The report provided feedback to the Board on the work undertaken during the year and meets the legislative requirement for producing the Board's Annual Report, a draft version of which was attached at Appendix 1 of the report.

Mrs C Lewis-Smith highlighted the following points:

- Attendance at meetings of the Board was higher this year with a 94% attendance rate. The move to meetings being held online might have contributed to this higher attendance rate.
- A range of online training was held for members throughout the year. Attendance was higher this year. This might again have been due to training being held online.
- Items which had been discussed by the Board over the year were set out in the report.

In the discussion which followed, the benefits of being able to attend meetings and training online was noted by the Board.

RESOLVED that the report be noted.

8 Governance Compliance Statement

Mrs C Lewis-Smith, Pensions Administration Manager, introduced the report on the Governance Compliance Statement.

The Governance Compliance Statement, attached as appendix 1 to the report, was approved by Pension Fund Committee on 25 February 2021 and would be effective from 1 April 2021. There were no material changes to the statement.

RESOLVED that the report be noted.

9 Administration performance statistics

Ms S Price, Assistant Pensions Administration Manager, introduced the report which provided the Board with a review of the Pensions Administration Team's performance since the last meeting of the Board.

Ms S Price highlighted the following points:

- The Pensions Administration Team had continued to receive a high volume of communications from scheme members, employers and others. The sub-teams had been very proactive in processing these within set timeframes to ensure that requests were dealt with as quickly and efficiently as possible.
- An additional Member Liaison Officer had now been recruited into the Member Liaison Officer Team which was responsible for dealing with telephone enquiries. It was hoped that this would help to reduce telephone queue times and increase the number of telephone calls answered.
- The Pensions Administration Team had continued to process the priority cases quickly and achieve a good turnaround time. In Quarter 4, 96.3% of priority cases were completed within the turnaround time.
- There had been a decrease in performance against the target within the leavers table specifically around processing the deferred benefits and the recalculation of the deferred benefits. This was due to the team receiving a large number of leaver notifications in bulk from an employer, some of which dated back 5 or 6 years. These targets should get back on track once the backlog had been worked through.
- The percentage achieved in terms of new starter creations was lower than the previous quarter. This was due to one team member moving from a Pensions Assistant role to a Pensions Officer role. This should now improve going forward.
- In relation to transfers, whilst being one of the lower priority areas, the team were hoping to put more resources into this area in the future.
- With regard to overdue cases, the Pensions Administration Team were continuing to work with one of the largest scheme employers and a third-party payroll provider where outstanding information was the reason for the majority of the overdue cases. Significant progress had been made with the one employer in particular and a lot of the outstanding information had now been received. Unfortunately, there had not been much success with the third-party payroll provider, despite working closely with them and holding regular meetings. Due to this, a decision had been made that from 1 April 2021, where monthly submissions of data were not received from this third party payroll provider, the team would liaise directly with the individual schools rather than the payroll provider.
- In addition to reporting and reviewing turnaround statistics, the Pensions Administration Team were also now reviewing the total open cases on a monthly basis to identify overdue cases and look at how to reduce these. Of the total overdue cases, 80% of these cases were classed as 'external' meaning the team were unable to proceed as a result of either waiting on

information from an employer, scheme member or a third party. The remaining 20% of these overdue cases were waiting to be reviewed. These were reviewed by a Senior Pensions Officer on a monthly basis to see whether further action was needed.

- The report provided an update on the current projects being carried out by the team. Agreement for additional resource for the McCloud project had been given by Pension Fund Committee in light of the additional workload from the McCloud remedial action. The additional resource would consist of 1 Seniors Pensions Officer & 3 Pensions Officers, with agreement for an additional Pensions Officer as a result of a review of the current structure.

The following points were discussed as a result of questions/comments from members of the Board:

- The Board were advised that there was a cost associated with the extra resource required for the McCloud project, but the cost would be significantly higher if external companies were to be used instead to provide project support.
- It was confirmed that the additional posts being recruited to for the McCloud project were permanent positions. It may be that in the future more additional temporary resource would be required depending on how the workload progresses over time.
- With regard to employer contributions and whether these would need to be raised to cover the costs of McCloud, the Board were advised that employer contributions were set for this three-year period and that McCloud had been taken account of when these were set. In the future there might be an increase in employer contributions, but these figures were not known as of yet as it was not known how members' salaries would progress.

