



Haverling

LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm

**Tuesday
21 November 2017**

**Committee Room 3A -
Town Hall**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(3)**

**Residents'
(2)**

**East Haverling
Residents'
1**

**UKIP
(1)**

John Crowder
(Chairman)
Melvin Wallace
Joshua Chapman

Stephanie Nunn
Nic Dodin

Clarence Barrett

David Johnson (Vice-
Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

For information about the meeting please contact:

**Debra Marlow 01708 433091
debra.marlow@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 19th September, 2017 and authorise the Chairman to sign them.

5 ANNUAL REVIEW OF THE CUSTODIAN (Pages 7 - 12)

6 ANNUAL REVIEW OF THE ACTUARY (Pages 13 - 18)

7 ANNUAL REVIEW OF THE ADVISOR (Pages 19 - 24)

8 REVIEW OF GOVERNANCE POLICY (Pages 25 - 46)

9 REVIEW OF INVESTMENT STRATEGY STATEMENT (Pages 47 - 60)

10 PROCUREMENT OF ACTUARIAL SERVICES AND INVESTMENT MANAGEMENT CONSULTANCY (Pages 61 - 70)

11 EMPLOYER OUTSOURCING GUIDE FOR HAVERING LGPS SCHEME EMPLOYERS (Pages 71 - 120)

12 HAVERING PENSION FUND ADMISSION POLICY (Pages 121 - 156)

13 WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT (Pages 157 - 164)

14 THE ADMISSION OF HARRISON CATERING TO THE LONDON BOROUGH OF HAVERING PENSION FUND (Pages 165 - 170)

15 URGENT BUSINESS

Pensions Committee, 21 November 2017

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Andrew Beesley
Head of Democratic Services

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 2 - Town Hall
19 September 2017 (7.00 - 9.20 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Joshua Chapman
Residents' Group	Stephanie Nunn and Nic Dodin (for part of the meeting)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson

Unless otherwise indicated all decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

10 MINUTES OF THE MEETING

The minutes of the meeting of the committee held on 15 June 2017 were agreed as a correct record and signed by the Chairman.

11 LOCAL AUTHORITY PENSION FUND FORUM MEMBERSHIP

The Committee received a presentation from a representative from the LAPFF on the benefits of the Havering Pension Fund (the 'Fund') becoming a member of his organisation.

Members recognised that LAPFF has lobbying power when it comes to holding predominantly UK-based companies to account for their operation and governance. Questions were raised however regarding its influence and strategy with the emergence of pooled resources such as CIV.

The Committee:

1. Agreed that the fund should become a member of LAPFF on an initial one year basis with a review in November 2018 as to continued membership;

- 2 Noted that the Investment Strategy Statement would be amended To reflect membership of LAPFF and incorporation at the next review

The resolution was passed by 4 votes to 3. Councillors Crowder, Wallace and Chapman voted against the resolution.

12 IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID 11)

The report before Members outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018.

The report recommended that elections for professional client status be made on behalf of the authority with immediate effect.

The Committee:

1. Noted the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018
2. Agreed to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
3. In electing for professional client status the committee acknowledged and agreed to forgo the protections available to retail clients attached as APPENDIX 1 of the report (Retail client protections) and that this meant no change to the existing arrangements.
4. Agreed to delegate responsibility to the Statutory Section 151 Officer Finance (Interim) for the purposes of completing the applications and determining the basis of the application as a full service.

13 PENSION FUND ACCOUNTS 2016/17

The report before Members provided an extract of the Council’s Statement of Accounts for the year to 31st March 2017, showing the unaudited accounts of the Havering Pension Fund as at that date.

Key movements as noted in the report from the 2016/17 accounts were:

- The Net Assets of the Fund have increased to £671m for 2016/17 from £573m in 2015/16, a net increase of £98m.
- The net increase of £98m is compiled of a change in the market value of assets of £95m, investment income of £6m and net additions of cash of £1m and offset by management expenses of (£4m).

- Mandates held with Baillie Gifford (Global Alpha Fund) and Ruffer (Absolute Return Fund) were both transferred into the London CIV, increasing the assets classified in the accounts under Pooled Investments and decreasing the assets directly classified under Bonds.

The Committee noted the Havering Pension Fund unaudited Accounts as at 31st March 2017 and considered that there were no issues that needed to be brought to the attention of the Audit Committee.

14 PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2017

The report detailed the Pension Fund Annual Report 2016/17 (attached as an appendix to the report) which had been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013, and which applied for reporting periods beginning 1 April 2014. This superseded Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

The Committee:

1. Agreed the 2016-2017 Pension Fund Annual Report.
2. Agreed that the Pension Fund Annual Report be published electronically.
3. Agreed that the Chairman and the Statutory Section 151 officer be authorised to conclude and sign so far as necessary, the annual report.

15 EXCLUSION OF THE PUBLIC

It was **RESOLVED** that members of the public be excluded from the meeting as there would likely be disclosure to them of exempt information within the meaning of paragraph 3 of the Local Government Act 1972 as it referred to the financial or business affairs of the organisation

16 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2017

The report provided the Committee with an overview of the performance of the Havering Pension Fund investments for the first quarter to 30 June 2017. The performance information was taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC (formerly known as WM Company) quarterly Performance Review Report and Hymans Monitoring Report.

It was noted that the net return on the Fund's investments for the first quarter to 30 June 2017 was 1.3% (or £10m to £681m). This represents an outperformance of 1.0% against the combined tactical benchmark and represents an outperformance of 3.1% against the strategic benchmark. The Baillie Gifford (BG) Global Equity Fund was the best performer over the quarter. The BG DGF and GMO Global Real Return Fund both outperformed their respective benchmarks over the quarter whilst the Ruffer Fund underperformed. The RLAM Fund lost money albeit less than the benchmark reflecting a fall in the value of bond markets over the quarter.

It was also noted that the overall net return of the Fund's investments for the year to 30 June 2017 was 13.5%. This represents an outperformance of 5.0% against the combined tactical benchmark and an outperformance of 4.7% against the annual strategic benchmark - this is a measure of the Fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall were set out in the report before Members.

The Committee:

1. Noted the summary of the performance of the Pension Fund within the report.
2. Noted Hymans performance monitoring report and presentation
3. Received a presentation from the Fund's Multi-Asset Manager (Ruffer)
4. Noted the latest quarterly update from the Chair of the Investment Advisory Committee, LCIV
5. Noted the quarterly reports provided by each investment manager.
6. Noted the analysis of the cash balances.

17 **IMPLEMENTATION OF INVESTMENT STRATEGY UPDATE**

The report provided an update on the progress of the implementation of the Investment Strategy as outlined at the June Pensions Committee meeting.

The Committee:

1. Noted the progress report as prepared by the Fund's Investment Advisor.
2. Noted that the implementation of the multi-asset credit allocation will be undertaken through the London Collective Investment Vehicle (LCIV) as suitable products are developed.

3. Agreed that a search for a private debt manager will be undertaken in collaboration with other London Boroughs.
4. Agreed that a search for a real asset strategy will be undertaken in conjunction with Newham, noting that this will allow Havering to provide input on the scope of the search and ensure that its requirements can be met.

Chairman

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PENSIONS COMMITTEE

21 November 2017

Subject Heading:

**SERVICE REVIEW OF THE PENSION
FUND CUSTODIAN**

CMT Lead:

Debbie Middleton

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer

Financial summary:

Estimated costs for the custodial services for the period 1 October 2016 to 30 September 2017 is £24,365

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report reviews the performance of the Custodian, State Street, for the period October 16 to September 2017.

RECOMMENDATIONS

It is recommended that the Committee notes the views of officers on the performance of the Custodian and makes any comment on the report which it considers appropriate (section 3 refers).

REPORT DETAIL

1. Background

At its meeting of 8th September 2004, Members were informed that following a competitive tender process, State Street had been appointed via a Chairman's decision to provide an investment custodial service to the Havering Pension Fund. State Street was appointed for the period from 31st December 2004 until terminated by either party. The Council may terminate this agreement by giving at least 28 days' notice. The Custodian may terminate the agreement by giving at least 90 days' notice.

2. Review of the Custodian's performance

2.1 The Global Custodian State Street operate a wide range of functions. This falls into two main categories:

- Safe Keeping and Custody
- Investment Accounting and Reporting.

• Safe Keeping and Custody

This refers to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions are received appropriately. The Custodian also manages the tax position of the fund, claiming back any recoverable overseas withholding tax paid on dividends received and maintaining the tax records of the fund.

• Investment Accounting and Reporting

State Street produce accounting reports that are similar to those produced by the fund's investment managers. They keep a record of the book costs and the holdings in the various asset classes and also provide an independent market valuation of the fund. This is done for each of the investment managers' portfolio as well as at the total fund level. State Street records are therefore considered to be master records and these records are used for producing the accounts. Reports currently produced by State Street are in a format that can be used for us to comply with the International Financial Reporting Standards (IFRS).

- 2.2 Services are reviewed to ensure that the Pension Fund is receiving best value for money and is benefiting from all the services the custodian has to offer.
- 2.3 Officers will discuss the outcome of the service performance review with State Street which is set out in the table below:

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers have confidence that all assets are secure and have been properly accounted for.</p> <p><i>Officers have confidence that the assets are secure and accounted for correctly as State Street produces quarterly reconciliations of valuations and holdings to fund manager records. Where differences occur outside the agreed tolerance levels explanations are provided.</i></p> <p>It is important that accurate accounting records are maintained and appropriate reconciliations are provided by the custodian to the fund's investment managers records.</p> <p><i>Officers have confidence that accurate accounting records are maintained. Officers run detailed reports from the custodian's website "mystatestreet" and these are reconciled to the summary level reports produced by State Street. This provides assurances and validates that the reports run from State Streets website are correct.</i></p> <p><i>State Street and officers also undertake quarterly reconciliations of the accounts in an IFRS format and this process is proving to be successful in that any errors can be identified early and can therefore assist the closedown process at year end. Whilst there have been a number of reconciliations issues officers are able to resolve these with State Street.</i></p>
Safe keeping and custody	<p>This relates to the core functions of the custodian.</p> <p><i>Officers are appreciative of how this role is</i></p>

CRITERIA	ASSESSMENT
	<i>performed and believe that this is a high quality service. Officers also review reports by State Street auditors on their internal controls and key procedures. Officers are satisfied with the management responses to the exceptions raised in the report.</i>
Prompt and responsive service	<i>Receipt of invoices continues to be irregular and response times to queries on invoices could be improved. Bulk receipts of invoices impact on work planning so officers continue to raise this with State Street. Explanation of corrections raised with State Street on the accounts could be improved but officers will continue work with State Street to ensure improvements can be implemented.</i>
Support arrangements	<i>The support arrangements in place are good.</i>
Good communication	<i>Communications are good. Officers communicate frequently with State Street covering general day to day operations and State Street are always willing to have meetings where service delivery is discussed.</i>
Provision of data for the Office of National Statistics (ONS) Returns	<i>State Street can only deliver audited data following completion of reports at month end. ONS completion deadlines do not coincide with State Street's reporting timetable but officers work with the ONS to meet authorised extensions.</i>
Overall Summary	<i>Officers are satisfied with the performance of State Street with regard to Safe Keeping and Custody functions and would like to see improvements made for producing consistent accounting data.</i>

3. Conclusion

- 3.1 Officers are satisfied with the safe keeping and custody functions provided by State Street custodians.
- 3.2 Officers are pleased with the overall investment accounting and reporting functions but officers will work with State Street to ensure that improvements to the level of service with regard to the accounting and reporting functions are improved.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs cover transaction charges, administration costs and custody fees based on a pre-agreed unit price applied to the value of the individual fund's assets and each transaction.

Invoices have only been received up to the period covering Oct 16 to May 17, so the total costs at the time of writing this report for the period to May 17 is £16,527. Estimated costs for Jun 17 to September 17 are £7,838, total costs in the region of £24,365.

Prior year costs for the period Oct 15 to Sep 16 was £37,411.

The cost of the custodian services has reduced due to the fund's use of pooled funds and this consequently reduces the custody and transaction charges. Officers will consider whether changing the functions or use of a custodial service going forward once the Fund knows what assets will be held outside of the London CIV.

The custodian fees are met from the Pension Fund.

There is a risk that the Fund's value could be misstated if poor or incorrect data was provided by the custodian. This is mitigated by frequent reconciliations by the custodian to fund manager records and officer reconciliations.

Officers also carry out reviews of State Streets Internal Control reports issued by their external auditor. These reports detail tests undertaken by the auditors, testing their internal control environments and key procedures. No material internal control issues were reported.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

None

PENSIONS COMMITTEE

21 NOVEMBER 2017

Subject Heading:

REVIEW OF THE PENSION FUND
ACTUARY SERVICES 1 OCTOBER 2016
– 30 SEPTEMBER 2017

SLT Lead:

Debbie Middleton

Report Author and contact details:

Tara Philpott
Head of Transactional People Services
01708 432179
Tara.philpott@onesource.co.uk

Policy context:

A review of the performance of the services provided by the Actuary demonstrates compliance against Myners principles

Financial summary:

Actuarial costs are met from the Pension Fund or from scheme employers where rechargeable

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The report reviews the performance of the Actuary from the 1 October 2016 – 30 September 2017.

RECOMMENDATIONS

1. Members note the views of officers on the performance of the Actuary during the period 1 October 2016 to 30 September 2017.

REPORT DETAIL

1. The Havering Pension Fund joined the Croydon Framework in March 2015 to obtain Actuarial and Benefits Consulting Services. Hymans Robertson is the appointed Actuary under this framework agreement. The contract expires on 31 March 2018. Hyman's have been the Funds Actuary since April 2010 and no changes were made to the Hymans contacts as part of joining the Croydon framework however benefits from savings in procurement costs and fees were achieved.
2. Members have adopted the procedure to undertake an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.
3. The production of the triennial valuation is the key deliverable from the Actuary, together with regular funding updates and annual calculations required for the Council's statement of accounts under the Code of Practice on Local Authority Accounting. The last valuation was 31 March 2016 and the results were provided in March 2017 in time for new employer rates to be implemented for April 2017.
4. The Actuary also provides advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provides scheduled and admitted body contribution rates and other calculations as required.
5. Since September 2016 the Actuary has undertaken the following:

2016 Formal Valuation

- Continued work for the 2016 valuation
- Attendance at meetings for valuations and presenting results.
- Provision of training for committee and officers

- Continued liaison with Government Actuary Department (GAD) and software providers regarding the new universal data capture, including testing and feedback
- Provision of salary growth analysis paper to evidence changes to the salary assumption
- Whole Fund data reconciliation, calculations and initial results
- Asset liability modelling to assist setting the Council contribution rates and checking the investment strategy continues to underpin the contribution plan
- Further asset liability modelling of alternative scenarios
- Calculation of Scheme Advisory Board (SAB) standard funding ratio, including provision of actuarial certificate before the SAB deadline

Employers

- Final cessation valuations for Family Mosaic
- Advice on cessation valuation options for May Guerney
- Provision of bond and contribution rate assessments, including ill-health budgets, relating to Harrison Catering Services
- Provision of contribution rate assessments for academies, including ill-health budgets, relating to Olive Academy, Concordia Academy, Royal Liberty Academy, Marshalls Park Academy, Scargill Infant & Junior Academies, Whybridge Junior Academy.
- Work over the period to complete information on a possible bulk transfer of Havering College of Further & Higher Education to London Borough of Barking and Dagenham Pension Fund

Training

- Delivered training for members of Pension Board and officers

Accounting

- Produced statutory accounting disclosures (IAS19 and IAS26) for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies;
- Produced the actuarial statement for the statement of accounts;

General

- Review /Production of Funding Strategy Statement
- Reviewed early retirement factors
- Production of TUPE Manual and Admission Policy
- Advice on impact of changes in regulations
- Actuarial support in respect of fund matters
- Engagement with GAD to meet the requirements of 2013 section 13

6. Hymans has delivered a diverse range of advice and assistance to the Council over this period. Service delivery response times remain excellent. All

relevant services required during the period 1 October 2016 – 30 September 2017 were delivered in both a timely manner and to a good or excellent quality.

Hymans continually provides briefings on changes to legislation, government consultations and changes to taxation etc. These are viewed as excellent and give Council officers a steering on most issues arising. Through the Collaborative Officers Group (COG) meetings, many publications are drafted and offered to Administering Authorities to purchase and the cost is shared dependant on the number of administering authorities take up the offer.

7. In conclusion, officers are very satisfied with the service that Hymans Robertson is providing.

The contract is due to expire 31 March 2018 and therefore a requirement to procure Actuarial Services will need to take place. A separate report will be submitted to advise on the procurement of future Actuarial, Benefits and Governance provision.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees are charged for the time spent on services, taking into consideration the complexity of the services provided:

The net costs of the actuarial services were:

1 October 2016 to March 2017	£80,400
1 April 2017 to 30 September 2017	£61,130
	£141,530

Fees included actuarial work that was recharged to other employers within the fund, as follows:

1 October 2016 to March 2017	£39,595.
1 April 2017 to 30 September 2017	£20,980.
	£60,575

The total net costs of £80,955.00 are met from the Pension Fund.

Legal implications and risks:

There are no direct legal implications and risk arising from this report.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

There are no direct equalities implications and risk arising from this report.

BACKGROUND PAPERS

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PENSIONS COMMITTEE

21 November 2017

Subject Heading:

**INVESTMENT ADVISOR SERVICE
REVIEW**

CMT Lead:

Debbie Middleton

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk
In line with Myner's compliance statement
policy number 4 recommendation on
Performance measurement

Financial summary:

Investment Adviser fees are met from the
Pension Fund

**The subject matter of this report deals with the following Council
Objectives**

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report reviews the performance of the Investment Advisor, Hymans, covering the period September 2016 to September 2017.

RECOMMENDATIONS

It is recommended that the Committee:

Notes the views of officers on the performance of the Investment Advisor and makes any comment on the report which it considers appropriate.

REPORT DETAIL

1. Background

- 1.1 Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 state that the Fund must obtain proper advice about its investments and in relation to the appointment of investment managers.
- 1.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.
- 1.3 Members have adopted the procedure to undertake an annual assessment of the Investment Adviser performance which is in line with Myner's Principle number 4 on performance measurement.
- 1.4 Hymans was appointed to provide Investment Advisory services to the Havering Pension Fund for the period commencing on the 1st April 2012. The contract is to run from 1st April 2012 until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.
- 1.5 The contract has an option to be extended for an additional period of up to two years with written consent of both parties, no later than three months before expiry
- 1.6 At the Pensions Committee held on the 22 November 2016 it was agreed for the contract to be extended for a period of one year in order to make use of the new Investment Management Consultancy Framework due to be issued during 2017 and to avoid conflict with a number of external priorities expected at the time.

- 1.7 The current extended contract expires on the 31 March 2018 and a procurement exercise will need to be undertaken to secure investment advice from April 2018.
- 1.8 A separate report is being presented on the same agenda to seek further action on the procurement of Investment Management Consultancy Services.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

- 2.1 Hymans has been the Fund's Advisor since April 2006. A change to the individual advisor who was assigned to the Havering Pension Fund took place shortly before the new contract was awarded and this arrangement has continued after the contract commenced in April 2012.
- 2.2 The core services provided by Hymans generally includes production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and performance monitoring of the fund's investment managers.
- 2.3 In addition to the above core services, Hymans prepared a paper and attended a Special Pensions Committee to oversee the appointment of a passive equity manager. They have also had discussions with the London CIV (Collective Investment Vehicle) on progression of the Fund's investment strategy and provided input to commence searches of a Private Debt and Real Assets mandate.
- 2.4 A set of criteria was defined as part of the investment advice tender specification and these are outlined below:
 - Attendance at Committee Meetings
 - Investment Advice
 - Setting Investment Strategy
 - Investment Management structure
 - Appointing an investment Manager
 - Monitoring an investment Manager
 - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
 - The value they will/could add to the decision making process
 - The level of Pro-Activity expected from the adviser
 - Support arrangements
- 2.5 In addition, included within the tender documentation officers selected other criteria which the Investment Advisor should be assessed against, as they are essential in a service such as investment advice, as:

- Communications and advice are clear, timely, accurate, challenging and comprehensive
- Provision of advice to officers and members include comprehensive options and is encouraged to test the alternatives to decisions being made
- A partnership approach to reaching investment decisions

2.6 The Investment Advisor’s performance has been reviewed using the above criteria and with consultation of the Pensions Committee; the results of the review of performance over the year of review are set out in the following table and have been discussed with the adviser:

CRITERIA	ASSESSMENT
Attendance at Pensions Committee Meetings	Investment Advisor has attended each Pension Committee as required.
Investment Advice :	<p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme.</p> <ul style="list-style-type: none"> • Investment Strategy – Hymans assisted the Pensions Committee in developing the investment strategy and produced the Investment Strategy Statement to reflect this. They have been involved in progressing this and attended meetings with the London CIV and contributed to commencing searches on a Private Debt and Real Assets mandates. • Monitoring an investment manager - Every quarter the investment advisor produces a monitoring report which covers market analysis and the performance of the investment managers. Hymans attends the Pensions Committee meetings to discuss their report and have provided valuable advice and guidance at these meetings. The advisor also provided useful information and advice to officers and produced suggested questions for officers for meetings with investment managers. • The advisor also prepared a report of the responsible investment activities of the Fund’s investment managers in support of the Committee’s ongoing monitoring requirements. This report will be submitted annually to add value to the monitoring process as set in in the investment strategy statement.