RESOLVED that the report be noted.

10 GMP reconciliation/rectification

Ms S Price, Assistant Pensions Administration Manager, introduced the report which provided an update on the Guaranteed Minimum Pensions (GMP) Reconciliation/Rectification project.

Ms S Price highlighted the following points:

- As at 31 March 2020, 59,025 scheme member records had been reconciled and ITM had identified 10,051 pensioner and dependant scheme members that needed a further reconciliation. A 'dry run' of the rectification was completed in February 2021 and of the 10,051 scheme members it had been identified that:
 - 8,699 members did not require rectification.
 - 806 members did require their records to be updated with a correct GMP figure, but this would not affect any payments.
 - 370 scheme members did require pensions in payment to be recalculated.

- 176 scheme members required a file review by the payroll team before it could be identified whether a recalculation would be required. This review was currently underway.
- Of the 370 scheme members identified, 25% had been underpaid with the remainder being overpaid due to either no GMP held on record or an incorrect GMP meaning that the pensions increase applied annually had been calculated incorrectly. For all cases, the correct rate of pension would be put in place from the rectification date and arrears, plus interest, for any underpaid cases would be paid.
- For any overpaid cases, there was no guidance on whether a fund should recover any overpayment or not and this would be left to the discretion of each administering authority. Historically, the Buckinghamshire Pension Fund had not recovered overpayments as a result of an incorrect GMP. Nationally the majority of funds were not recovering the overpayments.
- Based on the recent report, the average reduction of the scheme members whose pension would be reduced was £132 per annum with an average overpayment of £1,152 per member.
- The planned rectification date was 31 August 2021. This would be further to the Pensions Administration Team running the annual pensions increase on pensions in payment which should be completed by 30 April 2021. ITM would then aim to complete the live run of the rectification by 31 May 2021 and provide all necessary reports. Between 1 June and 30 June, letters would be sent to all affected members with the changes to pensions being applied from 31 August 2021 pension payments.

The following points were discussed as a result of questions/comments from members of the Board:

- Out of the 370 scheme members who require pensions in payment to be recalculated, 2% of these would have their pensions reduced by more than £1,000 per annum. More details on this would be available in May.
- In relation to overpayments not being recovered, the Board requested that information on the final amount of any overpayments written off and the approval process for this be included in the next report being submitted to the Board. **Action: Ms S Price.**

RESOLVED that the report be noted.

11 Forward Plan

Mrs C Lewis-Smith provided an overview of the Pension Fund Board's forward plan.

The Board agreed that update reports on the McCloud project should be added to the forward plan for every other meeting, starting with the meeting in July 2021.

Action: Mrs C Lewis-Smith

RESOLVED that the forward plan be noted and that update reports on the McCloud project be added to the forward plan for every other meeting, starting with the meeting in July 2021.

12 Annual Benefit Statements - Administration Year End Update

Ms S Price, Assistant Pensions Administration Manager, introduced the report on Annual Benefit Statements which set out the position of the Buckinghamshire Council administering authority as at 28 February 2021.

Ms S Price highlighted the following points:

- A total of 18,515 statements were issued by the 31 August 2020 deadline with a further 5,329 statements issued to date, bringing the total to 23,844. As of the end of February 2021, 97.07% of statements had been issued to scheme members who were active on 31 March 2020.
- There were 325 outstanding queries relating to the 2019/20 year end return, a reduction from 922 since November 2021. The Employer Liaison Team were currently chasing employers for responses, or reviewing further data provided in order to resolve these queries and issue statements. These queries were with 32 employers; a breakdown of which was set out in the confidential appendix to the report.
- With regard to outstanding queries relating to previous year returns, outstanding queries had reduced from 297 to 131 between December 2020 and February 2021. This had since reduced further to 118 outstanding queries. In addition, 36 responses had also just been received from an employer yesterday which hopefully would result in those queries being resolved, taking the total to below 100. The team were continuing to work with employers to resolve the rest of the outstanding queries. A breakdown of the cases was set out in the confidential appendix.

RESOLVED that the report be noted.

13 Exclusion of Press and Public

RESOLVED 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).

14 Annual Benefit Statements - Confidential Appendix

This item was covered under the confidential section of the agenda.

15 Confidential minutes of Pension Fund Board

RESOLVED that the confidential minutes of the Pension Fund Board held on 16 December 2020 be agreed.

16 Confidential minutes of Pension Fund Committee

It was noted that the confidential minutes of the Pension Fund Committee held on 25 February 2021 would be circulated to members of the Board for noting once published.

17 Pension Fund Performance

This item was covered under the confidential section of the agenda.

18 Date of next meeting / AOB

The date of the next meeting was to be confirmed.

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Report to Pension Fund Committee

Date: 22 April 2021

Reference number: N/A

Title: Funding Strategy Statement

Relevant councillor(s): None specific

Author and/or contact officer: Julie Edwards, Head of Pensions

Ward(s) affected: None specific

Recommendations: The Committee is asked to approve the revised Funding Strategy Statement (FSS).

Reason for decision: The Local Government Pension Scheme (LGPS) Regulations require all LGPS Administering Authorities to prepare a FSS.

Executive summary

- 1.1 The FSS seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis. It is reviewed every three years following the triennial valuation. Following completion of the 2019 Actuarial Valuation, a revised FSS was agreed by the Pension Fund Committee in July 2020. On 2 March 2021 the Ministry of Housing, Communities and Local Government (MHCLG) issued "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements". The FSS, Appendix 1, has been updated to reflect the requirements of the guidance and the valuation assumptions for future price inflation, future pension increases and demographic assumptions. Given the level of detail required by the MHCLG guidance a separate contribution review policy, attached as Appendix 2, and separate Deferred Debt and Debt Spreading Agreement policies, attached as Appendix 3, have been drafted. These are referenced in the FSS.

Content of report

- 1.2 Following completion of the 2019 Actuarial Valuation, a revised FSS was agreed by the Pension Fund Committee in July 2020. On 2 March 2021 the Ministry of Housing, Communities and Local Government (MHCLG) issued “Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements”. The FSS, Appendix 1, sets out the approach to meeting employers’ pension liabilities, has been updated to reflect the requirements of the guidance and the valuation assumptions for future price inflation, future pension increases and demographic assumptions. These changes are summarised below.

Valuation assumptions

- 1.3 The future price assumption was reviewed following the Chancellor’s November 2020 announcement on the reform of Retail Price Index (RPI) and is now assumed to be 0.4% p.a. lower than the 20 year point on the Bank of England implied RPI inflation curve. This change will be fully reflected in the ongoing funding assumptions from 31 March 2021.
- 1.4 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. At the March 2019 actuarial valuation, a deduction of 1.0% p.a. was made to the RPI inflation assumption to derive the CPI inflation assumption. The CPI assumption adopted at March 2019 was 2.6% p.a.
- 1.5 The future pension increases assumption was also reviewed in light of the Chancellor’s announcement on the reform of RPI and CPI inflation is now assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This change will be fully reflected in the ongoing funding assumptions from 31 March 2021.

Contribution reviews between actuarial valuations

- 1.6 It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.
- 1.7 A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

- (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
 - (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
 - (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.
- 1.8 Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out in the Fund's separate Contribution review policy, Appendix 2 of this report. This includes details of the process that should be followed where an employer would like to request a review.
- 1.9 Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.
- 1.10 Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.
- 1.11 With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

Managing exit payments

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

- 1.13 Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.
- 1.14 Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.
- 1.15 Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.
- 1.16 Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document, Appendix 3 of this report. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Legal and financial implications

- 1.17 The Local Government Pension Scheme (LGPS) Regulations 2013 require all Pension Administering Authorities to prepare a FSS.

Next steps and review

The FSS is reviewed every three years following the triennial actuarial valuation.

Background papers

[Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/602222/Guidance_on_preparing_and_maintaining_policies_on_review_of_employer_contributions,_employer_exit_payments_and_deferred_debt_agreements_-_GOV.UK.pdf)



Buckinghamshire Pension Fund Funding Strategy Statement

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Introduction

This is the Funding Strategy Statement for the Buckinghamshire Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Buckinghamshire Council's strategy, in its capacity as administering authority of the Fund. Buckinghamshire Council replaced Buckinghamshire County Council as administering authority of the Fund on 1 April 2020.