CRITERIA	ASSESSMENT
	<ul style="list-style-type: none"> Feedback from members is very positive and they have confidence in the advisors market knowledge.
The value they will/could add to the decision making process	<ul style="list-style-type: none"> The advisors are expected to add value through their input to the development of the Fund's investment strategy and in the selection of individual managers. The investment advisor has continued to include in their quarterly monitoring reports a more quantitative measure of recognising added value, by breaking down the overall return to show market and manager contributions separately.
The level of pro-activity expected from the Adviser	<ul style="list-style-type: none"> The investment advisor has taken an active role at Pension Committee meetings and on behalf of the Committee does challenge the fund managers on their performance and strategies.
Support arrangements	<ul style="list-style-type: none"> The support arrangements in place are very good.
Communications	<ul style="list-style-type: none"> The communication with the adviser is very good. Reports are well structured and easy to understand and member's feedback found the reports informative.
Partnership Approach	<ul style="list-style-type: none"> The advisor has close working relationships to the Fund's actuary which helps the understanding of the implications of different strategies on the Fund.

3. Service Review Conclusion

Officers and the Pensions Committee are satisfied that Hymans delivers a good service and have continued confidence in the advice being given.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of Investment Advisory services from October 2016 to September 2017 was £58,895 (prior year £32,755). This includes costs of £49,395 (prior year £28,255) for the core services and £9,500 (prior year £4,500) for additional services. Costs for additional services have been kept within budget.

The increase in costs compared to the same period last year is mainly attributable to the preparation and production of the Investment Strategy Statement and progression of the investment strategy.

There are no financial implications or risks arising directly from this report. The costs of the Investment Advisor are met from the Pension Fund.

Legal implications and risks:

There are no apparent legal implications in noting the content of this Report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no equality implications or risks as a result of this report.

BACKGROUND PAPERS

Background Papers List

None

PENSIONS COMMITTEE

21 November 2017

Subject Heading:

**REVIEW OF GOVERNANCE
COMPLIANCE STATEMENT**

CMT Lead:

Debbie Middleton

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Regulation 55(2) of the LGPS Regulations 2013 requires an administrative authority to keep this document under review

Financial summary:

No financial implications

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

In line with the Local Government Pensions Scheme Regulations (LGPS) 2013 as amended by LGPS (Governance) Regulations 2015 the London Borough of Havering, as an administering authority, has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it has been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

This report sets out the pension fund's draft Governance Compliance Statement for November 2016 and highlights where changes may be required.

RECOMMENDATIONS

That the committee:

Consider and agree any issues as needing to be amended in the Governance Compliance Statement (**Appendix A**).

REPORT DETAIL

1. Background

1.1 LGPS Regulations

The LGPS Regulations 2013 (Regulation 55) as amended by the LGPS (Governance) Regulations 2015 states that an Administering Authority must prepare a written statement setting out;

- 1) (a) Whether the authority delegates its functions to a committee or an officer of the authority;
- (b) If the authority does so –
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee meetings,
 - (iii) whether such a committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights
- (c) the extent to which a delegation, or in the absence of a delegation, complies with guidance given by the Secretary of State, and if it does not comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the establishment of a Local Pension Board.
- 2) An administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.
- 3) Before revising a statement an administering authority must consult such persons as it considers appropriate
- 4) The administering authority must publish its statement and any revised statement.

1.2 LGPS Regulations 2013 - Local Pension Boards: establishment, Regulation 106.

- 106** (1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it—
- (a) to secure compliance with:
 - (i) these Regulations,
 - (ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme (a), and
 - (iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and
 - (b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme

The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

2) Governance Compliance Statement (Appendix A)

The Governance Compliance Statement as set out in **Appendix A** has been prepared and revised in line with the best practice principles published by the DCLG in 2008 and includes a compliance table which shows how the pension fund is compliant against best practice standards and if it does not, state the reasons for not complying.

In line with regulations, before revising this statement an administering authority must consult. In this instance no consultation was carried out as the only amendment made to the Compliance Statement was to reflect the change in the Pensions Committee membership and to update the wording on Local Pension Board training. It was considered that there were no persons it was appropriate to consult for such a minor change.

3) Key points for the committee to consider:

- a) **Appendix A** sets out the authority’s position on compliance against the set of best practice principles.

Listed below is the area where the authority is currently not fully compliant. **It should be noted that the authority does not have to be fully compliant but where it is not the authority has to state why.**

- i) **Principle B Representation Item (a) (iii)** – To meet the required standards all stakeholders are afforded the opportunity to be represented by, where appropriate, appointing independent observers. *Members have previously considered whether or not to employ the services of an independent professional observer to participate in the*

governance arrangements and decided against it on the basis that the current monitoring arrangements are sufficient for the size of the fund.

- ii) **Other changes – please refer to Appendix A, section 2.** Changes reflect amendments made to new committee members.
 - iii) **Investment Pooling Governance Principles** – In October 2016 AON Hewitt with support from CIPFA developed guidance to support the LGPS in demonstrating best practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements. The guidance suggests reviewing the wording of the Local Authority's constitution and/or the Terms of Reference for the Pensions Committee to consider whether they may need to be refined to adapt with the new investment pooling arrangements. Legal Services are currently reviewing the wording and if any changes are required then these will need to go via Governance Committee for approval before adoption. Any changes required will be reflected at the next review of the Governance compliance statement.
- b) The compliance statement will be amended if necessary after the committee meeting and will be published on the Council's website. This updated version will also be included in the 2017/18 Pension Fund Annual Report.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising directly from this report as the review of the Governance Compliance Statement will ensure that the London Borough of Havering as the administering authority is compliant with regulations.

However, the expenses of a Local Pension Board, mentioned in section 1, paragraph 1.2 are included as part of the administration costs for the relevant LGPS fund. This means that the administering authority will be able to require employers to contribute to those expenses under existing LGPS regulations.

The impact of meeting the above costs is likely to impact the employer contributions in future valuations.

Legal implications and risks:

The relevant legislation is set out in the main report.

The departures from guidance have been explained and are set out at paragraph 3 and therefore there is minimal legal risk in leaving the statement intact in that

respect, although it is open to the Pensions Committee to suggest any changes if they think this is appropriate.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

In line with the Local Pensions Scheme Regulations (LGPS) 2013, Regulation 55(2), the Council is required to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by DCLG. In the areas in which the Council has not met best practice, as outlined in section 3, there are no equality implications or risks for staff or local residents.

BACKGROUND PAPERS

Background Papers List

None

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Haverling
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

1. STRUCTURE AND ROLE OF MEMBERS

The Council is the Administering Authority of the Havering Pension Fund (the Fund). The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund. The Council agreed changes to its Constitution on the 25 March 2015 to establish the Havering Local Pension Board and adopt their Code of Conduct and Conflict of Interest policies.

Day to day management of the Fund is delegated to the Chief Finance Officer (s151).

1.1 Role of Pensions Committee

Under the Council's Constitution the duties and terms of reference of the Pension Committee are as follows:

- To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance;
- Authorise staff to invite tenders and award contracts for actuaries, advisors and fund managers and in respect of other related investment matters;
- To appoint and review the performance of advisors and investment managers for pension fund investments;
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension Scheme.

There is a code of conduct in place which includes a process that considers potential conflicts of interest, with clearly identified steps on how to report or act should a conflict occur. All members are required to declare any interests in relation to the Pension Fund or items on the agenda at the start of each meeting.

1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected to it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions regulator;

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- Such other matters as the scheme regulations may specify.

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

The full version of the Board's Terms of reference can be found on the Havering pension fund website: www.Yourpension.org.uk.

2. MEMBERSHIP AND REPRESENTATION

2.1 Pensions Committee

The membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

Conservative Group (3)	Resident's Group (2)	East Havering Resident's Group (1)	UKIP (1)
John Crowder (Chair) Melvin Wallace Joshua Chapman	Stephanie Nunn Nic Dodin	Clarence Barrett	David Johnson (Vice-Chair)

*From May 2017:

Cllr Joshua Chapman replaced Cllr Jason Frost May 16 – May 17 – Conservative group

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution was amended on the 28 March 2012 to include a stipulation that if a member does not

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

undertake the required training within six months of appointment than that member shall not partake in the decision making of the Committee until their training has been completed.

2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

Two Employer representatives - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

Two Scheme Member Representatives - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

Chair - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed will serve for a fixed four year period to ensure that expertise is maintained within and members can be fully trained.

Each member of the Board will have one vote but it is expected the Board will as far as possible reach a consensus.

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Chief Finance Officer (s151) and OneSource Shared Support Service. The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the day to day operations of the Council's Pension Fund. The Director of Finance (onesource) is responsible for providing advice in the overall management of the Pension Fund supported by expert advisors. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

The Pensions Committee also considers advice, as necessary, from the fund's appointed professional actuary who also attend the meetings as and when required.

Investment Managers are invited to present at the Pensions Committee meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exceptions to this procedure are the pooled managers who will attend two meetings per year, one with Officers and one with the Pensions Committee. The reporting requirements were changed from 15 June 2017 after the Pensions Committee reviewed the current arrangements and agreed that only one fund manager will now attend each committee meeting to give greater focus to investment strategy development. However if there are any specific matters of concern to the Committee relating to the managers performance, arrangements will be made for additional presentations.

3.2 Local Pension Board

Officers will attend the Board meetings and provide support and advice as and when required. A budget has been allocated for the Board to fulfil its tasks and this budget includes an allocation for professional advice.

4. REIMBURSEMENT

4.1 Pensions Committee

Members expenses are reimbursed in line with the Council's constitution as laid down in part 6 'Members Allowance Scheme'.

4.2 Local Pension Board

Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No payment will be made for nonattendance.

Reasonable travelling expenses for training will be reimbursed.

5. TRAINING

5.1 Pensions Committee

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. Training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Associated training and development is linked to the pensions committee meeting cyclical coverage

5.2 Local Pension Board

A joint training strategy has been developed and adopted by the Pensions Committee and the Board..

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. Training will be provided in the areas where it has been specifically requested or has been identified as required.

6. MEETINGS

7.1 Pensions Committee

The Pension Committee meets five times a year and occasionally holds extra meetings if required. Three Members constitute a quorum.

7.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Three members constitute quorum. Advisors and officers do not count towards the quorum.

7. SCOPE

Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

The further practical steps undertaken to cover these risks are as follows:

- The Investment Strategy Statement includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.
- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks
- The Pension Committee periodically sets out a business plan for the year.
- The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

8. ACCESS AND PUBLICATION

8.1 Pensions Committee

Details of the Pension Committee meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All members have equal access to papers. The meetings of the Pension Committee are held at the Town Hall and are generally open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council's web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published on the Council's web-site, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

8.2 Local pension Board

Details of the Local Pension Board meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All board members have equal access to papers. The meetings of the Board are held at the Town Hall during office hours and are open to the public.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

9. REVIEWING AND UPDATING

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

10. COMPLIANCE TABLE

A table is appended to this document and shows the extent of compliance with guidance given by the Secretary of State.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	HAVERING POSITION										
Page 40	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="152 228 1301 300" style="text-align: left;">PRINCIPLE</th> <th data-bbox="1301 228 2112 300" style="text-align: center;">HAVERING POSITION</th> </tr> </thead> <tbody> <tr> <td data-bbox="152 300 1301 858"> <p>A. <u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> </td> <td data-bbox="1301 300 2112 858"> <p>Full compliance. Duties and terms of reference are laid out in the Council’s constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the administration of benefits of the Pension Fund is delegated to the OneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council’s constitution: Havering Constitution</p> <p>Section 1 the Governance Compliance Statement refers.</p> </td> </tr> <tr> <td data-bbox="152 858 1301 1265"> <p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p> </td> <td data-bbox="1301 858 2112 1265"> <p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives. There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p> </td> </tr> <tr> <td data-bbox="152 1265 1301 1342"> <p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> </td> <td data-bbox="1301 1265 2112 1342"> <p>No secondary committee or panel has been established.</p> </td> </tr> <tr> <td data-bbox="152 1342 1301 1453"> <p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p> </td> <td data-bbox="1301 1342 2112 1453"> <p>No secondary committee or panel has been established.</p> </td> </tr> </tbody> </table>	PRINCIPLE	HAVERING POSITION	<p>A. <u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Council’s constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the administration of benefits of the Pension Fund is delegated to the OneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council’s constitution: Havering Constitution</p> <p>Section 1 the Governance Compliance Statement refers.</p>	<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p>	<p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives. There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p>	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>	<p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>No secondary committee or panel has been established.</p>
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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	HAVERING POSITION
<p>PRINCIPLE</p> <p><u>Committee Membership and Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>i) Full compliance - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently vacant. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.</p> <p>ii) Full compliance – via trade union representation</p> <p>iii) Non-compliance – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refers.</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 42	<p>C <u>Selection and role of lay members</u></p> <p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Full compliance. Duties and terms of reference are laid out in the 'Council's constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 1 and 2 of the Governance Compliance Statement refer.</p>
	<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 1 of the Governance Compliance Statement refers.</p>
	<p>D <u>Voting</u></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>Full compliance. The Governance Compliance Statement is clear about voting rights</p> <p>Section 2 of the Governance Compliance Statement refers.</p>
	<p>E <u>Training/Facility time/Expenses</u></p> <p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid</p>

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
	<p>to co-opted members' for other committees. No payment will be made for nonattendance.</p> <p>Reasonable travelling expenses for training will be reimbursed to Local Pension Board members.</p> <p>The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.</p>
<p>b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p>	<p>Full compliance. As above.</p>
<p>c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Full compliance.</p> <p>As above. A joint training policy has been adopted by the Pensions Committee and the Local Pension Board and is included within the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training.</p> <p>A training log is maintained and records attendance and training undertaken.</p> <p>Section 5 of the Governance Compliance Statement refers.</p>

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LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	HAVERING POSITION	
F	<p>PRINCIPLE</p> <p><u>Meetings (frequency/quorum)</u></p> <p>a. That an administering authority's main committee or committees meet at least quarterly</p>	<p>Full compliance.</p> <p>The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.</p> <p>Section 6 of the Governance Compliance Statement refers.</p>
	<p>b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.</p>	<p>No secondary committee or panel has been established.</p>
Page 44	<p>c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.</p>	<p>Full compliance.</p> <p>Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board.</p> <p>The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.

LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
G	<p><u>Access</u></p> <p>a. That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>Full compliance. Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council’s website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>
H Page 45	<p><u>Scope</u></p> <p>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<p>Full compliance. The Committee already considers a wider range of pension issues.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
I	<p><u>Publicity</u></p> <p>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p>Full compliance. Governance arrangements are published on the Council’s website and comments are invited from stakeholders.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>

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PENSIONS COMMITTEE

21 November 2017

Subject Heading:

REVIEW OF THE INVESTMENT STRATEGY STATEMENT

CMT Lead:

Debbie Middleton

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk
Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review this statement

Financial summary:

No direct financial implications

The subject matter of this report deals with the following Council Objectives

- | | |
|-------------------------------|-----|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

SUMMARY

In line with the Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 requires an administrating authority, after taking proper advice to formulate an investment strategy statement (ISS) which must be in accordance with guidance issued by the Secretary of State.

The authority must review and if necessary revise its investment strategy from time to time and at least every 3 years, and publish a statement of any revisions.

The Statement has been reviewed and updated to reflect the progression of the investment strategy.

RECOMMENDATIONS

That the committee:

1. Consider this report and any consultation responses and, subject to these, decide whether to agree the proposed amendments to the ISS (**Appendix A**).
2. Note that no revisions were made in respect of reporting compliance against the Myner's investment principles so this remains as the version last published in March 2017.
3. Consider agreeing to issue a separate statement of compliance with the Stewardship Code.

REPORT DETAIL

1. **Background**

- 1.1 The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 came into force in November 2016 and guidance was issued by the Department for Communities and Local Government (DCLG) in September 2016.
- 1.2 In line with the regulations and guidance, as above, the administering authority, after taking proper advice must publish an investment strategy statement (ISS) no later than 1st April 2017. The first such statement was produced in March 2017 to meet this deadline.
- 1.3 In line with the LGPS (Management and Investment of Funds) Regulations 2016 Regulation 7 (7) the authority must also review and if necessary revise its investment strategy from time to time and at least every 3 years, and publish a statement of any revisions.
- 1.4 The ISS has been reviewed and updated to reflect the decisions and progression of the implementation of the strategy and is attached as **Appendix A**.
- 1.5 No revisions were made in respect of reporting compliance against the Myner's investment principles so this remains as the version last published in March 2017.

2 Investment Strategy Statement

2.1 The ISS (**Appendix A**) has been revised and the main changes are highlighted as follows:

- An additional paragraph was added to reflect that the investment strategy was reviewed after the production of the ISS in March 2017 and an additional column under Table 1 has been included to show the long term investment strategy allocation. This reflects the decisions made by members on the 15 June 2017 during the development of the investment strategy.
- An additional paragraph (page 9) has been added to incorporate the decisions made by members on the 19 September to become members of the Local Authority Pension Fund Forum (LAPFF).

2.2 In line with LGPS (Management and Investment of Funds) Regulations 2016 Section 7 (6) the authority must consult such persons as it considers appropriate as to the proposed content of its investment strategy. The draft version of the Revised ISS was distributed to all participating employers in the Fund and the local pension board on the **31 October 2017** for comments. Closing date for any comments is the **20 November 2017**.

2.3 Any comments received from the consultees will be reported to members on the night of the meeting for consideration and following the committee's consideration of the consultee's comments the ISS will be updated where required and published.

3. Financial Reporting Council (FRC) Stewardship Code

3.1 The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016, Regulation 7(2) (f) states that the ISS must include the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

3.2 To comply with the above regulation the ISS include the Fund's current position as outlined on pages 9 and 10 and includes the statement "At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code".

3.3 Guidance issued by the DCLG states that "Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they

implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis”.

- 3.4 In light of the above officers recommend members consider issuing a separate statement of compliance with the Stewardship Code.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no implications arising directly, however undertaking a review of the Investment Strategy on a regular basis will identify whether the investment objectives are being met and that they remain realistic. One of the Investment Strategy aims is to achieve a funding level of 100% on an on-going basis by 2030 whilst ensuring that investment objectives are being met and minimise any costs to the general fund.

The risks vs level of return of any change to the asset allocation can be found within Hymans report attached in Appendix A.

Legal implications and risks:

It is a principle of administrative law that when the Authority has a duty to consult it must conscientiously take into consideration the representations of consultees before making its decision. Accordingly any comments provided under para 2.4 above should be considered conscientiously.

Otherwise there are no apparent legal implications and the applicable law is set out in the main body of the Report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List

None

Investment Strategy Statement: November 2017

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Havering Pension Fund (“the Fund”), which is administered by Havering Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Department for Communities and Local Government (DCLG). The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 21 November 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement dated March 2017.

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

If rebalancing is triggered, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.

In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Pensions Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweight assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Committee has approved a long-term investment strategy following a review of the Fund's investment strategy in 2017. The long-term investment strategy is intended to support the Fund's required investment return target, whilst adding diversification through investment in alternative real estate and credit asset classes. The Fund's long-term investment strategy also incorporates a larger allocation to illiquid asset classes, with an expectation that these will deliver an additional risk premium.

It is expected that the long-term investment strategy will be fully implemented over the course of 2018. The Fund's current and long-term target investment strategies are set out in Table 1 below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

Table 1: Current target investment strategy

Asset class	Current target investment strategy ¹ %	Long-term target investment strategy ² %	Maximum %
Global Equity	30.0	40.0	45.0
Multi Asset	42.5	20.0	50.0
Real Assets	8.5	17.5	25.0
- Property	6.0	6.0	15.0
- Infrastructure	2.5	7.5	10.0
- Other real assets	-	4.0	7.5
Bonds & Cash	19.0	22.5	25.0
Total	100.0	100.0	

¹At 31 December 2016, the expected return of the current target investment strategy was 4.2% p.a. with an expected volatility of 9.8% p.a. This volatility includes an assumed diversification benefit of 3.4% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

²At 31 December 2016, the expected return of the long-term investment strategy was 4.8% p.a. with an expected volatility of 10.5% p.a. This volatility includes an assumed diversification benefit of 3.9% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

In moving towards the long-term strategy, the Committee will consider opportunities to increase the Fund's allocation to funds delivered via the London CIV.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in the Appendix to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Council monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation.

Financial mismatch – The Council recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

Changing demographics – This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways:

1. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.
2. The Committee also assesses risk relative to liabilities by monitoring the delivery of returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.8% per annum, which is consistent with the discount rate used by the Actuary to value the Fund's liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but recognise that it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

Concentration risk - This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Council attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.

Liquidity risk - Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Currency risk – The strategic asset allocation adopted by the Council provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. The Council however recognises that it can adopt a long term perspective on investments and consequently is able to absorb short term fluctuations in exchange rates.

Environmental, social and governance (“ESG”) risks – The Council recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Council monitors both developments within the investment environment and the voting of its appointed managers, supported through annual reporting from the Fund's investment advisers on the voting and engagement activity of its investment managers.

Manager risk - Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. Some managers have the discretion to make use of currency exposure within their specific mandates. The Committee will assess the Fund's currency exposures during their risk analysis. Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The

Committee assesses the investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risks

Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

Credit default - This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Council has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

Stock-lending risk – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an alternative I investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the July 2016 submission to Government.

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement, 42.5% of the Fund's assets were invested through the Pool as follows:

Table 2: Investment through the Pool

Asset Class	Invested through pool	Retained outside pool
Global Equity	15.0%	15.0%
Multi Asset	27.5%	15.0%
Property	-	6.0%
Infrastructure	-	2.5%
Bonds & cash	-	19.0%
Total	42.5%	57.5%

The Fund currently holds 15% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

The Fund holds 6% of the Fund in property assets and these will remain outside of the London CIV pool as the cost of exiting this strategies would have a negative financial impact on the Fund. These will be held until such time as a cost effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum ("LAPFF") and participates in this to promote its views.

The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund.

The exercise of rights (including voting rights) attaching to investments

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In respect of the Fund's investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard.

The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

Appendix: Current manager benchmark allocations

Asset class	Manager	Benchmark and target	Benchmark Allocation %
Equities			30.0
Global Equity	LGIM	FTSE All World Equity Index	7.5
Fundamental Equity	LGIM	FTSE RAFI All World 3000 Index	7.5
Active Global Equity	Baillie Gifford (accessed through the London CIV)	MSCI All Countries Index plus 2.5%	15.0
Multi-asset			42.5
Absolute Return	Ruffer (accessed through the London CIV)	LIBOR+	15.0
Diversified Growth	Baillie Gifford (accessed through the London CIV)	UK Base Rate plus 3.5%	12.5
Real Return	GMO	OECD CPI g7 plus 5%	15.0
Real assets			8.5
UK Core Property	UBS	IPD All Balanced Property Funds Weighted Average Index	6.0
Local infrastructure	Internal		2.5
Bonds and cash			21.0
Active bonds	Royal London	<ul style="list-style-type: none"> • 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years • Plus 1.25% 	19.0
Total			100.0

PENSIONS COMMITTEE

21 NOVEMBER 2017

Subject Heading:

Procurement of Actuarial Services and Investment Management Consultancy Services to the Pension Fund

CMT Lead:

Debbie Middleton

Report Author and contact details:

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Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk
Local Government Pension Schemes regulations require funds to appoint actuaries for the valuation and to obtain advice when setting the investment strategy

Financial summary:

National Framework joining fees and contract costs charged to the Pension Fund

The subject matter of this report deals with the following Council Objectives

- | | |
|-------------------------------|-----|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

SUMMARY

Authorisation is sought to procure Actuarial Services and Investment Management Consultancy Services to the Pension Fund using the National Local Government Pension Scheme (LGPS) Frameworks.

RECOMMENDATIONS

1. It is recommended that the Pensions Committee agree:
 - a. To join the National Framework for Actuarial, Benefits and Governance Consultancy Services
 - b. To join the National Framework for Investment Management Consultancy Services
 - c. To hold the service provider interviews before the Pensions Committee as part of the further competition process.
2. It is also recommended that the Pensions Committee delegate:
 - a) To officers, as set out in section 1.6 of the report below, to undertake the procurement of the actuarial service provider.
 - b) To the Statutory Section 151 officer to award the actuarial services contract at the completion of the procurement exercise.

REPORT DETAIL

1 Background

- 1.1. The contract for the Pension Fund Actuary (with Hymans Robertson LLP) expires on 31 March 2018.
- 1.2. The contract for the Pension Fund Investment Management Consultancy (with Hymans Robertson LLP) expires on the 31 March 2018, having been extended for one year from 1 April 2017 as per the original tender for the contract that commenced 1 April 2012.
- 1.3. A new procurement exercise now needs to be carried out to appoint for both of the above services.
- 1.4. As part of their 2014 LGPS Opportunities for Collaboration, Cost Savings and Efficiencies consultation, the Department of Communities and Local Government (DCLG) recognised that “there are clear advantages and savings to making use of the National LGPS Frameworks” and stated that “funds should give serious consideration to making greater use of these frameworks”.
- 1.5. With the DCLG’s views in mind and the value for money factors, officers are recommending that the Havering Pension Fund join the National LGPS

Framework for Actuarial, Benefits and Governance Consultancy Services (see Appendix A) and the National LGPS Framework for Investment Management Consultancy, if issued in time this will be attached as **Appendix B.**

- 1.6. The Pension Committee has the delegated power under Part 3 of the Constitution, Responsibility for Functions to “authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters” and “To appoint and review the performance of advisers and investment managers for pension fund investments” and according to 2.5 (h) the power to invite tender and award contracts for investment matters within their terms of reference.)
- 1.7. TUPE does not apply to this contract

2. Frameworks

- 2.1. The framework is as a result of collaboration between a number of founding LGPS funds.
- 2.2. It removes the need to run a best practice, OJEU (Official Journal of the European Union) equivalent full tender exercise when procuring a longer term, single supplier relationship. Reducing the procurement process from 6 – 9 months to 4 – 6 weeks.
- 2.3. Frameworks deliver value for money by reducing the time and cost associated with procurement by offering a facility that has already been competitively tendered. Agreed terms and conditions are provided so users can simply ‘call-off’ the framework to meet their requirements, therefore removing costly and time consuming legal work from the procurement process.
- 2.4. Using the Frameworks will help funds easily access the marketplace and influence better prices.
- 2.5. LGPS funds that use the framework will benefit from the collaborations as awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded, pro rata across all participating funds. (e.g. If five funds in aggregate exceed the award threshold by say £100,000 then 1% of this value is rebated to the five funds annually).
- 2.6. The National LGPS Frameworks are fully compliant with the Public Contracts Regulations 2015.

3. Actuarial Services

- 3.1 All LGPS Funds are required to procure professional actuarial services in line with regulation 62 of the Local Government Pension Scheme

Regulations 2013 as they must obtain an actuarial valuation of the assets and liabilities of its pension fund as at the as at 31 March 2016 and every third year afterwards and obtain a report by an actuary in respect of the valuation.

- 3.2 The National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services commenced July 2016 and is open for 4 years. Contracts awarded under the National LGPS Framework may be for a period of up to 7 years. The framework is split into four lots:
- a) Lot 1 Actuarial Services
 - b) Lot 2 Benefits Consultancy
 - c) Lot 3 Governance Consultancy
 - d) Lot 4 Consultancy services to Support Specialist Projects
- 3.3 Only four service providers cover all four lots (Aon Hewitt, Barnett Waddingham, Hymans Robertson and Mercer). If agreed, the delegation to officers to undertake the procurement will assess the most appropriate lots to procure and length of contract.
- 3.4 Actuarial services includes but are not limited to completion of the triennial valuation exercise, Funding Strategy Statement preparation and advice, annual accounting valuations of pensions liabilities (in accordance with FRS102/IAS19 requirements, the provision of carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; benefit administration advice and ad-hoc advice and guidance which takes account of their knowledge of the fund position and fund strategies.

4. Investment Management Consultancy Services

- 4.1 All LGPS Funds are required to procure professional advisory services in line with Regulation 7 of the Management & Investment Regulations 2016, authorities after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.
- 4.2 Myner's Principles number 2 on clear objectives recommends that the committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition.
- 4.3 When making investment decisions evidence that external professional advice was sought, is a qualitative test to be met to be able to opt up to professional client status under MifID 11 (Markets in Financial Instruments Derivative).
- 4.4 Advisory Services includes but are not limited to production of quarterly monitoring performance reports, attendance at Pensions Committee, performance monitoring of the fund's investment managers, investment

advice in setting investment strategy, preparation of Investment Strategy Statement.

- 4.5 The National LGPS Framework for Investment Management Consultancy services is expected to launch in November 2017 (they are still awaiting signed contracts from some suppliers and will launch once these have been received). The framework will be open for 4 years and contracts awarded under the National LGPS Framework may be for a period of up to 7 years. The framework will be split into three lots:
- a) Lot 1 Core Investment Consultancy Services Advice
 - b) Lot 2 Manager Search, Selection and Review Services
 - c) Lot 3 Investment Management Consultancy related Specialist Services
- 4.6 Historically members of the Pensions Committee prefer to meet with the potential advisor who will be responsible for presenting to the committee. Therefore officers recommend that the Committee hold interviews as part of the Further Completion stage of the procurement process so that the committee can decide who the contract is awarded to.
- 4.7 There is a risk that the Fund may not be able to secure the services of an actuary or an investment advisor by the 31 March 2018. These risks are being managed through the proposed use of the LGPS National Frameworks that are or will be in place.

IMPLICATIONS AND RISKS

Financial implications and risks:

The frameworks provide funds with the opportunity to reduce the cost and time associated with procurement. By developing a short list of approved candidates, the frameworks can help funds reduce the time taken to procure a service from six to nine months to a matter of weeks, as well as offering standardised terms and conditions. In addition to offering savings to the funds, the small fee paid by funds to access the framework helps to ensure that the model is self-financing in the long term.

The maximum cost of joining the National LGPS Framework for Actuarial, Benefits and Governance Consultancy Services is £5,000 for all lots. The cost reduces to £4,500 for just Lots 1, 2 and 3 and £4,000 for lots 1 and 2 (as a minimum it is expected that the Fund will join lots 1 and 2)

The maximum cost of joining the National LGPS Framework for Investment Management Consultancy Services is £7,000 for all lots. The cost reduces to £5,500 for Lot 1 or £3,500 for Lot 2 (as a minimum it is expected that the fund will join at least lot 1).

The current contract which expires on the 31 March 2018 was previously awarded under the Croydon framework which Croydon will not renew. The cost of Pension Fund Actuarial Services charged to the Pension Fund during the contract period 1st March 2015 to September 2017 is £285,240.

However some costs of the Actuarial services is recharged to scheme employers and admission bodies for services that include opening and closing valuations, assessment of bond levels to minimise risk to the fund when services are transferred to external bodies involving the TUPE of employees and annual accounting valuations of pensions liabilities (in accordance with FRS102/IAS19 requirements. The amount recharged to employers in the fund totalled £160,248, leaving a net charge to the pension fund of £124,992.

The total cost of Investment Advisory services for the length of the contract April 2012 to 30 June 2017 is £325,162. Core services of £239,440 plus additional service costs of £85,722.50. Costs for additional services have been kept within budget and includes investment manager searches and appointments. There is the potential to save costs on investment manager searches and appointments when the Fund procures investments held by the London CIV pool.

All prices for all service providers on the National LGPS frameworks are the maximum rates and are subject to further reduction at Further Competition or Direct Award if applicable.

The costs of joining the Frameworks and the contract costs are met from the Pension Fund.

Legal implications and risks:

The Constitution enables the Pension Committee to delegate the function of undertaking all aspects of the commissioning of the actuarial service to officers, and there is therefore no apparent legal risk in making the recommended decision. Clearly the procurement process itself will need to be undertaken in accordance with the Contract Procedure Rules and relevant legislation and legal advice will be available at all stages.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

There are no direct equalities implications and risk arising from this decision

BACKGROUND PAPERS

[Background Papers List](#)

None

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National LGPS
Frameworks

By LGPS Funds, for LGPS Funds

**Joining instructions for the
National LGPS Actuarial,
Benefits and Governance
Consultancy Services**

Please complete either Option 1 or Option 2 below, then return this form to:

 **The Norfolk Pension Fund, (National LGPS Frameworks), 4th Floor Lawrence House, 5 St Andrews Hill, Norwich, NR2 1AD**

 **NationalLGPSFrameworks@norfolk.gov.uk**

Option 1: I would like to see the User Manual, Terms and Conditions and Supplier Catalogues before I go any further. I am interested in:

Lot 1 -
Actuarial
Services

Lot 2 - Benefits
Consultancy

All Lots

Lot 3 -
Governance
Consultancy

Lot 4 - Consultancy
Services to Support
Specialist Projects

Before we send you this commercially sensitive information, we need a confidentiality statement from you.

This is attached as **Form A** to these Joining instructions. Once we receive this we can forward the framework documentation to you.

Please send the details to (*name*).....

Email address.....Tel:.....

I have enclosed a signed copy of the confidentiality statement (Form A)

Option 2: I would like to use the framework. I am interested in:

Lot 1 - Actuarial Services

Lot 2 - Benefits Consultancy

All Lots

Lot 3 - Governance Consultancy

Lot 4 - Consultancy Services to Support Specialist Projects

Please send me 2 copies of the Members Agreement to sign

I have enclosed a signed copy of the confidentiality statement (Form A)

Or

I have previously signed a copy of the confidentiality statement (Form A)

Please send the Members Agreement and framework details to:

Organisation Name:

Officer Name:

Address:.....

.....

Email address:

Telephone:

Please send the invoice for the Joiners Fee to: (Officer Name).....

Organisation Name:

Invoice address:

.....

Email address:

Preferred Payment Method e.g. CHAPS, BACS, Cash, Debit Card etc..

.....

Is a Purchase Order Number required: Yes/No

If Yes, please provide the Purchase Order Number:.....

PENSIONS COMMITTEE

21 NOVEMBER 2017

Subject Heading:

Employer Outsourcing Guide for Local Government Pension Scheme (LGPS) Scheme Employers

SLT Lead:

Debbie Middleton

Report Author and contact details:

Tara Philpott
Head of Transactional People Services
01708 432179
Tara.philpott@onesource.co.uk

Policy context:

A guide to provide an overview of all issues faced when an LGPS scheme employer outsources services from their organisation

Financial summary:

Costs for the provision of the guide at £6500 plus VAT will be met from the Pension Fund

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

[X]
[X]
[X]
[X]

SUMMARY

This report provides an overview of LGPS implications and procedures detailed fully in the guide provided at Appendix 1

RECOMMENDATIONS

The recommendation of this report is for Members to note, subject to employer consultation, the guide provided at Appendix 1.

REPORT DETAIL

1. Guidance for best practice within Pension Administration is to ensure the establishment of a guide to assist employers within the LGPS fund who wish to outsource services within their organisation.
2. Havering Pension Administration commissioned Hymans Robertson to produce a guide to assist employers in the Havering LGPS fund, to make them aware of the legal position and their obligations when they are transferring a service from their organisation to an external service provider. The cost was £6,500 plus VAT and will be met from the pension fund.
3. Employees being transferred to the employment of the new external service provider, have protections in place for their pension scheme under The Transfer of Undertakings (Protection of Employment) (TUPE) Regulations 2006.
4. The scheme employer needs to ensure the bidding contractors are aware of the right of the staff (who are in scope to transfer to the new service provider) to an unreduced pension.
5. Under 'best value and fair deal' the scheme employer must ensure the contractor secures pension protection for future accrual for each transferring employee through the provision of pension rights that are, the same as, broadly comparable to, or better than they currently have.
6. The guide provided as Appendix 1 gives a detailed overview for all scheme employers to use and ensure best practices are followed when considering a transfer of service to an external service provider as a new employer. The report includes:

- a. Legislative background,
 - b. Responsibilities,
 - c. Admitted Body Status,
 - d. Broadly Comparable Schemes,
 - e. Overview of outsourcing arrangements (Roles),
 - f. Procedural flow for pension outsourcing, insourcing
 - g. What happens when a contract comes to an end
 - h. Costs.
7. The guide will be accessible to all employers via the Havering pension website www.yourpension.org.uk/handr and communications will be sent via email to all employers to advise them of the guide.
8. The guide is out for consultation with employers which will close on Friday 17 November. Responses will be verbally updated at Pensions Committee.

IMPLICATIONS AND RISKS

Financial implications and risks:

The guide aims to make clear the organisations responsibilities when considering outsourcing services and the requirement to provide pension protection to staff being transferred out to the new service provider.

The financial risks to the Fund and letting authority are mitigated if the correct process is adhered to. The letting authority may not obtain or be able to compare the best contract price if pension implications are not considered and would also bear the cost if there was a failure to obtain adequate security for the Fund.

Legal implications and risks:

There are no direct legal implications and risk arising from this report.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

There are no direct equalities implications and risk arising from this report.

BACKGROUND PAPERS

Appendix 1



PENSIONS – EMPLOYER OUTSOURCING GUIDE

An overview of pension implications and
procedures for LGPS Scheme Employers

London Borough of Havering Pension Fund

Produced in association with Hymans Robertson LLP

Content

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1. Introduction

How do I use this guide?

This guide provides an overview of all the major issues faced when a Local Government Pension Scheme (LGPS) scheme employer (detailed as a 'Letting Authority') outsources a service from their organisation. It also aims to make clear your organisation's responsibilities if required to provide pension protection to staff compulsorily transferred from your employment and sets out the procedures to be followed in relation to the LGPS.

The 'Responsibilities' section on **page 8** details the appropriate Government legislation that your particular organisation should be aware of and its impact on your outsourcing arrangements. There is a short synopsis of that section below:

Type of Organisation – Letting Authority	Applicable Government measures	Descriptions
Council Authorities / Police and Fire	Best Value Authorities Staff Transfers (Pensions) Direction 2007	Outsourcing must offer either continued LGPS access or an actuarially assessed broadly comparable Scheme
Academies	New Fair Deal	Continued LGPS access must be offered. Broadly comparable scheme only in exceptional circumstances
Others (such as Colleges/Charities)	No applicable government guidance but should follow TUPE principles	Under the LGPS Regulations, they can still offer a winning contractor a route to admitted body status IF they have received agreement from the London Borough of Havering

Legislative Overview

This guide should be read in conjunction with the London Borough of Havering Pension Fund's ("the Fund's") admission policy for new employers joining the fund, together with the Funding Strategy Statement and Scheme regulations (excerpt detailed within **Appendix B**) which are all available on the Fund's website

<http://www.yourpension.org.uk/handr/Home.aspx> and the London Borough of Havering Council's ("the Council's") website at <https://www.havering.gov.uk/>.

Services that can be outsourced

Services that may be outsourced include the essential services that we all rely on such as street and school cleaning, catering, parking, parks maintenance, housing repairs, home helps, “back office” functions such as HR, pensions/payroll and the provision of services that support vulnerable families, children, young people and the elderly.

“When Should Employers Consider Pensions and what problems may arise if pension’s issues are not addressed appropriately?”

Two important issues of an outsourcing exercise – **Timing** and **Consequences**

Timing

If, following an assessment of their employer responsibilities (**Section 3** of the guide) an obligation to ensure pensions protection exists, Letting Authorities should not proceed with a TUPE transfer of staff until they have ensured that:

- Where appropriate the contractor has a valid Government Actuary Department (GAD) certified ‘broadly comparable’ pension scheme in place for the staff; or
- The transferring staff will have continuing membership entitlement of the LGPS by the contractor entering into an Admission Agreement to become an Admission Body of the Havering Pension Fund

It is important to recognise that where a contractor wishes to provide pension protection as an admission body in the Fund, that the Admission Agreement must be in place before the contract can start.

If, for example, an outsourcing contract were to start before pension protection had been put into place and an LGPS Member were to die in the meantime, then the Letting Authority could find themselves in potential legal difficulties. This is because, strictly speaking, the LGPS Member would have ceased to be an Active Member of the LGPS on the day the outsourcing contract started and their dependants would not receive the tax-free cash lump sum death grant payments and enhanced survivors pensions which would otherwise have been paid. Whilst this is a strict interpretation of this scenario, it is important to note the reality that could be faced by Letting Authorities. It is also worth highlighting that within the Best Value Direction order transferring employees have a legally enforceable right to pension protection against the Letting Authority.

Letting Authorities should ascertain the pension cost from the Fund’s Actuary before the publication of the invitation to tender (ITT). This allows contractors to fully understand what pension costs are before applying so they may build this into their cost models.

Ensuring that pension protection is in place can be a lengthy process, therefore, it is important that as soon as a Letting Authority is thinking of outsourcing a service they consider the pension implications. If pension protections are not considered until late in the outsourcing process, the Letting Authority may experience delays in being able to start the outsourcing contract.

The Fund will not normally backdate an Admission Agreement for a contractor to become a scheme employer of the LGPS as an Admission Body.

Consequences of outsourcing arrangements

Working in partnership with the private and third party sectors to modernise and reform the delivery of public services often involves the transfer of LGPS employees to new employers. The success of these projects will depend, critically, on the fair treatment of the transferring staff who will need reassurance that their rights will be fully respected and that they will be treated fairly throughout an outsourcing exercise.

Employers participating in the LGPS need to be aware of the legal position and their obligations when employees are transferring from their organisation to an external service provider (i.e. a Contractor) to ensure, where appropriate, 'pension protection' has been applied.

The consequences of ignoring pensions when outsourcing services can be frustrating and costly. This guide is primarily for employers with members in the London Borough of Havering Pension Fund who are looking to outsource a service to a private contractor through a contract or other arrangement and sets out your responsibilities and the pension related issues you will need to consider when outsourcing a service and the impact that your choices will have on the transferring staff. Employment rights for pay, holidays etc., are protected by a law under the Transfer of Undertakings and Protection of Employment Regulations 2006 (or TUPE for short).

The Government measures on pensions sit alongside TUPE and are designed to ensure that pension rights, for applicable organisations (see **section 3** of the guide), are protected when jobs are transferred to another public sector employer or private contractor.

The majority of members of the LGPS **are** given pension protection by various Regulations and Government guidance if the service in which they are employed changes hands to a private contractor. As such, scheme members outsourced under a TUPE arrangement could have pension protection on the first and any subsequent transfers.

Employers participating in the LGPS should be aware of the legal position and their obligations when staff are transferring from their organisation to an external service provider (i.e. a Contractor) to ensure 'pension protection' going forward.

The Department for Communities and Local Government (DCLG) produced a useful guide '*Admitted body status provisions in the LGPS when services are transferred from a local authority or other scheme employer*' which contains background information and outlines the respective roles and obligations of the outsourcing scheme employer (i.e. the Letting Authority), the Administering Authority (e.g. the Council) and the contractor which has successfully tendered to provide the outsourced service. Though this guide is now out of date, it continues to provide very useful information on the process and responsibilities of affected parties within an outsourcing exercise.

The regulations governing the Local Government pension scheme and the guidance that sits alongside it are continuously under review and susceptible to change. Please ensure therefore that you are referring to the most current guidance or consult with your legal advisers

You should read this guide carefully. If you have any questions after reading it you should contact the Havering oneSource Pension Administration Team using the contact information in **Appendix A**.

2. Legislative / advisory background

Section 2 covers	<ul style="list-style-type: none">• TUPE• Best Value Authorities Staff Transfers (Pensions) Direction 2007• Fair Deal/New Fair Deal• LGPS Regulations
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The provisions regarding pension protection have developed over a number of years, resulting in a complex structure emerging. It is for individual scheme employers to understand how these provisions relate to them and their employees, and to ensure that appropriate pension protection is put in place, where appropriate.

In this section we set out the main legislative and advisory elements that apply in relation to the provision of pension protection for LGPS employers.