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

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

Purpose of the Funding Strategy Statement

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

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

Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

Funding objectives

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

The funding objectives are to:

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

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

Key parties

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

The administering authority

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

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

Scheme employers

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

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

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

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

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

Funding strategy

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

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The funding position is set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£186m)
Funding level	94%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 18.2% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

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

Funding method

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

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

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

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

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

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

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

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

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

Valuation assumptions and funding model

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

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

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

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken to be consistent with the average duration of an LGPS Fund.

This assumption was reviewed following the Chancellor's November 2020 announcement on the reform of RPI and is now assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This change will be fully reflected in the ongoing funding assumptions from 31 March 2021. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. At the March 2019 actuarial valuation, a deduction of 1.0% p.a. was made to the RPI inflation assumption to derive the CPI inflation assumption. The CPI assumption adopted at March 2019 was 2.6% p.a.

This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above and CPI inflation is now assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This change will be fully reflected in the ongoing funding assumptions from 31 March 2021. This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change the RPI calculation method in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI inflation plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

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

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

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

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.8% p.a.

Asset valuation

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

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

Demographic assumptions

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

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the Government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

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

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the Government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public

service pension schemes can be found at: <https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes>.

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: <https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation>. The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

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

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 15 years. Shorter recovery periods have been used for the majority of employers. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a minimum period of 11 years.

Where an employer's contribution has to increase significantly then, if appropriate, the increase may be phased in over a period not exceeding 3 years.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

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

Pooling of individual employers

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

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

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Buckinghamshire Council	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Milton Keynes Council	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Thames Valley Police	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
Academies	Past and future service pooling	All academies in the pool have the same funding level. Slightly different contribution rates are paid by Bucks and Milton Keynes academies over 2020-2022, converging to the same rate payable from 1 April 2022
Town & Parish Council Pool	Past and future service pooling	All employers in the pool have the same funding level and target the same total contribution rate. Some employers in the pool are stepping up to this target contribution rate over the valuation period

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

Forming/disbanding a funding pool

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

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

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

New employers joining the Fund

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

Admission bodies

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

Funding at start of contract

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

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

Contribution rate

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

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

Security

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

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

Risk-sharing

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

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

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

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

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

New academies

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

Funding at start

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

Contribution rate

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

Contribution reviews between actuarial valuations

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

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

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

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out in the Fund's separate [Contribution review policy, Appendix 2 of this report](#). This includes details of the process that should be followed where an employer would like to request a review.

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

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

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

Cessation valuations

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

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

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

Similarly, any surplus in the Fund in respect of the exiting employer may be paid from the Fund to the employer as an exit credit, subject to the agreement between the relevant parties and any legal documentation. Further detail on the Fund's exit credit policy is outlined below.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

Exit credit policy

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

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund willing to guarantee the liabilities. If the administering authority is satisfied that there is another

employer willing to act as a guarantor then the cessation position may be calculated on the ongoing funding basis.

- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Managing exit payments

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

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

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

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

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document, Appendix 3 of this report. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Regulatory factors

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

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

Bulk transfers

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

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

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

Consolidation of Multi Academy Trusts (MATs)

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

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

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

Links with the Investment Strategy Statement (ISS)

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

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

Risks and counter measures

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

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

Financial risks

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

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

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

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

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

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

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

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

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate

investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

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

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

Regulatory risks

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

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

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

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

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the Government.
- The State Pension Age is due to be reviewed by the Government in the next few years.