TUPE

In broad terms, the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) protects employees' terms and conditions (except occupational pension arrangements that relate to old age, ill health or survivor benefits) when the services in which they work is transferred from one employer to another. Employment with the new employer is treated as continuous from the date of the employee's start with the first employer or, for redundancy payment purposes, related employer under the Redundancy Payments (Continuity of Employment in Local Government, etc.) Terms and conditions of employment cannot be changed where the operative reason for the change is the transfer itself although changes for other reasons in relation to economic, technical or organisational (ETO) may be negotiated.

The TUPE regulations provide some protection against unfair dismissal and state that trade union recognition and collective agreements in force at the time of the transfer are to be maintained.

Employers have a duty to consult representatives of employees who may be affected by a transfer. This must take place before the transfer to allow a full and proper consultation to take place.

While occupational pension arrangements for old-age, survivor and ill health pensions are not covered by the TUPE regulations, in applicable scenarios, there should be appropriate arrangements to protect occupational pensions, redundancy and severance terms of transferring staff in all these types of transfer.

Contractors bidding for tenders need to be aware of the right to an unreduced pension on redundancy transfers under TUPE.

Best Value Authorities Staff Transfers (Pensions) Direction 2007

Best Value Authorities Staff Transfers (Pensions) Direction 2007 came into force on 1 October 2007. The direction applies to all “Best Value Authorities” in England and Police Authorities in Wales (which therefore applies to all local authorities in England).

It requires the best value employer ensures the contractor secures pension protection for future accrual for each transferring employee through the provision of pension rights that are:

- the same as,
- broadly comparable to, or
- better than those they had as an employee of the authority.

Importantly it also provides that the provision of pension protection is enforceable by the employee.

As well as any immediate outsourcing by the best value employer the Direction also requires similar pension protection for staff originally transferred out from its employment to be carried over into any subsequent re-tenders. This also includes any pre 1st October 2007 outsourcing arrangements, requiring the best value employer to ensure pension protection for any remaining transferred employees (e.g. this might not be the LGPS).

While somewhat outdated the December 2009 DCLG Admission Body Guidance sets out some helpful pension considerations that arise when employees transfer from a local authority.

It is the **best value employer’s** responsibility to ensure pension protection is provided by any service provider in all cases, including any subcontracting arrangements that may be entered into.

Fair Deal/New Fair Deal

HM Treasury has issued guidance commonly referred to as ‘Fair Deal’, which aimed to address the pension position for employees being compulsory transferred from the wider public sector to private sector organisations delivering public sector services. This guidance has developed over a number of years and as a result had become outdated, no longer reflecting the changing working arrangements that existed in the public sector.

On 7 October 2013 HM Treasury issued revised Fair Deal guidance (commonly referred to as New Fair Deal). This revised guidance reset the pension protection for staff compulsorily transferred from the public sector and applies directly to central government departments, agencies, NHS, maintained schools (except local authority maintained schools), and academies where staff are eligible to be a member of a public service pension scheme.

The revised October 2013 guidance simplified the pension protection requirement for all academies and other non LEA maintained schools. From that date pension protection for future accrual is provided by enabling the transferring staff to remain in their public sector pension scheme (e.g. the LGPS for all non-teaching employees of academies).

However, beyond academies, the new guidance does not apply to best value authorities in England and Wales, or any other LGPS scheme employers. It is unclear at present to what extent New Fair Deal might be incorporated into the LGPS. This guidance document will be updated if, and when, anything further is known.

Local Government Pension Scheme (LGPS)

The LGPS Regulations 2013 provide the regulatory means by which scheme employers can provide pension protection via the scheme for employees when outsourcing services. It enables continued access to the LGPS for transferred staff, via an Admission Agreement. The processes and requirements to enable this to happen are set out in the remainder of this guidance document.

3. Responsibilities

Section 3 covers	<ul style="list-style-type: none">• Council Service Departments (including schools under LEA control)• Academies• Other Scheme employers (College/Charities)• Bulk transfers and Risks
------------------	---

Your responsibility depends on what type of employer you are in the Fund:

Council Service Departments (including schools under LEA control)

You are required by law to ensure any contractor either:

1. Continues to offer transferring employees access to the LGPS via an admission agreement, or
2. Give access to a broadly comparable scheme with similar benefits to the LGPS

Councils, in their status as 'Best Value Authorities' have been legally required to ensure these options are available as part of any outsourcing or second generation outsourcing since October 2007 and this right is enforceable by the transferring employees. The transferring employees continue to be entitled to these options if their job is transferred or outsourced again in the future.

As LEA schools can make contracting decisions on their own, it is imperative that they too understand the implications of outsourcing and to ensure pension protection measures are put in place as part of any contractual arrangement. It is also imperative that the Council is aware of any such decisions being made by its maintained schools.

Academies, Free Schools, Foundation Schools, and Voluntary Aided Schools

The school is required, in accordance with New Fair Deal Guidance to ensure any contractor continues to offer transferring employees access to the LGPS via an admission agreement, or

It may be possible for them to provide access to a broadly comparable scheme with similar benefits to the LGPS, but government have made it clear this should only be in exceptional circumstances.

These requirements are set out in the Government's New Fair Deal guidance. New Fair Deal is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. New Fair Deal is, though, enforceable by transferring employees and any organisation wishing to offer any sort of alternative would need to have a strong argument if they wished to go against the principles set out in the guidance.

Other Scheme employer bodies – e.g. Colleges / Charities

If your organisation does not fall within the parameter of a Best Value Authority or as an employer covered by New Fair Deal you do not have a specific requirement to provide pension protection when outsourcing services. You are free, however, to consider providing similar protection if you wish, which could either be via continued access to the LGPS or via a broadly comparable pension scheme.

Bulk transfers

Where pension protection is being achieved via a broadly comparable pension scheme there is a requirement under the former Fair Deal provisions to consider offering transferring employees the option to transfer their accrued pension rights in the LGPS under preferential terms (known as a 'bulk transfer').

If you do not follow the correct procedure, as per your organisations responsibility the risks faced are:

- The risk of a Pension Ombudsman review due to individuals not receiving pension protection from the outset of the transfer;
- The risk of referral to the Pensions Regulator (The contractor could be in breach of its responsibilities under automatic enrolment, leading to the risks of fines or other sanctions from the Pension Regulator);
- Legal challenge by an individual or Trade Union;
- Retrospective admission to the Fund is not normally approved; therefore the Fund faces a loss of income from the employers and employees contributions during the delay period before an agreement is put in place;
- Transferring employees risk a break in pension rights;
- Breach of regulatory requirements;
- Potential for fund exit problems if full information on employees impacts on final valuation to determine the Contractor's exit payment;
- Individual retirement benefit calculations may be incorrect due to lack of correct information;
- There is no security to cover redundancy costs in the event that the contract fails commercially and therefore such costs may fall to the Letting Authority;
- Increased administrative and legal costs to be met by the Fund (which will be passed onto the Letting Authority or Contractor); and/or.
- Legal risks of an employee retiring or dying.

4. Admission Body Status

Section 4 covers	<ul style="list-style-type: none">• Admission body status (ABS) provision in the Regulations• Can an Admission Agreement be ‘closed’ or ‘open’?• Importance of the Funding Strategy Statement• Risk assessment – Bond / Guarantee• Details on ‘Pass Through Agreements’• Pension Information Memorandum• The process to be followed to gain ABS• Subcontracting
------------------	--

Admission body status (ABS) enables contractors who take on local authority services or functions with any specific groups of transferring employees to offer them continued access to the LGPS during the period of the contract. As a result they will remain in the LGPS and continue to accrue benefits, for so long as they remain employed in connection with the delivery of the outsourced service.

Admission Agreements must contain certain provisions for the admission body as set out in the Local Government Pension Scheme Regulations 2013. The Admission Agreement will also include a requirement that, should the Fund approve a Pension Administration Strategy, that this will be adopted by the contractor.

Details of the provisions required by the Local Government Pension Scheme Regulations 2013 are contained in **appendix B**. The references to Regulations, unless specifically set out in full, relate to The Local Government Pension Scheme Regulations 2013.

Admission Body Status Provisions in the LGPS

This document offers a practical guide to the ABS provisions in the Regulations. It is recommended, however, that practitioners and any other interested parties take their own legal advice on the application of the regulations to their particular circumstances.

Where a Contractor is providing services under a number of different contractual arrangements in the Fund it will be required to enter **separate** Admission Agreements in respect of each contract.

Admission Agreements – ‘closed’ or ‘open’

An Admission Agreement can be an ‘open agreement’ or a ‘closed agreement’.

In an open agreement, new joiners, as well as transferring staff working on the contract or services, can be offered membership of the LGPS under the Admission Agreement.

A closed agreement will restrict LGPS membership to the transferring employees only.

It is important to agree with any Contractor what arrangement will be put in place, as it will impact on the actuary's assessment of the amount of employer contribution any Contractor will have to pay, as well as any bond, indemnity or guarantee requirements that may be imposed.

Complying with the Funding Strategy Statement

The Fund's current Funding Strategy Statement (available on the Council's [website](#)) sets out what is required for new admission bodies. The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Bond/indemnity

Any new admission bodies, including Contractors, are required to carry out an assessment, taking account of actuarial advice, of the level of risk arising from premature termination of the contract or arrangement by reason of insolvency, winding up or liquidation of the admission body. This assessment must be carried out to the satisfaction of the Fund (and in the case of a Contractor, the scheme employer letting the contract). Where a level of risk is identified, the Contractor will be required to obtain an indemnity or bond to meet the level of risk identified. Any bond must be in a form acceptable to the Fund. Even if a bond is not required at the outset it could be required at any point during the admission body's participation in the Fund.

The requirement to have a bond in place protects the scheme employer and all other scheme employers in the Fund from any liability in the event of commercial failure of the admission body and should cover some, or all, of the following:

- The strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract;
- Allowance for the risk of asset underperformance; and
- Allowance for the risk of a fall in real gilt yields.

The Fund may also require employers to include their current deficit within the bond amount. Any bond amount **MUST** be kept under regular review, to ensure it still provides the required level of cover. As a result it will be reassessed on an annual basis. This review requirement will form part of the Admission Agreement.

IMPORTANT NOTE – The Fund will normally require a bond to be put in place by the contractor, which will be covered by a separate bond agreement in addition to the Admission Agreement.

Guarantee

If it is "not desirable" for the admission body to enter into a bond, the Admission Agreement will provide that the admission body must obtain a guarantee in a form satisfactory to the administering authority. This guarantee may be given by:

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a person who-

(i) owns, or

(ii) controls the exercise of the functions of, the admission body; or

(d) the Secretary of State in the case of an admission body-

(i) which is established by or under any enactment, and

(ii) where that enactment enables the Secretary of State to make financial provision for that admission body, or

(iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

The 2013 Regulations do not specify who determines when it is "not desirable" for an admission body to enter into a bond but the route taken must be to the satisfaction of the administering authority (The London Borough of Havering).

Costs

The Fund will independently seek a risk analysis from the Fund Actuary, together with the employer contribution rate. The cost of obtaining this will normally be met by the Letting Authority and not the Fund (see **section 11** on Costs).

Ultimately, where a Letting Authority is entering into a contractual arrangement with a Contractor and that Contractor seeks admission body status in the Fund, the Letting Authority will be liable for any resulting pension liabilities in respect of the Contractor not covered by any bond or alternative guarantee.

There are other arrangements that Letting Authorities may wish to put in place between themselves and admission bodies with regard to sharing risk. Please contact the Pension Administration team who may be able to direct you to where you can seek specialist advice.

Technical Information

Pass Through

Outside of any Admission Agreements, bond agreements or letters of guarantee from Letting Authorities, a Letting Authority may also wish to agree a 'Pass Through' arrangement. There are a number of variations of pass through arrangements, but the two most common ones are:

- for the admitted body to pay a fixed employer contribution for the duration of the contract, or
- for them to only pay the future service contribution rate (i.e. the money needed to pay for new benefits accruing following the outsourcing).

In both these cases, the scheme employer (Letting Authority) will retain responsibility for any deficit/surplus at the start of the contract, its duration and its end. Here most of the pension risk remains with the scheme employer (Letting Authority), although this will vary depending

on exactly what is agreed in relation to the pass through arrangements. You must contact the Pension Administration section if you are considering a 'Pass Through' arrangement for where you can obtain specialist advice.

Cessation / Exit Valuations

The Funding Strategy Statement sets out the responsibilities of the Contractor at the cessation of the Admission Agreement. In particular, a cessation valuation will be carried out to determine any exit payment due from the Contractor to discharge their obligations to the Fund. The Fund does not meet these costs, therefore the costs will be passed to the Contractor or Letting Authority depending on the circumstances of the cessation valuation. Please see **section 9** for more information.

Use of 3rd Party Actuaries

Changes in 2013 to the Pension Regulations allowed contractors to seek their own actuarial assessment (for bond rate and employer contributions). Where this option is taken, the Fund will require independent assessment of these via the Fund's own Actuary before they will agree to admit a new employer to the Fund. In these circumstances, all costs associated with the independent assessment will rest with the Contractor.

[Getting to Admission Body Status](#)

Pension Information Memorandum

A 'Pension's Information Memorandum' (PIM) is a document setting out the pension aspects of becoming an admitted body in the Fund that can be included during the tender process for outsourcings. It gives bidders essential information on the scheme and its costs to help inform their tender pricing.

If a PIM has not previously been obtained, the process can be commenced by the completion of a revision template for the Fund Actuaries, who will then report back on the bond rate and the employer rate which will apply. If you do not have the staffing information necessarily available the Pension Administration Team Leader can gather the relevant employee data for the employees to be TUPEd to any new prospective contractor for the provision of the contracted service.

The Process

A PIM may be commissioned at the beginning of the procurement process, as it allows you to state the level of bond in the tender documents, together with an indication of the employer contribution rate, ensuring that potential bidders have all the information available to them and are able to provide accurate costings as part of the procurement exercise. It is also advisable that you work through the checklists shown within **Appendix C** to help control this process.

At the end of the tendering process, when a contractor is selected, a paper will be presented to the Pension Committee notifying the committee that the contracting body are seeking admission as an admission body to the Fund. This has to be completed before the contract commencement date.

Prior to the contract commencement date, the Council's Legal Services will provide you with a copy of our standard Admission Agreement. Legal Services will be your day-to-day contact for the completion of the Agreement. The Admission Agreement has to be in place, with the bond (if required) before contract commencement.

For Council led procurements (i.e. Council staff transferring out to the new provider) oneSource Operational HR team will work with you and the HR contacts from your selected contractor to ensure that employees are consulted/communicated regarding the transfer in line with the TUPE regulations.

The paper for the Pensions Committee would be drafted and prepared by the Pensions Administration Team at the Council in conjunction with the Letting Authority and the selected contractor. All papers to the Committee have to be in the public domain at least 7 days before the relevant committee meeting under Local Government regulatory requirements. Please allow for this process in your timescales for contract commencement.

Outsourcing Risks

The rules governing the Local Government Pension scheme are complex. When considering a tendering exercise please contact the Havering Pension Administration team, so that we can provide the necessary support to you. Your own HR team can advise on the transfer in line with the TUPE Regulations.

Subcontracting

Where obligations to ensure pensions protection exist and a Contractor lets an outsourcing contract to a **sub-contractor** (i.e. a secondary outsourcing takes place), the sub-contractor must also provide pensions protection for TUPE transferring staff either via continuing Membership of the LGPS or a GAD-certified Broadly Comparable Pension Scheme. The Letting Authority is responsible for ensuring pension protection occurs in such circumstances.

5. Broadly Comparable Scheme

Section 5 covers	<ul style="list-style-type: none">• Details on Broadly comparable scheme• Specific 2014 LGPS benefit details• Bulk transfer arrangements
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What is meant by a broadly comparable pension scheme?

Broad comparability relates to the protection of transferring employees' future pension rights. This is to ensure that transferring staff are entitled to pensions in respect of future service that are worth as much as they would have had, were they to have remained with their original employer. As set out within the TUPE regulations 2006, for any alternative pension arrangement to be considered as 'broadly comparable' to the LGPS it does not need to offer identical benefits. However, it must offer the same range of benefits, with the same (or greater) overall value.

Letting Authorities are advised to ensure bidders, who intend to offer an alternative pension scheme to the LGPS, inform them early in the procurement process and advise details of the scheme they intend to use to establish broad comparability. This is because the pension scheme put forward by the contractor as broadly comparable should be assessed by an actuary in accordance with the Government Actuary's Department's Statement of Practice. The designated 'Lead Officer' (see page 18) from the Letting Authority should contact the pension team to progress this.

Where an employer is providing a broadly comparable scheme, that scheme must be certified against the LGPS as it applies at the point of staff transfer. Any broadly comparable certification prior to this are ineffective.

Please note the LGPS 2014 provides -

- A Career Average Re-valued Earnings (CARE) scheme;
- Annual revaluation of active members accrued pension – linked to CPI (consumers' price inflation);
- An accrual rate of 1/49th of each year's pay for the main section;
- For Normal Pension Age (NPA) to be in line with each members State Pension Age (SPA);
- Salary bandings for employee contributions ranging from 5.5% to 12.5%;
- Employee contributions to be paid on all salary received, which would include additional hours for part timers, and any non-contractual overtime for full timers;
- Part time scheme members to only pay contributions on their actual pay and not determined by their whole time equivalent pay;
- The introduction of a 50:50 section as an affordable alternative for those members thinking of opting out; and
- Retirement benefits for all membership prior to 1 April 2014 to be protected, including any remaining "rule of 85" protection.

Bulk transfer arrangements for numbers of transferring staff (2 members or more)

Where a broadly comparable pension arrangement is the preferred route to providing pension protection, consideration also needs to be given to the transfer of accrued LGPS pension rights to this scheme. One method of dealing with this is to consider bulk transfer arrangements. Letting authorities should make clear to potential contractors what sort of bulk transfer terms would be available. This will enable contractors to better estimate the costs of providing transferring staff with access to pension provision that is broadly comparable to what they were receiving prior to the transfer.

Where a broadly comparable scheme is to be provided for transferring staff, there should be an agreement with the new employer's pension scheme which provides that staff will be able to transfer their accrued service credits (The rights related to service already completed to which a member is entitled under the LGPS) into that scheme on a day to day, or equivalent value, basis. It should be noted that an agreement should be sought during contract negotiations to achieve the above aim.

The Fund and its actuary will need to be involved very early in the procurement process, and the Letting Authority may be asked to bear the cost of the actuarial fees incurred.

6. Overview of outsourcing arrangements (Roles)

Section 6 covers	<ul style="list-style-type: none">• First step – determine your organisations ‘pension protection’ obligation• Letting Authority – your Lead officers role• Outsourcing roles – Administering Authority / Scheme employer (Letting Authority) / Contractor
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First Generation Outsourcing

Where a Letting Authority has determined that they are under an obligation to ensure pension protection for their transferring employees, the contract must provide for this to be achieved either via continuing membership of the LGPS or a broadly comparable pension scheme. However, the requirement for these options depends on the *type* of organisation outsourcing a service:

- In the case of a **Best Value Authority** (such as a Council, Police and Crime Commissioner) outsourcing, the company which is awarded the service contract (i.e. the contractor) decides which option will be used to achieve pension protection.
- For an organisation that falls under ‘**New Fair Deal**’ guidance (such as Academies), the winning company should seek admitted body status within the LGPS and only in exceptional circumstances, the option of a Broadly Comparable scheme.
- An organisation such as a College or Charity do not fall within either the Best Value Authority direction or New Fair Deal guidance and therefore staff being outsourced do not retain the same level of protection as a Council or Academy staff member. However, although Colleges and Charities do not have the same pension protection obligation as the aforementioned groups, they still have the option of following similar protocols when completing an outsourcing exercise.

Important note - a company will not be in a position to make an informed bid to provide a service unless the costs and/or risks of ensuring pension protection via admission body status are understood and included as part of a tender document. Therefore the Letting Authority should obtain any necessary pension costs from the Fund to include in their tender document, before starting their procurement process

To help to inform bids, it is recommended that the Letting Authority request a Pension Information Memorandum (PIM) at the outset of the process which can be provided to all prospective bidders at their own cost.

Letting Authorities should understand from the outset that the process of obtaining pension costs to include in a tender document will involve work by the Fund Actuary after ensuring that transferring LGPS Members’ pension records are up-to-date (the costs of any work by the Fund Actuary will be charged to the Letting Authority). In total this process will take a number of weeks, and sometimes several months, to complete. Therefore, if the outsourcing

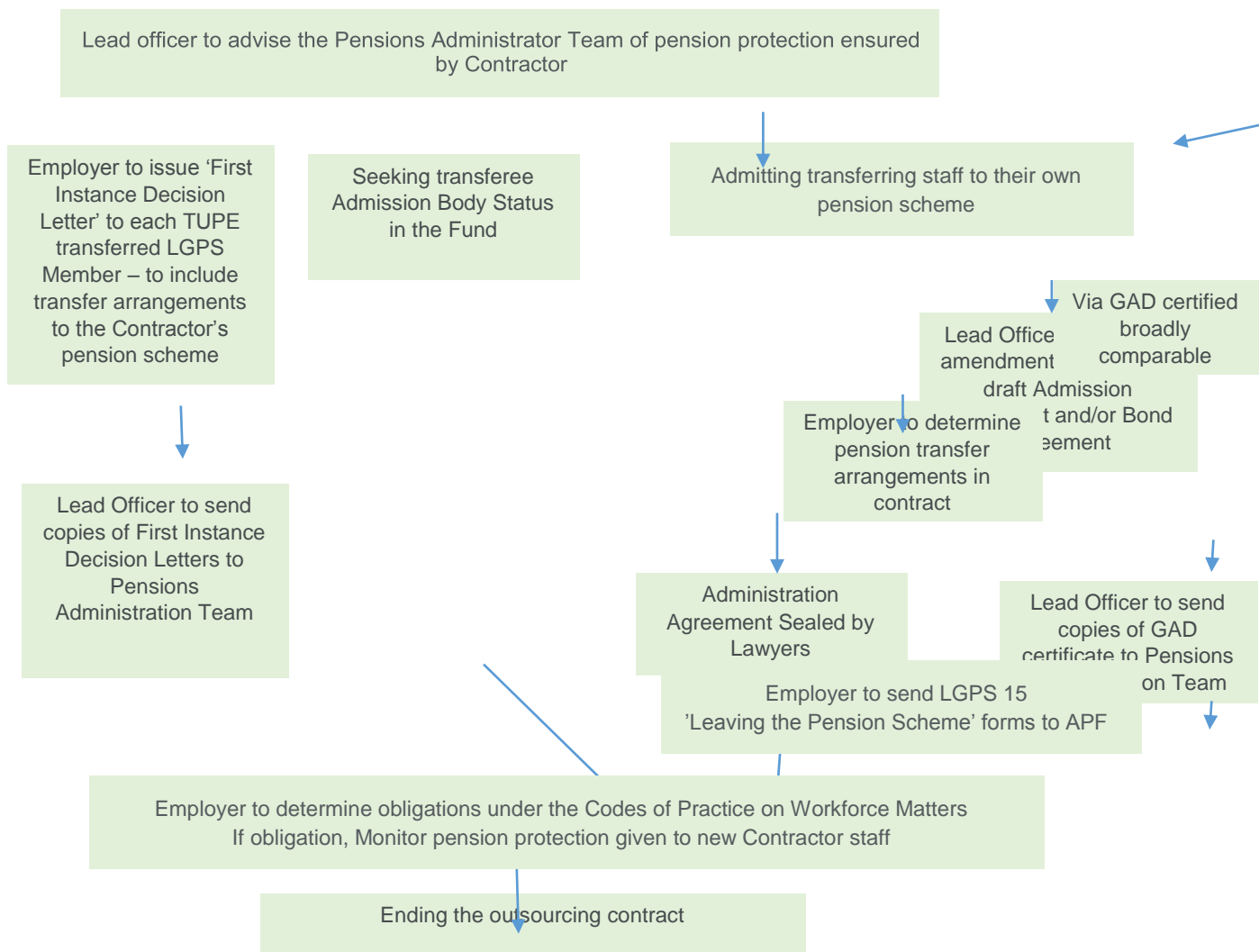
Scheme Employer wishes to avoid delays later on, the Fund should be consulted at the start of the outsourcing process.

Letting Authority – Lead officer role

The Fund does not ordinarily correspond with third party contractors and the Letting Authority should nominate a **Lead Officer** to liaise with all parties, including Havering’s Pension Team.

The Lead Officer should be either the Letting Authority’s nominated Pensions Officer, or a senior manager co-ordinating the organisation’s outsourcing exercise. They should, ideally, have a good understanding of the LGPS, have read the background documents relating to pensions and TUPE which are referred to in this guide, and must not have any conflict of interest as regards the outsourcing exercise.

Where pension protection is to be ensured by the successful contractor choosing to offer continuing Membership of the LGPS as an admission body, the Lead Officer’s role will be to co-ordinate and act as the main channel of communication between the Letting Authority, the contractor and Pensions Administration Team for all the information which will be required to draw up the Admission Agreement.



The outsourcing roles – Administering Authority / Scheme employer / Contractor

It is vital that all parties involved in the outsourcing process are aware of their role when it comes to the pension and Admission Agreement issues and the following paragraphs set out the main areas for each party.

Outsourcing – the role of the Administering Authority

The Administering Authority:

- Should encourage letting authorities and contractors to contact them early with all the relevant information, in an outsourcing process and at each stage in the process;
- Is responsible for the terms of Admission Agreements and many of the conditions for agreements with transferee bodies are required by legislation;
- Must protect their fund by prudent management and assessment of potential risks to the fund with the admission of non-scheme employers and have regard to the need for any indemnity or bond required under regulation;
- Will make the decision to admit a body (contractor) to the LGPS having established that it is possible to do so in accordance with the LGPS regulations and in consultation with the relevant Letting Authority and contractor. The administering authority cannot decline to admit a contractor if the contractor and the Letting Authority agree to meet the relevant requirements of the LGPS regulations and the Fund's requirements;
- Must keep under review the admission body's employer contribution rates to ensure that all liabilities can be met during the lifetime of the contract and that as far as is reasonably possible a surplus or deficit will not occur at the end of the contract;
- Must not agree to any bulk transfer to a broadly comparable scheme unless it is satisfied that each of the transferring members wishing to transfer pension rights will acquire rights under the new scheme at least equivalent to those which would have been obtained if a standard cash equivalent transfer value had been paid; and
- Will ensure the annual review of any bond/indemnity or guarantee takes place, to determine that the level of cover/protection in place remains appropriate, or amended, as required.

A standard data base of all current admission bodies participating in the Fund, recording relevant details of the Admission Agreement and funding arrangements for each body, is maintained by the Fund. This data base is a live document and will be updated as new bodies are admitted to the Fund.

Outsourcing – the role of the Scheme Employer (Letting Authority)

This is the employer or body seeking to contract for services, as an example, an Academy contracting for cleaning or catering services, is deemed the 'Letting Authority'.

The Letting Authority should

- Use, where it applies to them, the relevant Government guidance as it pertains to their organisation when completing an outsourcing of services (Best Value /Fair Deal/New Fair Deal);

- Ensure that pension's issues are considered early in the outsourcing exercise. This means right at the beginning when decisions are being taken about who is considered best to deliver a particular service or function, during the procurement process, and especially when the tender specification is being drawn up;
- Ensure early contact with the relevant administering authority is essential to avoid later confusion and potential delays and/or costs;
- Hold early discussions with the administering authority and especially where a potential contractor wishes to offer LGPS for transferring employees;
- Hold early discussions with staff and trade unions;
- Make the necessary assessments, in consultation with the contractor, concerning potential financial risks to any contract with the contractor, which may have implications for the on-going provision of the service or function being transferred, and where an Admission Agreement is to be entered into, consider the level of indemnity / bond, if any, they may wish the contractor to provide. Close liaison with the administering authority will also be needed when considering the level of risk and indemnity required;
- Where applicable be satisfied, where a contractor wishes to offer membership of its own pension scheme, that the scheme is broadly comparable to the LGPS and a current valid GAD certification is in force; and
- Where applicable discuss with the administering authority the bulk transfer terms to be offered to potential bidders if transferring staff are being offered a broadly comparable pension scheme

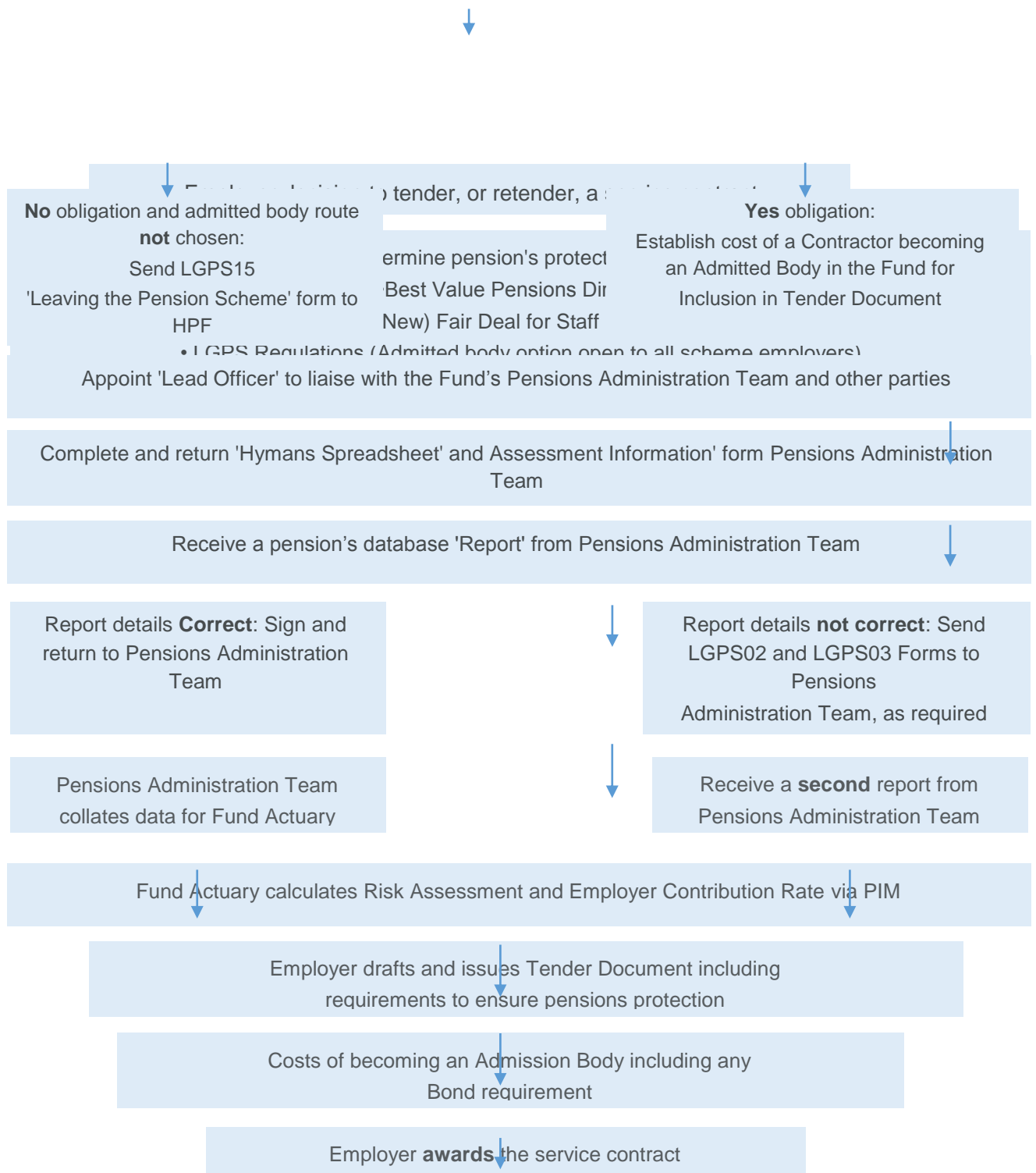
Outsourcing – the role of the contractor

The Contractor:

- Needs to establish from the Letting Authority the correct requirements for pension protection, based on the appropriate Government guidance (Best Value/New Fair Deal). Contractors are encouraged to seek this information from the Letting Authority if it is not clear in the tender or pre-tender documentation as some pension provision will always be expected for transferring local authority employees;
- Should enter into early discussions with the Letting Authority and trade unions, as they will help to make informed decisions about pension issues or resolve any potential problems before the process is too far underway;
- Will need to carry out, to the satisfaction of the administering authority, and to the satisfaction of the scheme employer that is letting the contract, an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up, or liquidation and enter into a bond or indemnity for that level of risk;
- Will, where it is not desirable to enter into a bond or indemnity, provide details of the appropriate guarantor;
- Will need to engage with an Actuary to assess the potential pension costs for them as an employer during the lifetime of the contract; and
- In appropriate outsourcing circumstance, will need to liaise closely with the Letting Authority and the relevant administering authority (either directly or through their actuary) to establish whether they meet the requirements of broad comparability of their own pension scheme if this is what is offered.

7. Pension outsourcing – procedure flow

Section 7 covers	<ul style="list-style-type: none">• Procedure flow and Pre-tender issues• Revision template and data cleanse• Letting authorities outsourcing tender document• What to do once a contract has been awarded?
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The above diagram sets out what the overall procedural flow should look like and the relevant stakeholder responsibilities. From this we can trace the best practice route of an outsourcing exercise from pre-tender stage all the way through to a contract end date.

Pre-tender issues

As a outsourcing **Letting Authority** you should think about:

- The degree of pension risk which will pass to the contractor. This will almost certainly affect their tender price;
- What will happen with any current pension funding deficit in respect of the transferring employees – will this be transferred to the contractor (understanding that effect on the commercial contract) or be retained by outsourcing Letting Authority;
- What happens at the end of the contract? Has the exit position been fully clarified to the contractor? Ensuring that they understand what they may potentially be liable to pay to the Fund;
- The Letting Authority should understand that any pension deficit not met by the contractor on exit will be charged to them; and
- This may affect the decision as to whether a Bond should be required or whether the Letting Authority is comfortable with a Guarantee protection.

Completing the Revision Template (Process notes)

Where a Pension Information Memorandum (PIM) has not previously been provided by the Fund's actuary, the Employer must provide the data which is requested in each column of the spreadsheet provided by the actuaries ensuring that it is in the required format.

The Fund holds a record of each LGPS Member's membership details on its Pensions System. This holds the information which has been provided by the Letting Authority. It is essential that the data stored on the Pensions System is correct before pension costs are calculated by the Fund's Actuary, otherwise the Employer Contribution Rate will be incorrect and the Risk Assessment flawed – consequently a data cleanse exercise may be required at the start of the outsourcing exercise.

The Fund's oneSource Pension Administration Team will send a Report to the Lead Officer detailing the information which is held on our Altair Pensions System in respect of the LGPS Members to be transferred. If the data the Fund is holding is correct, the Lead Officer should sign and return the Report to the Fund.

Data Cleanse

Where the Fund's records are inconsistent with the Employer's records, the Lead Officer must complete a Form 'LGPS 3' detailing each item of data which needs to be updated and the effective date of the change. Where the Fund is not holding a record of a contributing LGPS Member, the Lead Officer must complete Form 'LGPS 2' so the Fund can set up a record. On receipt of any LGPS 2 and LGPS 3 Forms, the Fund will update our Altair Pensions system. The Fund will then send an updated Report to the Lead Officer to sign to confirm that the data the Fund is holding in respect of the transferring LGPS Members is correct.

The information the Lead Officer provides on this form will enable the Fund Actuary to calculate the pension costs, if the successful contractor were to offer TUPE transferring

employees continuing membership of the LGPS. The extent of the risk assessment may depend on the covenant of the Letting Authority.

The Fund's Actuary will calculate an Employer Contribution Rate on the scenarios of an Admission Agreement being both Open and Closed (i.e. that new staff employed to work on the service contract will be able to join the LGPS, or that membership will be restricted to employees TUPE transferred), unless instructed otherwise. This is because the option of whether to be Open or Closed is one that has to be exercised by the Contractor.

The outsourcing Letting Authority Tender Document

The Letting Authority should indicate in the Tender Document if there is a requirement to ensure pensions protection for the staff who will TUPE transfer to the successful contractor and what form this could take. Such a requirement will be satisfied by the contractor either entering into an Admission Agreement to become an Admission Body so as to facilitate continuing Membership of the LGPS, or by the contractor offering a pension scheme which is GAD-certified as being Broadly Comparable to the LGPS.

From the results of the Risk Assessment, the Employer must decide if it will retain the risk or if not, to what extent this risk is to be transferred to the contractor. This means that, if continuing Membership of the LGPS is to be offered, the Employer must decide if it wishes to retain any funding deficit which may emerge or transfer that liability to the Admission Body. The Employer will also need to decide if it requires a Bond or indemnity to protect all other Fund employers in the event that the contractor becoming insolvent with a pension liability it cannot meet.

Where there is a requirement to ensure pension protection, the Tender Document should also include the following information regarding the Contractor potentially becoming an Admission Body:

- A copy of the Draft Admission Agreement;
- The new Employer Contribution Rate; and
- The amount of any Bond required.

Notifying Havering Pensions Fund – Once the outsourcing contract has been awarded

The Lead Officer should notify the oneSource Pension Administration Team of the outcome, providing details of the successful tenderer and whether they will ensure pension protection (if applicable) by either:

- Seeking to enter into an Admission Agreement to become an Admission Body in the Fund; or
- By providing access to a GAD-certified Broadly Comparable Pension Scheme, in which case a copy of the GAD Certificate should be forwarded to the Pensions Administration Team.

Staff being TUPE transferred to a contractor of the respect of their pension rights

The Letting Authority Lead Officer must inform each transferring LGPS Member of decisions made in respect of their LGPS pension rights. The way in which the Employer must inform the Member is prescribed in statute;

- Notification of the decision must be made to the member in writing i.e. the 'First Instance Decision Letter';
- It should be done as soon as reasonably practicable; and
- It must contain a conspicuous statement giving the address from which further information about the decision may be obtained it must refer to the member's right to appeal against the decision under the Internal Dispute Resolution Procedure (IDRP), including time limits within which to appeal and the job title and address of the Employer's appeals officer

The First Instance Decision letter sent to a member being TUPE transferred to a Contractor should:

- Explain the change to their pensionable employment;
- State if their LGPS membership will cease on their last date of employment with the Letting Authority;
- Outline the way in which any obligations to ensure pension protection will be met by the Contractor (e.g. access to the Contractor's GAD-certified broadly comparable scheme, or continuing membership of the LGPS by the Contractor becoming an Admission Body of the Fund);
- Outline the arrangements in the outsourcing contract to transfer their pension rights to the Contractor's pension scheme (i.e. their option to participate in a bulk transfer to the Contractor's GAD-certified broadly comparable scheme); and
- Explain their right to appeal against these decisions under IDRP

The Letting Authority must forward a copy of each First Instance Decision letter to the Fund.

8. Broadly Comparable scheme / Admitted Body route

Section 8 covers	<ul style="list-style-type: none">• What happens if the Broadly Comparable route is chosen? (option for Best Value authority outsourcing)• Broadly Comparable – practicalities of transferring pension rights• Bulk Transfer notes• Admitted Body route – staff remaining in the LGPS• Admitted Body route – procedure notes
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If the successful contractor decides to offer its own broadly comparable pension scheme to the TUPE transferred staff (most applicable for Best Value authority outsourcing) then the Letting Authority should send form LGPS 15 'Leaving the Pension Scheme' to the Fund in respect of each individual stating the reason for leaving as TUPE transfer to "name of contractor" along with a copy of the GAD Certificate (The certificate provided by GAD that a scheme fulfils the requirements to be a broadly comparable pension scheme).

GAD certifies broad comparability in two ways:

- **Passport** - A GAD Passport indicates that the pension benefits the contractor offers TUPE transferring staff have been analysed and considered to be broadly comparable for a wide range of staff that may potentially transfer from the public sector. The Passport may be used to bid on other public contracts to show compliance with one strand of Fair Deal.
- **Individual Certification** - An individual certification is similar to a Passport but the analysis only takes place in respect of the single transfer of the TUPE'd staff. It can be a simpler way to achieve broad comparability than a Passport as the analysis is restricted to a small group. If the analysis determines that the pension scheme is broadly comparable to the LGPS then a Certificate of Broad Comparability is valid only for the staff concerned.

The Letting Authority should note that it can take some considerable time to achieve GAD certification of broad comparability. Broad comparability also has to be agreed against the LGPS as it applies at the date of transfer taking account of any regulatory changes that may be relevant.

This option has been removed for new Fair Deal employers such as Academies and is only available to them in **exceptional circumstances**.

Transfer of pensions rights from Havering Pension Fund to the Contractors pension Scheme

For those outsourcing Letting authorities who come under Fair Deal obligations to ensure pension protection for employees TUPE transferring to a new employer, this guidance contains provisions relating to the transfer of pension rights from the Letting Authorities pension scheme to a Contractor's pension scheme. **The transfer must be initiated by the**

Letting Authority. Where a bulk transfer calculation is required from the Fund Actuary, the Lead Officer must send a letter of authority to the Pensions Administration Team for the Fund Actuary to disclose personal data about the transferring staff to the Actuary of the Contractor's pension scheme.

Bulk Transfer from the LGPS to the Contractor's Broadly Comparable Pension Scheme

Ordinarily, when an individual leaves an LGPS employment they become entitled to deferred benefits in the scheme. They do, however, have the option to transfer their accrued LGPS rights to their new employer's pension scheme if they wish. Special arrangements, known as bulk transfers, can apply where any transfer of employer is as a result of TUPE or TUPE is deemed to have applied.

In this circumstance, where pension protection is provided via a GAD-certified broadly comparable pension scheme, the LGPS Regulations do provide the option for bulk transfer terms to be agreed with the receiving scheme. It would be expected that any bulk transfer terms to the broadly comparable scheme would provide pension benefits on a on a day-for-day basis (or the actuarial equivalent) so that individuals suffer no loss as a result of the transfer. In any circumstance bulk transfer terms must not provide terms that would result in a transfer credit in the broadly comparable scheme that is less than would be achieved under the standard cash equivalent transfer route.

This is achieved by making an arrangement in the outsourced service contract for a bulk transfer from the LGPS to the broadly comparable scheme. This is an agreed transfer calculation between the relevant actuaries and is quite different from a normal transfer of pension rights.

Where bulk transfer terms cannot be agreed, however, individuals still retain the right to consider an individual cash equivalent transfer value (CETV) into their new scheme.

In order that individuals can make the right choices regarding any accrued LGPS pension rights it is important that there is clear communication with them, either confirming the bulk transfer arrangements that have been agreed, or confirming where agreement could not be reached.

Outsourced staff staying in the Havering Pension Fund

The successful Contractor can become an admission body of the LGPS (option available to **all** Letting authorities outsourcing) by entering into an Admission Agreement with the Council (the Administering Authority of the Fund of the LGPS) and the outsourcing Letting Authority (if different).

The Admission Agreement is a legal document which allows the Contractor to provide membership of the LGPS to employees TUPE transferring to their organisation. Letting Authorities should note that an Admission Agreement cannot be backdated unless in exceptional circumstances. Where an Employer has an obligation to ensure pension

protection for TUPE transferring staff, LGPS membership must be continuous therefore an outsourcing contract should not come into effect before the Admission Agreement.

The Fund's solicitor will send the Lead Officer two documents for forwarding to the successful Contractor:

- 'Application to Become an Admission Body' form. When the Contractor has completed and returned this to the Lead Officer it should be forwarded to the Fund's Pensions Administration Team to provide us with details of the legal entity seeking Admission Body status.
- 'Draft Admission Agreement'. The draft Admission Agreement contains a number of provisions prescribed under the LGPS Regulations. The Lead Officer should forward a copy to the Contractor, if this was not done at the Tender Stage.