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

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed

benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the Government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

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

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

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

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

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

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

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

Detail of the outstanding policy proposals are outlined below:

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to employers required to offer LGPS membership

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

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the Government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund (5% of total liabilities) this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

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

Employer risks

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

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

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

In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

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

Governance risks

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

Monitoring and review

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

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the Government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

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Buckinghamshire Pension Fund

Contribution review policy

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Introduction

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

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

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

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

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

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

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

The review process

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

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

Timeline where initiation is made by the administering authority

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

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

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

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

Timeline where initiation is made by the Scheme employer

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

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

Responsibility of costs

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

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

Triggering a contribution review

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

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

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

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

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

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

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

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

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

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

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

- Change in employer legal status or constitution

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

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

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

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

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

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to **one review per calendar year**.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the **12 months** preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored in to the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within **the 12 months** preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

Information required from the Scheme employer

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

- Where a review is sought due to a potential change in the Scheme employer's liabilities:

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

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

Assessing the appropriateness of a review

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

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

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

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

Appropriateness of a review due to change in liabilities

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

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

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

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

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

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

Method used for reviewing contribution rates

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

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

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

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

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

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

Appeals process

In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document.

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Buckinghamshire Pension Fund

Deferred debt and debt spreading agreement policies

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Introduction

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

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

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

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

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

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

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

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

Approach for exiting employers

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

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

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 28 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 6 months.

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

Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

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

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

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;

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

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

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

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

Managing of costs

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

Internal dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, please refer to the Fund's internal dispute resolution procedures document.

Deferred Debt Agreements (DDAs)

Entering into a DDA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

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

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

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

Setting up a DDA

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

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

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

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 6 months, although there may be circumstances where timings may vary.

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

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;

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

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

Monitoring a DDA

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

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

Changing funding position

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

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

Changing employer covenant

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

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

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

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

Timeliness of payments

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

Strength of guarantee or security

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

Notifiable events from the deferred employer

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

Terminating a DDA

Events that may terminate a DDA

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

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

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

Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due

from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

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

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

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

Debt Spreading Agreements (DSAs)

Entering a DSA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
 - there is doubt that the exiting employer can operate as a going concern during the spreading period;
- or

- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

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

- the period that the payments will be spread. This will be reviewed and discussed on a case by case basis. For periods covering a number of years it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

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

Setting up a DSA

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

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

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis as required.

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

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

Changing employer covenant

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

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

Timeliness of payments

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

Strength of guarantee or security

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

Notifiable events from the exiting employer

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

Terminating a DSA

Events that may terminate a DSA

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

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

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

Process of termination

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

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

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

Pension Fund Committee Forward Plan

22 April 2021

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes	Steve Mason	Every 3 months
Funding Strategy Statement	Julie Edwards	Ad hoc
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes	Steve Mason	Every 3 months
Employer Covenant Review	Claire Lewis-Smith	Triennial
Brunel Pension Partnership Update	Brunel	Ad hoc
Investment Strategy Implementation	Mercer	Ad hoc
Responsible Investment Update	Mercer	Ad hoc
Date of next meeting / AOB	--	

June / July 2021

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

Pension Fund Committee Forward Plan

September 2021

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes	Steve Mason	Every 3 months
Annual Accounts Audit 2020/21	Rachael Martinig /Grant Thornton	Annual
Pension Fund Annual Report 2020/21	Rachael Martinig	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	Steve Mason	Every 3 months
Pension Fund Risk Register	Julie Edwards	6 monthly
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update		Ad hoc
Date of next meeting / AOB	--	

November 2021

Agenda Item	Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes	Steve Mason	Every 3 months
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes	Steve Mason	Every 3 months
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update		Ad hoc
Date of next meeting / AOB	--	

Pension Fund Committee Forward Plan

February 2022

Agenda Item	Aylesbury, County Hall Author	Cyclical Item?
Apologies	--	Every meeting
Declarations of interest	--	Every meeting
Minutes	--	Every meeting
Buckinghamshire Pension Board Draft Minutes	Steve Mason	Every 3 months
Governance Compliance Statement	Claire Lewis-Smith	Annual
Treasury Management Service Level Agreement	Rachael Martinig	Annual
Forward Plan	Julie Edwards	Every meeting
Exclusion of Press and Public		
Confidential Minutes		
Buckinghamshire Pension Board Confidential Minutes	Steve Mason	Every 3 months
Pensions Administration - Additional Resources	Claire Lewis-Smith	Ad hoc
Pension Fund Risk Register	Julie Edwards	6 monthly
Pension Fund Performance	Julie Edwards	Quarterly
Brunel Pension Partnership Update		Ad hoc
Date of next meeting / AOB	--	

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