If the Contractor's lawyers wish the provisions of the Draft Admission Agreement to be amended they should advise the Lead Officer of their proposed amendments. The Lead Officer should forward details of the Contractor's proposed amendments to their own lawyer and the Fund's Pensions Administration Team. The Pensions Administration Team will inform the Lead Officer whether the Fund's Solicitor agrees with the proposed amendments, or proposes further amendments.

If the lawyers of all parties are in agreement with the wording, the Admission Agreement should be finalised by the Letting Authorities lawyer who should liaise with the Contractor's lawyer and the Fund's Solicitor to arrange signing.

The Admission Agreement will include a Schedule of LGPS Members TUPE transferring to the new Admission Body. If it subsequently transpires that the employees who have actually been TUPE transferred differs from those listed in the Schedule then a formal amendment will have to be made to the Admission Agreement and signed by the lawyers of all parties.

How long it takes the Fund's Solicitor to seal the Admission Agreement (and Bond Agreement if required) will depend on the extent to which variations to the standard draft Admission Agreement are requested by the Letting Authority and Contractor. As a ballpark figure, the Lead Officer should factor at least 4-12 weeks for the Admission Agreement stage, and longer if a Bond Agreement is also required, when project managing their outsourcing exercise.

The Letting Authorities Lead Officer should ensure that their Contractor fully understands the statutory and contractual obligations they will have as an LGPS Scheme Employer. This is most important because:

- Breaches of pension's legislation can incur penalties which, if not met by the Contractor, may fall on the Letting Authority as ultimate guarantor.

- If the Admission Body fails to rectify the breach within the reasonable period, the Fund will decide whether or not to terminate the Admission Agreement.

Where an Admission Body fails to fulfil its obligations to the Fund, the Fund will write to the Contractor (cc'd to the Letting Authority) outlining the breach and giving a reasonable period in which to rectify the breach under the terms of the Admission Agreement.

While the Admission Agreement is being drawn up, the Lead Officer should proactively ensure that the Contractor understands their LGPS responsibilities, including, but not limited to:

- Making First Instance Decisions;
- Notification of First Instance Decisions;
- Dealing with starters, leavers and changes of circumstances that affect pension entitlements;
- Recording multiple part-time posts separately on HR/payroll systems;
- Understanding the pensionable pay elements related to the CARE scheme;
- Making payments to the Fund;
- Drafting and publishing policies on Employer discretions; and
- Internal Dispute Resolution procedure – Stage 1

The Lead Officer must advise the Pensions Administration Team of the contact details of their Contractor's HR, Payroll and Finance officers. The Pensions Administration Team will then contact the Contractor's HR, Payroll and Finance officers, advise them of the procedure for sending payments and returns to the Fund.

The Lead Officer should instruct the current payroll provider of the transferring LGPS Members to prepare a payroll report ensuring that it is compliant with the current CARE LGPS pension scheme and (if applicable) the pre 2014 final salary LGPS scheme. This information must be given to the Contractor so that they retain pension salary information which is pertinent to their new employee.

Where a Contractor is becoming an Admission Body of the Fund, it is still necessary for the outsourcing Scheme Employer to send LGPS 'Leaving the Pension Scheme' forms to the Fund.

The Fund Actuary will set an Employer Contribution Rate (ECR) which will apply from the commencement date of the Admission Agreement. Every three years the Actuary will calculate the assets and liabilities for each Employer (the Triennial Valuation) so that their on-going ECR can be established.

9. What happens when an Outsourcing Contract comes to an end?

What section 9 covers	<ul style="list-style-type: none">• End of the contract – Staff return or retender?• Best practice tip – pension funding implication• Second generation outsourcing – pension protection issues
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When an outsourcing contract comes to an end, the Letting Authority may take back the staff who were TUPE transferred to work on the service contract. The Letting Authority may also wish to re-tender the contract to another service provider and, where the Letting Authority is under an obligation to ensure pension protection, the Fund Actuary will again need to calculate a new bond level and ECR if admitted body route is chosen. It is important to note that the pension protection that applied to the staff originally transferred continues to be applicable at the second stage re-tender. However, if the original contract was 'open' for new joiners from the original contractor, those employees are **not statutorily protected** for pensions.

In order to remove any potential pension continuity issues, the Lead Officer should ensure that the Fund is notified in good time for potential pension costs to be included in the tender document. Where the current contractor is an Admission Body, the Fund Actuary will carry out an assessment of pension assets and liabilities when the outsourcing contract comes to an end.

From this assessment, the Actuary will produce a 'Final Certificate' detailing any funding surplus or deficit which may exist. The funding aim over the course of an outsourcing contract is that there should be neither a surplus nor a deficit at the end of the contract.

The costs of the Fund Actuary's assessment will be passed onto the Contractor of Letting Authority (where appropriate). Please see **section 11** for further information.

Best practice tip!

Where the pensions risk is borne by the Contractor, it is advisable that the Letting Authorities Lead Officer give the Pensions Administration Team **18 months'** notice that the contract is coming to an end. The Actuary will then assess the funding position and increase or decrease the Admission Body's ECR over the remaining 18 month period, as appropriate, so that the surplus or deficit at the end of the contract is minimised.

Second Generation Outsourcing (Retenders) and TUPE

These fall into the following categories:

- **Re-tenders of Outsourcing Contracts.** Any obligations which exist to ensure pension's protection will continue when contracts come to an end and are re-tendered. As detailed throughout this guide, ensure that your organisation refers to the appropriate Government guidance.

- **Old ‘pre-pensions protection’ Outsourcings.** LGPS Scheme Employers which are Best Value Authorities may have outsourced services at a time when there was no requirement to ensure pensions protection. If these contracts are subsequently re-tendered they will then come under the Staff Transfers (Pensions) Direction and must include provision for pension’s protection equal to the pension scheme that they were eligible to join immediately prior to the contract re-let.

The procurement process itself, will be no different from the first generation outsourcing and TUPE process, as set out in sections 6, 7 and 8.

You must consult with the oneSource Pension Administration Team at the outset of the contract process, which means the bids will correctly include the estimated employer contribution rate applicable and provision for the estimated bond rate. Your Lead Officer should ensure all data required has been received preventing any impact on the issuing of Annual Benefits Statements. Furthermore, the contract process must be established at the outset to see if the bidders are able or willing to meet the Admission Body status requirements or offer a broadly comparable scheme.

The new Fair Deal guidance confirms that when contracts are re-tendered, staff covered by the earlier Fair Deal and Best Value Direction policies should now be offered access to the appropriate public service pension scheme for future accrual. The employees will retain access to the current LGPS benefits as they are on the date of retender (they do not retain returned access to ‘older’ LGPS benefit structures i.e. Final salary 80th/60th). Employees will have the option to transfer accrued rights into the public service scheme via a bulk transfer, where terms are agreed. Special arrangements apply where exceptional circumstances, such as requirements under procurement law, would prevent the application of the new Fair Deal policy. As such, the Letting Authority has a role to play in protecting the pensions and pension access of the transferring employees.

10. Insourcing

Insourcing issues

'Insourcing' can occur for a number of reasons, which are summarised below. In all cases it is important to liaise closely with oneSource as early as possible in any 'insourcing' situation, to ensure the correct action is taken.

There may be circumstances that require a function contracted out to a private sector contractor or voluntary sector body to be brought back into the public sector following the termination of the contract or arrangement. In this situation all staff that transfer will (in almost all Scheme Employer scenarios) gain immediate access to the LGPS by virtue of becoming eligible employees of the Scheme Employer. It is also important to note that if the 'insourcing' is from staff transferred to a broadly comparable scheme, it is possible that there could be bulk transfer arrangements for those original employees transferred out of the public sector, with a standard CETV option to all others transferring across to the Scheme Employer.

A further example of 'insourcing' would be the ending of a shared service arrangement, where staff could be transferred either back into, or out of, the Fund. Staff would retain entitlement to membership of the LGPS in such cases (as they would continue to be employed by a Scheme employer). Consideration would also need to be given to the transfer of accrued LGPS entitlements into or out of the Fund, where appropriate.

A transfer of staff from the NHS to a Local Authority could result in a Participation Agreement with the NHS Pension Scheme, allowing the transferred NHS staff to remain in the NHS Pension Scheme. If the transfer occurs in the opposite direction, then the admission body route within the LGPS may be available for the NHS organisation involved, allowing the transferred local government staff to remain in the LGPS. Within any of these scenarios the appropriate Pension legislative guidance notes should be used by the involved parties.

In regards to 'Insourcing', due to the somewhat complex nature of the movement, applicable organisations should contact oneSource pension administration team to discuss the appropriate administrative steps as early in the process as possible.

11. Costs

Where a contractor offers a **broadly comparable pension** scheme as its means of providing pension protection, all costs (including employer contributions) and risks associated with setting up and running that scheme will fall to that contractor. It is assumed these costs would be reflected in any bid price. In addition, any actuarial costs associated with negotiating the transfer of staff to the broadly comparable scheme will be recharged to the Letting Authority (who may pass these costs on to the contractor) which may add to the overall costs of the outsourcing.

Where access to the LGPS via an **admission body status** is the preferred option for ensuring pension protection various actuarial costs associated with this will be passed back to the Letting Authority or contractor. The oneSource Pension team will advise you up front what the actuarial costs will be for appropriate work.

The pensions costs will be calculated by the Fund Actuary who will carry out a Risk Assessment and calculate the new Employer Contribution Rate which would be payable if the contractor were to offer continuing membership of the LGPS as an Admission Body of the Fund. The Employer Contribution Rate is the charge made to a Scheme Employer of underpinning costs of providing the occupational pension scheme benefits provided by the LGPS not met by Member contributions and returns on Fund investments.

Actuarial costs that may be passed onto the Letting Authority or Contractor may include the costs for:

- a Pensions Information Memorandum;
- renewing or reviewing risk assessments;
- certain individual calculations associated with scheme membership;
- accounting valuations under FRS102, US GAAP or IAS19; and
- cessation or exit valuations; and
- any other ad hoc advice regarding the Contractor's participation in the Fund.

APPENDIX A

CONTACTS AND USEFUL LINKS

Contacts

Pension Team

Email: Pensions@havering.gov.uk

Telephone: 01708 433 333

Address: Pensions Team, Central Library, St. Edwards Way, Essex, RM1 3AR

Transactional Services

Email: Payroll@havering.gov.uk & people.establishment@onesource.co.uk

Telephone: 01708 433 333

Address: Transactional Services, Central Library, St. Edwards Way, Essex, RM1 3AR

Useful Links

Havering Pension website

<https://www.yourpension.org.uk/handr/Home.aspx>

London Borough of Havering website

<https://www.havering.gov.uk/>

LGPS website

<http://www.lgps.org.uk>

Timeline website

<http://www.lgpsregs.org/timelineregs>

APPENDIX B

LGPS REGULATIONS

PART 3 (of Schedule 2)

1. The following bodies are admission bodies with whom an administering authority may make an admission agreement—

- (a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- (b) a body, to the funds of which a Scheme employer contributes;
- (c) a body representative of—
 - (i) any Scheme employers, or
 - (ii) local authorities or officers of local authorities;
- (d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
 - (i) the transfer of the service or assets by means of a contract or other arrangement,
 - (ii) a direction made under section 15 of the Local Government Act 1999 **(a)** (Secretary of State's powers),
 - (iii) directions made under section 497A of the Education Act 1996 **(b)** ;
- (e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

2. An approval under paragraph 1(e) may be subject to such conditions as the Secretary of State thinks fit and the Secretary of State may withdraw an approval at any time if such conditions are not met.

3. The Scheme employer, if it is not also the administering authority, must be a party to the admission agreement with a body falling within the description in paragraph 1(d).

4. In the case of an admission body falling within the description in paragraph 1(b), where at the date of the admission agreement the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, the Scheme employer paying contributions (or, if more than one pays contributions, all of them) must guarantee the liability of the body to pay all amounts due from it under these Regulations.

5. If the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

6. An admission agreement must require the admission body to carry out, to the satisfaction of the administering authority, and to the satisfaction of the Scheme employer in the case of a body falling within paragraph 1(d)(i), an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body.

7. Notwithstanding paragraph 6, and subject to paragraph 8, the admission agreement must further provide that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the administering authority with—

- (a) a person who has permission under Part 4 of the Financial Services and Markets Act 2000 **(c)** to accept deposits or to effect and carry out contracts of general insurance;
- (b) a firm in an EEA state of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act **(d)** , which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule) **(e)** to accept deposits or to effect and carry out contracts of general insurance; or
- (c) a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

8. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

- (a) a person who funds the admission body in whole or in part;
- (b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;
- (c) a person who—
 - (i) owns, or
 - (ii) controls the exercise of the functions of, the admission body; or
- (d) the Secretary of State in the case of an admission body—
 - (i) which is established by or under any enactment, and
 - (ii) where that enactment enables the Secretary of State to make financial provision for that admission body, or
 - (iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

9. An admission agreement must include—

- (a) provision for it to terminate if the admission body ceases to be such a body;
- (b) a requirement that the admission body notify the administering authority of any matter which may affect its participation in the Scheme;

- (c) a requirement that the admission body notify the administering authority of any actual or proposed change in its status, including a take-over, reconstruction or amalgamation, insolvency, winding up, receivership or liquidation and a material change to the body's business or constitution;
- (d) a right for the administering authority to terminate the agreement in the event of—
 - (i) the insolvency, winding up or liquidation of the admission body,
 - (ii) a material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time,
 - (iii) a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

10. An admission agreement must include a requirement that the admission body will not do anything to prejudice the status of the Scheme as a registered scheme.

11. When an administering authority makes an admission agreement it must make a copy of the agreement available for public inspection at its offices and must promptly inform the Secretary of State of—

- (a) the date the agreement takes effect;
- (b) the admission body's name; and
- (c) the name of any Scheme employer that is party to the agreement.

12. Where an admission body is such a body by virtue of paragraph 1(d), an admission agreement must include—

- (a) a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme;
- (b) details of the contract, other arrangement or direction by which the body met the requirements of that sub-paragraph;
- (c) a provision whereby the Scheme employer referred to in that sub-paragraph may set off against any payments due to the body, an amount equal to any overdue employer and employee contributions and other payments (including interest) due from the body under these Regulations;
- (d) a provision requiring the admission body to keep under assessment, to the satisfaction of the bodies mentioned in paragraph 6, the level of risk arising as a result of the matters mentioned in that paragraph;
- (e) a provision requiring copies of notifications due to the administering authority under paragraph 9(b) or (c) to be given to the Scheme employer referred to in that subparagraph; and
- (f) a provision requiring the Scheme employer referred to in that sub-paragraph to make a copy of the admission agreement available for public inspection at its offices.

13. Where an admission body of the description in paragraph 1(d) undertakes to meet the requirements of these Regulations, the appropriate administering authority must admit to the Scheme the eligible employees of that body

Special circumstances where revised actuarial valuations and certificates must be obtained

64. —(1) If a person—

- (a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or
- (b) was a Scheme employer, but no longer has an active member contributing to a fund, that person becomes "an exiting employer" for the purposes of this regulation and is liable to pay an exit payment.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain—

- (a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and
- (b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing—

- (a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and
- (b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund, with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—

- (a) the contribution at the primary rate should be adjusted; or

(b) any prior secondary rate adjustment should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(6) Paragraph (7) applies where—

(a) a Scheme employer agrees to pay increased contributions to meet the cost of an award of additional pension under regulation 31 (award of additional pension); or (b) it appears likely to an administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with a Scheme employer exceeds the amount specified, or likely as a result of the assumptions stated, for that authority, in a rates and adjustments certificate by virtue of regulation 62(8) (actuarial valuations of pension funds: assumptions).

(7) The administering authority must obtain a revision of the rates and adjustments certificate concerned, showing the resulting changes as respects that Scheme employer.

(8) For the purposes of this regulation—

"exiting employer" means an employer of any of the descriptions specified in paragraph (1);

"exit payment" means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);

"exit date" means the date on which the employer becomes an exiting employer; and "related employer" means any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority) .

(8A) Paragraph (8B) applies where the exiting employer is the Merseyside Integrated Transport Authority ("the ITA") and the liabilities of the fund in respect of benefits due to the ITA's current and former employees (or those of any predecessor authority) have been or are to be transferred to the Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority as a result of the establishment of the combined authority by article 3(1) of the Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority Order 2014.

(8B) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

Editor's Note: paragraphs (8A) and (8B) above are treated as having effect purely for the purposes of The Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority Order 2014 [SI2014/865].

(8A) Paragraph (8B) applies where the exiting employer is the South Yorkshire Integrated Transport Authority ("the ITA") and the liabilities of the fund in respect of benefits due to the

ITA's current and former employees (or those of any predecessor authority) have been or are to be transferred to the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority as a result of the establishment of the combined authority by article 3(1) of the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority Order 2014.

(8B) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

Editor's Note: paragraphs (8A) and (8B) above are treated as having effect purely for the purposes of The Barnsley, Doncaster, Rotherham and Sheffield Combined Authority Order 2014 [SI2014/863].

(8A) Paragraph (8B) applies where the exiting employer is the Tyne and Wear Integrated Transport Authority ("the ITA") and the liabilities of the fund in respect of benefits due to the ITA's current and former employees (or those of any predecessor authority) have been or are to be transferred to the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority as a result of the establishment of the combined authority by article 3(1) of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014.

(8B) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

Editor's Note: paragraphs (8A) and (8B) above are treated as having effect purely for the purposes of The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014 [SI2014/1012].

(9) Paragraph (10) applies—

- (a) where the exiting employer is a probation trust established under section 5 of the Offender Management Act 2007 and the liabilities of the fund in respect of benefits due to or in respect of the probation trust's current and former employees (or those of its predecessor local probation boards or probation committees) have been or are to be transferred to another person as a result of arrangements made for the provision of probation services under section 3 of that Act (power to make arrangements for the provision of probation services); or
- (b) in any other case where the exiting employer is engaged in the provision of probation services, but only to the extent provided for under the relevant admission agreement, in relation to any liabilities of the fund in respect of benefits due to or in respect of the current and former employees of the exiting employer which have been or are to be, with effect from the day following the exit date, transferred to one or more other Scheme employers as a result of arrangements made for the provision of probation services under section 3 of that Act.

(10) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

Payment by Scheme employers to administering authorities

69. —(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

- (a) all amounts received from time to time from employees under regulations 9 to 14 and

16 (contributions);

- (b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;
- (c) a contribution towards the cost of the administration of the fund; and
- (d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

- (a) (a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995 **(a)** ; and
- (b) (b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund) **(b)** .

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—

- (a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),
- (b) The total employee contributions deducted from the pensionable pay referred to in subparagraph (a),
- (c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),
- (d) The total employee contributions deducted from pensionable pay referred to in subparagraph (c),
- (e) The total employer contributions in respect of the pensionable pay referred to in subparagraphs (a) and (c),
- (f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and
- (g) the total additional pension contributions paid by the employer under regulation 16 (additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) cannot be settled by agreement, it must be determined by the Secretary of State.

APPENDIX C

CHECKLISTS

BEFORE THE INVITATION TO TENDER IS ISSUED

Action Required	✓
Identify details of staff affected and the specifications for protecting pension rights	
Inform LB Havering Pensions Team of potential outsourcing and discuss pension implications for transferring staff	
Establish communication channels and regular contact with LB Havering Pensions Team, outsourcing team and potential bidders	
Establish and include in the tender documents the specifications for protection of pension rights. A preference for an admission agreement may be expressed but not enforced. Explain that the offer of a broadly comparable pension scheme will need to be assessed by the LB Havering Pension Fund actuary.	
Request LB Havering Pensions Team to obtain from the Havering Pension Fund actuary an indicative employer contribution rate for an open and a closed Admission Agreement	
Request LB Havering Pensions Team to obtain from the Havering Pension Fund actuary the bond value from the risk exposure arising from the premature termination of the contract	
Obtain a template Admission Agreement and prepare for discussions for the finalisation of the Admission Agreement on cost implications with the contractor that may feed into the final contract	
Request LB Havering Pensions Team to obtain from the Havering Pension Fund actuary the details of the bulk transfer terms that are proposed to be used in the calculation of the bulk transfer	

WHEN THE TENDERS HAVE BEEN RECEIVED AND THE CONTRACT AWARDED

And the pension protection is going to be provided by			
Admission Agreement		Broadly Comparable Scheme	
Action required	✓	Action Required	✓
Inform LB Havering Pensions Team that protection of pension rights will be via an Admission Agreement		Inform LB Havering Pensions Team that protection of pension rights will be a broadly comparable pension scheme	
Confirm intended contract start date with LB Havering Pensions Team and any contractual agreements affecting pension costs		Confirm intended contract start date with LB Havering Pensions Team	
Obtain details of 'final' employer contribution rate		Ensure any certificate of broadly comparable status is still valid	
Inform transferring employees that protection of pension rights will be via an Admission Agreement		Inform transferring employees that protection of pension rights will be via a broadly comparable scheme	
Ensure that the Admission Agreement is in place before the contract start date		Prepare for any discussions around bulk transfer terms	

Disclaimer

The document 'Pensions – Employer Outsourcing guide: An overview of pension implications and procedures for LGPS Scheme Employers' is issued to Scheme Employers participating in the Havering Pension Fund for background information purposes only; the guide does not constitute advice; the guide is not an authoritative statement of the law and does not confer any statutory or contractual rights; Scheme Employers are advised to take legal advice on their pensions obligations regarding TUPE; Havering Pension Fund and oneSource/Havering Council do not accept any liability for loss or damage, consequential or otherwise, in reliance on the guide; nothing in the guide can override the provisions of the Local Government Pension Scheme Regulations, other legislation, or government guidance

PENSIONS COMMITTEE

21 NOVEMBER 2017

Subject Heading:

Havering Pension Fund Admission Policy

SLT Lead:

Debbie Middleton

Report Author and contact details:

Tara Philpott
Head of Transactional People Services
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Policy context:

Admissions policy to take a consistent approach to the admission of new employers into Havering Pension Fund.

Financial summary:

Costs for the provision of the policy was £1,800 plus VAT and will be met from the Pension Fund

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report is an overview of the Havering Pension Fund Admissions Policy, detailed fully at Appendix 1

RECOMMENDATIONS

The recommendation of this report is for Members to note, subject to employer consultation, the Havering Pension Fund Admissions Policy provided at Appendix 1.

REPORT DETAIL

1. The London Borough of Havering commissioned Hymans Robertson to produce a Pension Fund Admissions Policy, in order to take a considered, consistent approach to the admission of new employers into the Fund and to both capture the Council's approach and lay out practical guidance to assist the Pensions Committee with its decision making and the officers with administering the process. The cost for this policy was £1,800 plus VAT and will be met by the pension fund.
2. The London Borough of Havering (as administering authority) is responsible for to ensure an applicant meets the entry requirements outlined within the Local Government Pension Scheme (LGPS) Regulations.
3. The Havering Pension Fund Admissions Policy provided as Appendix 1 details fully the requirements to be admitted into the Havering Pension Fund as a scheme employer. This document focuses on principles relating to the participation of new employers, including:
 - entry to the Fund;
 - monitoring of the employer during continued active membership in the Fund;
 - treatment of the employer when it ceases to have active members or ceases to participate in the Fund.
 - agreeing and calculating transfer values or service credits in respect of the "bulk" transfer of active scheme members out of or into the Fund.
4. The policy has been produced to ensure that only appropriate bodies are admitted to the fund and that financial risk within the fund are identified, minimised and managed accordingly.
5. The policy is out for consultation with employers, which will close on Friday 17 November. Responses will be updated verbally at Pensions Committee.

IMPLICATIONS AND RISKS

Financial implications and risks:

Having a policy in place is fundamental to managing the financial risks involved in the admission of new employers to the Fund.

The risks are covered in detail within the body of the policy document under section 2.3. and mitigation of these risks are also included throughout the policy document.

Legal implications and risks:

There are no direct legal implications and risk arising from this report.

Human Resources implications and risks:

There are no direct human resource implications and risk arising from this report.

Equalities implications and risks:

There are no direct equalities implications and risk arising from this report.

BACKGROUND PAPERS

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London Borough of Havering Pension Fund

Admissions Policy
April 2017

Steven Law

Fellow of the Institute and Faculty of Actuaries

Andrew McKerns

For and on behalf of Hymans Robertson LLP

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1 Introduction

1.1 Purpose

This paper has been prepared at the request of London Borough of Havering as administering authority to the London Borough of Havering Pension Fund (“the Fund”), part of the Local Government Pension Scheme (“LGPS”) in England & Wales. Appendix 1 to this paper forms a draft of a potential Fund policy:

- 1 relating to the acceptance, ongoing treatment and cessation of admission bodies, and
- 2 for agreeing and calculating transfer values or service credits in respect of the “bulk” transfer of active scheme members out of or into the Fund.

In order to take a considered, consistent approach to the admission of new employers into the Fund and the payment or receipt of bulk transfers, a comprehensive, clear, yet flexible, policy can be an ideal way to both encapsulate the Council’s approach and lay out practical guidance to assist the Pensions Committee with its decision making and the officers with administering the process. Our experience has shown that it is all too common that some pension issues can easily get overlooked and can become a major source of staff dissatisfaction and perceived insecurity during what is often a stressful time.

This draft policy has been created in a manner that should be flexible enough to address the various possible scenarios where admission agreements would be contemplated, yet prescriptive enough to set out the criteria necessary to sufficiently minimise or mitigate risks.

1.2 Reliances and limitations

This paper has been prepared by Hymans Robertson LLP in our capacity as actuaries and consultants to the Fund. Our advice is intended for London Borough of Havering, as administering authority to the Fund, and this paper should not be disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing. We do consent to Appendix 1 of this report being reproduced as the Fund Policy for Admission Bodies and being made available to employers in the Fund and prospective employers, and their advisors, as long as those sections are reproduced in their entirety and any changes are agreed with us before production.

This paper has been prepared for the purposes of assisting the Fund in developing its policy on admission bodies of scheme members to or from the Fund. It does not affect any scheme member’s benefit entitlement. This paper is not to be construed as advice to any employer. It sets out the background to the Fund’s potential policy on admission bodies, but it should be noted that the approach in any specific case may depend on the individual circumstances. As such, the guidance in this paper is generic. We are not lawyers and nothing in this paper should be construed as providing legal advice. Specific actuarial and legal advice should be considered as part of any bulk transfer and in relation to any admission body.

1.3 Scope

There are many circumstances where employer issues need to be considered. This document focuses on principles relating to the participation of new employers, including:

- 1 entry to the Fund;
- 2 monitoring during continued active membership in the Fund; and
- 3 treatment of the body when it ceases to have active members or ceases to participate in the Fund.

We would be happy to expand this policy to cover any further circumstances you wish to be included.

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1.4 Review of policy

We would recommend that this policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to admission agreements or employees transferring pension rights.

Steven Law FFA

For and on behalf of Hymans Robertson LLP

21 November 2017

Andrew McKerns

For and on behalf of Hymans Robertson LLP

Policy for Admission Bodies

1 Introduction

This is the policy of the Fund as regards the treatment of admission bodies in the Fund. The Fund is administered by London Borough of Havering.

It has been prepared by the Fund administrators, in collaboration with the Fund's actuary, Hymans Robertson LLP. This policy replaces all previous policies on admission bodies and bulk transfers and is effective from 1 April 2017.

This policy should be read in conjunction with the Fund's Funding Strategy Statement and relevant legislation, such as the Local Government Pension Scheme Regulations 2013.

In exceptional circumstances there may be departure from parts of this policy but only with prior agreement of the Pensions Committee.

1.1 Reviews of policy

This policy will be reviewed from time to time and at least following changes in the regulations pertaining to admission bodies or employees transferring pension rights.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Tara Philpott, Transactional Manager in the first instance at tara.philpott@onesource.co.uk or on Tel. 01708 432179.

2 Admission Bodies

2.1 Principles

2.1.1 Overriding principles

The purpose of an admission policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to employers in the Fund is identified, minimised and managed accordingly.

The Fund's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Finally, apart from in exceptional circumstances, the Fund's terms included within their admission agreements will be non-negotiable.

2.1.2 Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in a number of areas relating to admission agreements. The key areas covered by the FSS are:-

- Purpose of the FSS;
- Aims and purpose of the Pension Fund;
- Responsibilities of the key parties;
- Solvency issues and target funding levels;
- Link to investment policy set out in the Investment Strategy Statement;
- Identification of risks and counter-measures; and
- Monitoring and review.

The information contained with the FSS applies equally to admission bodies. This admission body policy further clarifies the operation of the FSS within the Fund.

2.2 Guidance and the Regulatory Framework

2.2.1 The LGPS

The Local Government Pension Scheme Regulations 2013, (“LGPS Regulations”) describe various types of bodies with which an administering authority may enter into an admission agreement. These are –

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
 - the transfer of the service or assets by means of a contract or other arrangement (i.e outsourcing),
 - a direction made under section 15 of the Local Government Act 1999,
 - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements;
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement; and
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements.

In December 2009, Communities and Local Government (“CLG”) issued guidance explaining the LGPS regulatory provisions relating to admission bodies in England & Wales. Although the guidance was written in compliance with the former 2008 Regulations, a majority of the principles remain. This can be found at: http://www.lgpsregs.org/timelineregs/Statutory%20Guidance%20and%20circulars/CLG_AdmittedBody_guidance_Dec09.pdf.

2.2.2 Fair Deal, ODPM Code of Practice and the direction

HM Treasury has issued guidance¹, commonly referred to as ‘Fair Deal’, which addresses the pension position for employees being compulsory transferred from the public sector to private sector delivering public sector services. The main requirements in Fair Deal are:-

- for transferring employees:

¹ (a) Annex A of Staff Transfers In The Public Sector - Statement Of Practice (January 2000) and (b) Fair Deal For Staff Pensions: Procurement Of Bulk Transfer Agreements and Related Issues - Guidance Note (June 2004)

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- protection of future service by provision of a broadly comparable pension scheme or becoming an admission body in the LGPS;
 - payment of a bulk transfer and protection of past service by provision of day for day service credits (or equivalent allowing for differences in the benefit structure of the new scheme); and
 - protection of other pension related terms and conditions of employment, such as enhancement of benefits on redundancy.
- for new employees:
 - provision of a good quality employer pension scheme. If this is through a defined contribution scheme there should be matching employer up to 6% of pay.
 - the continuation of these protections in second and subsequent transfers of staff.
 - these pension requirements to be notified at the earliest possible stage of the procurement exercise.

In addition, the Office of the Deputy Prime Minister's ("ODPM") Circular 03/2003 includes the Code Of Practice On Workforce Matters In Local Authority Service Contracts which must be adhered to where staff are transferred by a local authority to a contractor. This Circular clarifies that the Fair Deal provisions must be adhered to in these circumstances.

Finally, the Best Value Authorities Staff Transfers (Pensions) Direction 2007 came into force on 1 October 2007. The direction applies to all "Best Value Authorities" in England and Police Authorities in Wales (which therefore applies to all local authorities in England). The purpose of the Direction was to provide legal enforcement to some of the provisions covered by Fair Deal. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those he had as an employee of the authority; and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

As a result of Fair Deal, the ODPM Code of Practice and the Direction, LGPS funds are often asked to admit service providers to their fund. The December 2009 CLG Admission Body Guidance consequently sets out pension considerations that arise when employees transfer from a local authority and the contractor's preferred route of providing broadly comparable pension benefits.

On 7 October 2013 HM Treasury issued revised Fair Deal guidance. This reset the pension protection for staff compulsorily transferred from the public sector and applies directly to central government departments, agencies, NHS, maintained schools (except local authority maintained schools), and academies where staff are eligible to be a member of a public service pension scheme. However, beyond academies, the new guidance does not apply to best value authorities in England and Wales. It is expected that the Department for Communities and Local Government will issue the relevant guidance for local authorities and the LGPS.

2.3 Background and policies

It is essential for the administering authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The admission body is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the body was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor, the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below and considered in more detail as part of this policy:

- Allocating assets on entry;
- Consideration of who can become admission bodies;
- Requirements for a bond/indemnity or guarantor;
- Potentially levying a higher contribution rate e.g. due to a change of circumstances at the admission body during the contract term that increases the risk of termination and/or under-funding;
- Having clear termination clauses;
- Putting in place a wide ranging and unambiguous admission agreement;
- Reviewing the bond regularly;
- Monitoring individual employer experience and status (e.g. salary experience and the continued ability of employees to join the Fund);
- Requiring the cost of all early retirements and topped up benefits to be paid as a lump sum;
- Monitoring other costs and levying a lump sum where necessary;
- Additional valuations in the final lead up to termination and adjusting contributions accordingly;
- Funding basis for cessation calculations; and
- Including a requirement to reimburse all actuarial, legal and other appropriate fees relating to the admission.

The following sections will consider these further in relation to the various stages of the admission body cycle.

2.3.1 Entry conditions and requirements of the Fund

Bodies that will be considered for entry

Background

London Borough of Havering (as administering authority) is responsible for deciding which applications to become admission bodies within the Fund should be declined or accepted (however, please see note below regarding **outsourced service providers**). Clearly an overriding requirement is that the body meets the entry requirements outlined within the LGPS Regulations. Beyond that the Council can:

- **for a body with links to a Scheme employer**, have complete flexibility in deciding whether or not to accept applications. It is therefore appropriate for the Council to determine what entry criteria exists for employers to become admission bodies within the Fund; and
- **for outsourced service providers**, in line with the regulations, **has** to admit a contractor if the contractor and the awarding authority agree to meet the requirements of the LGPS Regulations and the terms of the Fund's admission agreement.

The Fund's pension fund policy

The overlying principle is that the Fund will only enter into an admission agreement with a body that:

- provides services linked to one of the scheme employers in the Fund where such an arrangement is beneficial to the relevant scheme employer. The interests of the body must be closely aligned to the work of the scheme employer and meet the requirements in the LGPS regulations; or
- provides services on behalf of one of the scheme employers in one of the ways prescribed in the LGPS regulations.

The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees.

Bond/indemnity or guarantor requirements for entry

Background

It is important to understand and minimise the risk that a potential admission body might place on the Fund and the other employers in the Fund before it is agreed they can enter the Fund. Generally this risk relates to the costs of liabilities (i.e. underfunding) not yet paid for at the point of termination of the admission agreement. Termination can be for a number of reasons, including the natural end of a contract, a takeover, a body going into liquidation or the last active member ceasing membership. In such cases the admission body becomes an 'exiting employer' and is liable to pay an 'exit payment'.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation in order to ascertain the exit payment due relating to any deficit. Where the admission body is unable to meet the payment, it must be collected from:

- any insurer or person providing an indemnity or bond on behalf of that body; or
- alternatively (where agreed with the administering authority (and scheme employer where appropriate)) a guarantor, such as a sponsoring employer or central government department,

and where that is not possible:

- in the case of a service provider, from the awarding authority for that service provider; or
- in the case of any other admission body, from each other employing authority within the Fund.

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The outstanding liability at the point of termination may largely exist already due to a variety of circumstances such as adverse investment experience. Any deficit could be increased further by additional liabilities resulting from the termination. The risks relating to the potential of a deficit arising at the point of termination include:

- equity underperformance;
- lower gilt yields than at the outset (i.e. the risk that the future return available from government bonds falls, leading to a higher value being placed on the liabilities and hence under funding on premature termination);
- the conservative nature of the financial and longevity assumptions which may be used in the cessation calculations;
- greater than expected salary increases over the term of the contract;
- unfavourable changes in membership profile;
- redundancy early retirements, on premature termination of the contract;
- the cost of ceasing participation in the Fund (e.g. termination costs covering the need for a cessation valuation and all of the necessary additional administration costs); and
- unpaid contributions.

The LGPS Regulations include some requirements to reduce these risks, including:

- the need for the admission body, to the satisfaction of the administering authority (and awarding scheme employer where appropriate), to carry out an assessment taking account of actuarial advice on the level of risk arising on premature termination on insolvency, winding up or liquidation and, where considered necessary taking into consideration the results of that assessment, require the admission body to put in place either:
 - a bond or indemnity to cover the level of risk identified; or
 - where a bond or indemnity is not considered desirable, a guarantor.

As the potential deficit relating to the above risks can fluctuate, often on a daily basis, there is no guarantee that any bond or indemnity payout (which is based on a fixed level of cover that is renewed periodically) will be sufficient to secure 100% funding of the departing employer's liabilities in the Fund. Similarly there is no guarantee any guarantor will payout in order to secure 100% funding of the exiting employer's liabilities in the Fund. Any remaining shortfall would fall on either the guarantor, awarding authority or on all other employers in the Fund, as appropriate under the LGPS Regulations and the admission agreement.

Policy

The Fund will require any potential admission body to provide:

- In formerly described Community Admission Body arrangements - a guarantor considered by the Fund to be strong, secure and financially durable (generally only a local authority or central government department) or a bond/indemnity the Fund considers to have equivalent strength.
- In formerly described Transferee Admission body arrangements - a preference for a bond or indemnity although this is not a mandatory requirement as the awarding authority is in effect a guarantor already under the terms of the LGPS Regulations. The awarding authority will be required to confirm the approach it wishes to take following an actuarial risk assessment.

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In all circumstances where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis.

Risk sharing

Background

It is becoming commonplace for awarding authorities and contractors to enter into risk sharing arrangements as part of the provision of broadly comparable pension benefits. This can take many forms, for example:

- fixed employer contribution rates (often higher than the certified rate);
- ceilings and floors to the employer contribution rate;
- the awarding authority paying all or a proportion of any deficit on termination;
- 'pass through' agreements;
- certain elements of the employer contribution rate being the responsibility of the awarding authority (e.g. past service, investment returns, ill-health retirement);
- waiving the requirement to provide a bond or indemnity; and
- pooling the new admission body with the scheme employer.

These arrangements do not change the true cost of pension benefits; they only change who is responsible for them. These arrangements can be challenging to put in place and to monitor, and are often subject to dispute from the parties involved.

Policy

In order to avoid the pension fund becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. However, the Fund will want sight of the wording of any risk sharing (this must be disclosed to the Fund from the awarding authority) arrangement to ensure that all affected parties understand the pension implications of that arrangement. Accordingly any such arrangements will not be detailed in the admission agreement. The admission body will be required to follow the principles of agreement as if no such risk sharing was in place and as if they were any other employer within the Fund; it will then be up to the awarding authority and the service provider to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly, the service provider will be required to pay the certified employer contribution rate to the Fund and any other contributions required (e.g. early retirement strain costs, regardless of risk sharing arrangement in place).

The only exceptions to this are:

- that the Fund will be willing to accept payment of any exit payment on termination from the awarding authority, rather than the exiting employer; and
- the potential for the bodies to agree to a pooling arrangement as outlined later in this policy.

Approval process for becoming an admission body

Background

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether a body should be allowed to enter into an admission agreement.

Policy

The officers of the Fund will be responsible for ensuring any potential admission bodies meet the criteria set out above, having regard to the appropriate legal and actuarial advice. The Fund's admission agreements will generally be standard and non-negotiable, drawn up on advice from the Fund actuary and legal advisor. These terms will include not only the provisions required by the LGPS regulations but also details on commencement, transfer, payment, bond/indemnity or guarantor requirements, termination clauses to protect the other beneficiaries and participants in the Fund.

All applications will be acceptable if the officers (including the S151 officer who would have received a report regarding the proposed admission) of the Fund are satisfied the criteria are met and the standard terms of the admission agreement are accepted (which will include adherence to standards outlined in the Fund's Administration Strategy). All applications meeting these criteria will be reported to the Pensions Committee for information only at the regular committee meetings.

For all new Admission Bodies the security must be to the satisfaction of the Fund as well as the letting employer and will be reassessed on an annual basis.

The Pension Fund Committee will only consider requests from Admission Bodies with links to a Scheme employer (or other similar bodies such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers guaranteeing their liabilities and also providing a suitable form of security as set out above.

Any applications departing materially from these criteria and/or the standard terms of the admission agreement will be reported to the Pensions Committee for agreement, and may be refused.

2.3.2 Financial Aspects on Entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. The assets that are notionally allocated for new service providers are usually set equal to 100% of the value of the past service liabilities of any transferring employees on the Fund's ongoing funding basis, updated for market conditions on entry. For others, there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. The Regulations allow provision for assets to be held in a separate admission body pension fund (rather than the main Fund), but it is not essential to do so.

Policy

The allocation of assets at the commencement of an admission agreement will be as follows (unless a pooling arrangement is entered into as described later in this policy):

- For new service providers (formerly described as Transferee Admission Bodies) – 100% of the value of the past service liabilities of any transferring employees;
- For others (formerly described as Community Admission Bodies) - to be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer.

In both cases, the assets will be calculated using the Fund's ongoing funding basis updated for market conditions at entry as set out in the Fund's Funding Strategy Statement.

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This asset share will be tracked during the period of the admission agreement and adjusted at each formal triennial valuation to take account of the admission body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;
- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

The assets will remain within the main Fund (i.e. no separate admission body fund will be set up).

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed may reduce the risk of under-funding due to market movements, as the assets and liabilities would be expected to move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer is currently labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved and as a result, matched investment strategies have not been adopted.

Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each admission agreement, it will be necessary to determine what employer contribution rate will be payable by the admission body. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit;
- whether the admission agreement is open or closed;

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- whether the admission agreement is fixed term or not, and the period of any fixed contract period;
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place; and
- the investment strategy (for example, higher contributions will be required at commencement if a lower risk investment strategy is adopted).

In addition the admission body will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority's or other bodies costs due to poor administration by the admission body.

The admission body may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the admission body. In the case of a service provider it may be agreed that these costs are paid for by the awarding authority (or shared).

The Fund will communicate the implications of a transfer to the awarding authority and may require the revision of the contribution rate payable by the awarding authority after the transfer occurs. The Fund reserves the right to require payment by the awarding authority of a lump sum contribution to cover any deficit in respect of transferees.

Pooling

Background

There may be circumstances where an admission agreement is created in relation to a small number of staff and the link between a scheme employer and that body is extremely strong. This may or may not be in an outsourcing situation. In these circumstances, the scheme employer may consider that they are willing to share some pension risks with the admission body as if the employees were part of their own workforce and that the administrative procedures around putting in place, monitoring and maintaining an admission body are material in comparison to the number of employees and/or liabilities involved. In these circumstances, the scheme employer and the admission body may both agree that a pooling arrangement is an appropriate alternative means of ongoing funding. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Policy

Where the number* of members under a proposed open or closed admission agreement is five or less, the scheme employer and Fund may allow that employer to be pooled with the scheme employer. The new admission body and the scheme employer would need to agree in writing to this arrangement and confirm that they understand the pros and cons compared with being a standalone admission body outside of the pool. Whilst the admission body is in the pool:

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- its contribution rate will be the same as the pool except for any additional contributions required due to excessive pay awards to its own employees;
- its ill-health experience will be shared with that of the pool;
- it may be required to provide a bond or indemnity in respect of redundancy and any other risks identified by the scheme employer; and
- it will pay strain costs in respect of non-ill-health early retirements.

In the event of termination of the admission agreement or exit from the pool it will not be required to pay any exit payment (except for any additional liabilities resulting from excessive pay awards).

The admission body would be removed from the pool and be treated as a stand-alone admission body in the event that the number* of members increases above five.

*The Fund reserves the right to refuse this approach to any new admission body with past service liabilities at commencement that exceed £1m calculated on an ongoing funding basis.

2.3.3 Ongoing Monitoring of Admission Bodies

Background

It is important that monitoring of an admission body is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the admission body to notify changes in their circumstances;
- Regular assessment of the strength and value of any security put in place by the employer; and
- Checks to see whether an employer has failed to notify the Fund of relevant changes (e.g. closure to new entrants).

Policy

During the period of the admission agreement, the level of risk in relation to any bonds or indemnities in place will be reassessed on a regular basis and the relevant admission bodies will be required to renew their bond or indemnity appropriately. Contribution rates will be reviewed at formal valuations. In addition, the Fund reserves the right to review contribution rates for admission bodies annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Where an employer acts as a guarantor to an admission body or bodies, an assessment will be carried out every three years (at the mid-point between each triennial formal valuation) to establish the level of risk being borne by the employer in respect of its guarantees and to ensure that the strength of the guarantee continues to be to the satisfaction of the administering authority.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to it have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle). The Fund will also obtain a revision of contribution rates where it considers there are circumstances which make it likely that an employer will become an exiting employer.

2.3.4 Cessation terms and requirements

Termination requirements

Background

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Previous sections of this policy are drafted with a view to safeguarding against this. However, it is also important that the Fund has the flexibility to terminate an admission agreement at the appropriate point to protect the other employers in the Fund and to allow it to levy an exit payment (assuming there are appropriate grounds for doing so).

Policy

The Fund will take legal advice on the appropriate termination requirements to be included in admission agreements and these will be incorporated into all admission agreements. These will include the option for an admission agreement to be terminated by the Fund in any of, but not limited to, the following circumstances:

- Where the admission body is not paying monies in a timely manner;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where the admission body is not meeting its requirement to provide or review any bond/indemnity or guarantor;
- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

Future cessations

Background

When an admission agreement ceases, the employer's assets should equal its liabilities on an appropriate basis. The LGPS regulations have provisions that deal with admission bodies which have a time limited admission agreement or it is known that the admission body is going to leave the Fund at some date in the future. This could be in the lead up to a natural end of a contract or at the first indication that a body is going to cease to exist or where the contract will be terminated prematurely.

In these circumstances, the administering authority may seek to increase or reduce the admission body's contributions to the Fund in the period leading up to cessation to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding. It is not possible to refund a surplus to an exiting admission body.

Policy

A provisional cessation valuation will be carried out on premature termination of an admission body as soon as the Fund become aware of this likelihood unless the termination is likely to take place in the immediate future.

Ongoing annual provisional cessation valuations will be carried out in the run up to the natural end of an admission agreement at least for the final three years of the agreement. Additional provisional cessation valuations may be carried out on the advice of the Fund Actuary.

Where an admission agreement for an admission body that is not a service provider and has no scheme employer or central government guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy may increase regular contributions and reduce, but not entirely eliminate, the possibility of a final exit payment in relation to a deficit being required when a cessation valuation is carried out.

Basis of termination valuation

Background

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

The Fund's general principle on the cessation of an admission body is to assume a "clean break" on termination (i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the exit payment calculated on an appropriate basis).

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

- a) Service providers - The length of the contract for a service provider will usually be pre-determined and may be specified in the admission agreement.
- Employers at the natural end of a contract – Once the contract is complete or the employer has completed the services it was contracted to carry out (and no plans for extending the contract is in place), the employer will leave the Fund. Under these circumstances, it is normal for the remaining active employees to transfer back to the Council or into a second (or later) generation contractor. In this scenario, the Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority. The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the ceasing employer.
- Employers that leave the scheme prior to the natural end of an admission agreement – Under these circumstances, it will need to be established whether the current active membership will transfer to another LGPS employer or contractor and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners (and also potentially the transferring active members).

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For terminating contracts those liabilities that cannot be recovered via a bond/indemnity or guarantor would usually fall back to the awarding authority (who may well be the guarantor) and ideally this should be written into the admission agreement or supporting documents. Employers falling under this category will be considered on a case by case basis since there may be circumstances where the transfer agreement between the awarding authority and the contractor (to which the Fund is a party) dictate a different approach.

- b) Those with links to a Scheme employer - Admission agreements for these are typically open-ended rather than time-limited. It is now a condition of admission that this type of employer will be “sponsored” by another scheme employer or another public body or provide an indemnity acceptable to the Fund. The sponsor (or guarantor) generally assumes responsibility for the assets and liabilities in the Fund which are attributable to the admission body in the event that they cannot be met. Where there is a guarantor within the Fund, as required by this admissions policy, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. Where the admission body has no guarantor (these will generally be historical cases), the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then (together with any future deficit arising in respect of the membership) it will be the responsibility of all the employers in the Fund. In some circumstances, (e.g. where employees are transferring to another LGPS employer which will usually be the guarantor) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

There is, however, a provision that clarifies what should happen if it is not possible to recover the cessation payment (for example, due to the admission body going into liquidation and no assets being available). In the first instance the Fund will attempt to recover any outstanding payment from any bond or indemnity. If there is a guarantor, this would be a second port of call for the monies. Thereafter the Fund may claim those monies from:

- In the case of a service provider, the awarding authority; and
- In the case of other admission bodies, all other employers in the Fund who have active members.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the admission body that is making the payment. The admission body may be allowed to spread payment over an extended period where this is agreed by the Transactional Manager and the Section 151 Officer.

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Where this is not the case, any outstanding payment, once any bond, indemnity or alternative guarantor has been exhausted, may be recovered as follows:

- For service providers, the outstanding payment will be paid via an increase to the awarding authority's ongoing contribution rate, calculated by spreading the outstanding payment over the awarding authority's pensionable payroll or requesting additional capital amounts (over a spreading period to be determined by the Fund). The Fund reserves the right to require payment by immediate lump sum;
- For other admission bodies, where the deficit is to be spread amongst all the employers in the Fund, the rates and adjustments certificate will be adjusted to allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised). Where a scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as outlined for a service provider (above).

The administering authority will in all cases seek to maximise the monies recoverable. In exceptional circumstances this may result in an admission body paying less than the full cessation deficit. Any such cases will be subject to approval by the Pensions Committee.

3 Year Rule

Background

Where an employer loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the employer intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original cessation event).

3 Scheduled and Designating Bodies

Scheduled bodies, such as district councils and academies, that are listed in Part 1 to Schedule 2 of the Local Government Pension Scheme Regulations 2013 have an automatic requirement, to be an employer in the Fund and to offer access to the scheme to all eligible employees.

Other scheduled bodies, such as town and parish councils, that are listed in Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 while having to provide access to the LGPS can nominate which individuals or classes of individual are eligible for access to the scheme.

Scheduled bodies are therefore not required to sign an admission agreement; albeit those listed in Part 2 of Schedule 2 must pass a resolution confirming which of its employees are designated as eligible to join the LGPS if they wish. All scheduled bodies must make the Fund aware of their creation and cooperate with the Fund in meeting their obligations in the Fund.

3.1 Academies

3.1.1 Entry conditions and requirements to the Fund

Background

Under the Academies Act 2010 former maintained schools can apply for academy status, allowing them to operate independently from Local Authority control, and assume responsibility for managing their own finances. Academies may exist as separate legal entities or be grouped together as multi-academy trusts (MATs). Free schools can also be set up outside of direct local authority control, acting in much the same way as academies. Whilst academies and free schools can set pay and conditions for staff, our understanding is that non-teaching staff must have access to the LGPS.

Academies are eligible to join the Fund under Regulation 3 (1)(a) of The Local Government Pension Scheme Regulations 2013 as a body listed in Schedule 2 Part 1 of those regulations.

Policy

All academies will be entitled to join the Fund. A school which has converted to an academy will be classified as an individual scheduled body within the Fund.

However, the academy must still make the Fund aware of their creation.

All notifications will be reported to the Pensions Committee for information only.

3.1.2 Financial aspects on entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. For an academy, it is typical for a share of fund approach to be adopted.

Joint Communities & Local Government (CLG)/Department for Education (DfE) guidance on the treatment of academies in LGPS Funds was issued in December 2011, followed by further guidance in the form of FAQs in February 2012. The joint December 2012 guidance set out proposals for the possible "pooling" of academies with local authorities. While this guidance fell short of statutory guidance it did give funds a strong lead on how academies should be treated within the LGPS.

In April 2017 further joint guidance was issued by the Department for Communities and Local Government (DCLG)/Department for Education (DfE), which further covered areas such as Multi-academy trusts (MATs) and

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the LGPS, understanding LGPS deficits, outsourcing arrangements and the DfE Departmental guarantee to LGPS administering authorities in England.

There are no provisions under the Regulations or in any regulations or guidance relating to the establishment of academies, for staff previously employed in an education function, who are now deferred or pensioner members of the Fund, to be transferred to the academy (irrespective of whether or not they are identifiable as former education employees). It is therefore taken that responsibility for these members will remain with the relevant Local Education Authority.

Policy

The allocation of assets at the commencement of an academy will be as follows (unless a pooling arrangement is entered into as described later in this policy):

- The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt these liabilities will include all past service of those members but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions on the day prior to conversion.

The Fund's policies on academies will be subject to review in the light of any future changes to DCLG guidance on academies. Any changes will be notified to academies and will be reflected in the Fund's Funding Strategy Statement.

The assets will be calculated using the Fund's ongoing funding basis as set out in the Fund's Funding Strategy Statement.

This asset share will be tracked during the period of participation and adjusted at each formal triennial valuation to take account of the body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;
- Ill health retirements and early retirements (on redundancy/efficiency);

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- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed would reduce the risk of under-funding due to market movements, as the assets and liabilities would move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer would currently be extremely labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved.

Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each transfer, it will be necessary to determine what employer contribution rate will be payable by the academy. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit; and
- the deficit spread period.

The approach taken is to calculate an individual contribution rate based on the cost of pension accrual for an academy's own membership plus an adjustment for any deficit transferred to the new academy.

The new academy's initial contribution rate will be calculated using market conditions, the Council's funding position and membership data all as at the day prior to conversion.

Employees of Scheduled Bodies are automatically eligible for membership of the LGPS and hence an academy cannot close the Scheme to new entrants.

In addition the academy will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority's or other bodies costs due to poor administration by the academy.

The academy may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

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As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the academy.

The Fund may require the revision of the contribution rate payable by the former local education authority after the transfer of a maintained school to an academy occurs. The Fund reserves the right to require payment by the former local education authority of a lump sum contribution to cover any deficit in respect of transferees.

Pooling

Background

A joint letter of understanding has been issued by Communities and Local Government (CLG) and the Department for Education (DfE) which recommended pooling Academies with the local authority that formerly maintained the school for contribution rate purposes. There is, however, currently no legal requirement to pool Academies with other Scheme Employers for contribution rate purposes despite the joint CLG/DfE steer.

Policy

The Fund does not allow academies to pool with the council following conversion. A new academy's initial contribution rate will be calculated using market conditions, the Council's funding position and membership data all as at the day prior to conversion. Please note, where a school joins a multi-academy trust, they may be pooled with the other employers in the trust (that participate in the Fund) for contribution rate purposes. This is permitted at the discretion of the administering authority.

3.1.3 Ongoing monitoring of academies

Background

It is important that monitoring of an academy is carried out throughout the term of participation and to take appropriate remedial action to safeguard all employers within the Fund where necessary. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk of failure (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the body to notify changes in their circumstances;
- Regular assessment of the value of any security put in place by the employer; and
- Checks to see whether an academy has failed to notify the Fund of relevant changes.

Policy

The Fund reserves the right to review contribution rates for bodies annually or more frequently.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to a body have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle).

3.1.4 Cessation terms and requirements

Termination requirements

Background

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One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor.

The Department for Education (DfE) has provided a Departmental guarantee to all LGPS administering authorities in England that in the event of the closure of an academy trust (AT) or multi-academy trust (MAT) any outstanding LGPS liabilities that are not met by the trust's assets will be met by the DfE in full.

The following should be noted:

- If for any reason the academy should fail or the last active member ceases membership, the LGPS regulations require them to be liable for an 'exit payment';
- The administering authority is required to obtain an actuarial valuation of the liabilities to determine the exit payment due;
- If an academy becomes insolvent then the Fund will seek to recoup any funding liabilities from the trust's assets on closure – any remaining outstanding LGPS deficit would then be met by the DfE in full.

It should be noted, this guarantee does not extend to all types of academies (i.e. at the time of writing, we are not aware of this guarantee covering former 6th Forms).

Policy

Termination of an academy would be considered to take place, though not limited to, the following circumstances:

- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

In general, the Fund does not consider an academy joining a MAT as a cessation event where the MAT agrees to meet the liabilities of the academy's full membership. The administering authority requires written notice of this agreement prior to joining the MAT or a exit event will be triggered.

Future Cessations**Background**

When an academy ceases, the employer's assets should equal its liabilities on an appropriate basis.

Policy

A provisional cessation valuation will be carried out on premature termination of an academy as soon as the Fund becomes aware of this likelihood unless the termination is likely to take place in the immediate future.

Basis of termination valuation**Background**

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

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The Fund's general principle on the cessation of an academy is to assume a "clean break" on termination (i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis).

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

Academies - the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then the Fund would seek the remaining payment from DfE. Where any remaining payment is not recoverable from DfE for any reason, it will be the responsibility of all the employers in the Fund. In some circumstances (e.g. where employees are transferring to another LGPS employer such as the local authority) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, he or she is also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the academy that is making the payment.

3 Year Rule

Background

If an academy loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the academy intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

In terms of academies, this would likely be an extremely rare event.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original exit date).

3.2 Designating employers

Designating employers, subject to meeting the requirements of the LGPS regulations, can allow some or all of their staff to be eligible for membership of the LGPS

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Background

Under Part 2 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 a body listed in this Part is able to designate which employees, or class of employees, are eligible for membership of the LGPS.

Policy

All designating employers will be entitled to join the Fund on passing an appropriate resolution confirming which workers or category of workers are eligible for membership of the LGPS. All designating employers that pass a resolution will be classified as an individual scheduled body within the Fund.

However, the designating employer must still make the Fund aware of their creation.

All notifications will be reported to the Pensions Committee for information only.

3.2.1 Financial Aspects on Entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. Certain designating employers may be created following the transfer of staff from an existing scheme employer and there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. There is provision for assets to be held in a separate admission body pension fund (rather than the main Fund) but it is not essential to do so.

Policy

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. There may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. There is provision for assets to be held in a separate admission body pension fund (rather than the main Fund) but it is not essential to do so.

The allocation of assets at the commencement of a designating body will be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer(s).

The assets will be calculated using the Fund's ongoing funding basis as set out in the Fund's Funding Strategy Statement.

This asset share will be tracked during the period of participation and adjusted at each formal triennial valuation to take account of the designating body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;

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- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed may reduce the risk of under-funding due to market movements, as the assets and liabilities would be expected to move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer is currently labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved.

Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each designating employer commencing participation in the Fund it will be necessary to determine what employer contribution rate will be payable by them. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit;
- whether the resolution passed restricts eligibility or allows all employees of the employer access to the LGPS; and
- the deficit spread period.

The approach taken is to calculate an individual contribution rate based on the cost of pension accrual for an employer's own membership plus an adjustment for any deficit transferred to them.

In addition the designating employer will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority's or other bodies costs due to poor administration by the academy.

The employer may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

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As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the designating employer.

Pooling

Background

There may be circumstances where a designating employer is created from an existing scheme employer and the links between both employers remain strong, at least at the outset of the arrangement. In these circumstances, the scheme employer may consider that they are willing to share some pension risks with the designating employer as if the employees were part of their own workforce. In these circumstances, the scheme employer and the designating body may both agree that a pooling arrangement is appropriate. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Policy

Where the number* of members under a proposed designating employer is five or less, the scheme employer and the Fund may allow that employer to be pooled with the scheme employer. The new designating body and the scheme employer would need to agree in writing to this arrangement and confirm that they understand the pros and cons compared with being a standalone body outside of the pool. Whilst the designating body is in the pool:

- its contribution rate will be the same as the pool except for any additional contributions required due to excessive pay awards to its own employees;
- its ill-health experience will be shared with that of the pool; and
- it will pay strain costs in respect of non-ill-health early retirements.

In the event of exit from the pool it will not be required to pay any cessation shortfall (except for any additional liabilities resulting from excessive pay awards).

The designating body would be removed from the pool and be treated as a stand-alone scheme employer in the event that the number* of members increases above five.

*The Fund reserves the right to refuse this approach to any new body with past service liabilities at commencement that exceed £1m calculated on an ongoing funding basis.

3.2.2 Ongoing Monitoring of Designating Bodies

Background

It is important that monitoring of a designating body is carried out throughout the term of its participation of the Fund and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the designating body to notify changes in their circumstances; and

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- Checks to see whether an employer has failed to notify the Fund of relevant changes.

Policy

The Fund reserves the right to review contribution rates for bodies annually or more frequently.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to a body have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle).

3.2.3 Cessation terms and requirements**Termination requirements****Background**

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor.

Policy

The Fund may take legal advice where a cessation event has occurred on the appropriate termination requirements. Termination of a designating body would be considered to take place, though not limited to, the following circumstances:

- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

Future cessations**Background**

When a designating body ceases, the employer's assets should equal its liabilities on an appropriate basis.

Policy

A provisional cessation valuation will be carried out on premature termination of a designating body as soon as the Fund become aware of this likelihood unless the termination is likely to take place in the immediate future.

Basis of termination valuation**Background**

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

The Fund's general principle on the cessation of a designating body is to assume a "clean break" on termination (i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis).

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

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Designating bodies - the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund. In some circumstances (e.g. where employees are transferring to another LGPS employer such as the local authority), an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, he or she is also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the academy that is making the payment.

3 Year Rule

Background

If designating employer loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the employer intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original cessation event).

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PENSIONS COMMITTEE

21 November 2017

Subject Heading:

**WHISTLEBLOWING REQUIREMENTS
OF THE PENSIONS ACT**

CMT Lead:

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Pensions Act 2004

Policy context:

Pensions Act 2004

Financial summary:

None

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'. The Pensions Regulator issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code discusses each of these issues, in particular what the regulator sees as materially significant.

For administering authorities and employers, an initial requirement was to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These were put in place during 2005 and part of this procedure was to undertake an annual review. This represents the annual review for the year up to **30 September 2017**.

Since the last review report that was presented to the Committee on 22 November 2016, a non-compliance to Regulations was reported to the Chief Executive Officer and Section 151 officer and subsequently reported to the Pensions Regulator. **Paragraph 8 outlines the reported non-compliance.**

RECOMMENDATIONS

Members note the results of the annual review and that no breaches have been reported.

REPORT DETAIL

1. On the 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 came into force. The basic requirement of this law was that nearly all persons who are involved with a pension scheme have a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they have 'reasonable cause to believe' that there has been a breach of law 'relevant to the administration of the scheme' which is 'likely to be of material significance to the Regulator'.
2. The Act was updated in 2015 to include changes required under the Public Services Pensions Act 2013 in relation to the establishment of a pension board and states that the requirement to report now applies to:
 - a) a trustee or manager of an occupational pension scheme;
 - b) *a member of the pension board of a public service pension scheme;(new)*
 - c) a person who is otherwise involved in the administration of an occupational pension scheme;
 - d) a professional adviser in relation to such a scheme;
 - e) a person who is otherwise involved in advising the trustees or managers of an occupational pension scheme in relation to the scheme.
3. The Pensions Regulator issued a code of practice (CP1) that set out guidance on how to comply with the requirement to report breaches of the law.

4. The Pensions Regulator's objectives are to protect the benefits of pension scheme members and to promote the good administration of work-based pension schemes.
5. The Pensions Regulator Code of Practice provided the following guidance:

a) There is a requirement to report breaches

- Breaches of the law which affect pension schemes should be considered for reporting to the Pensions Regulator.
- The decision whether to report requires two key judgements:
 - i. Is there reasonable cause to believe there has been a breach of the law;
 - ii. If so, is the breach likely to be of material significance to the Pensions Regulator?
- Not every breach needs to be reported. The Pensions Regulator does not normally regard a breach as materially significant where the trustees or managers (or their advisers and service providers) take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

b) Likely to be of material significance to the Pensions Regulator'

The legal requirement is that breaches likely to be of material significance to the Pensions Regulator in carrying out any of its functions must be reported.

What makes the breach of material significance depends on:

- The cause of the breach
- The effect of the breach
- The reaction to the breach
- The wider implications of the breach

When reaching a decision whether to report, the reporter should consider these points together.

c) The reporting arrangements are that:

- All reporters should have effective arrangements in place to meet their duty to report breaches of the law.
- Reliance cannot be placed on waiting for others to report.
- Breaches should be reported as soon as reasonably practicable.

- Failure to report when required to do so is a civil offence.

Haverling via the Investment Committee (now Pensions Committee), agreed the following:

6. Actions to ensure compliance / reporting

a) The named officer for reporting issues to within Haverling is currently the Interim Statutory Section 151 Officer. Should she be notified of a breach she will set out a plan to:

- Obtain clarification of the law where it is not clear to the reporter;
- Clarify the facts around the suspected breach where these are not known;
- Consider the material significance of the breach taking into account its cause, effect, the reaction to it, and its wider implications, including, where appropriate, dialogue with the trustees or managers;
- Establish an adequate timeframe for the procedure to take place that is appropriate to the breach and allows the full report to be made as soon as reasonably practicable;

b) The Interim Statutory Section 151 Officer or a nominated person will then review and assess if a report should be made to the Pensions Regulator. This will normally be within one month of receiving all the appropriate information.

c) The Interim Statutory Section 151 Officer or nominated person will maintain a system to record breaches even if they are not reported to the Pensions Regulator (the principal reason for this is that the record of past breaches may be relevant in deciding whether to report future breaches); and

d) In order to ensure there is a process for identifying promptly any breaches including those that are so serious they must always be reported, it was agreed that an annual assessment against the following will be carried out and reported alongside the Pension Fund accounts. This assessment has been carried out and confirms the following is acceptable.

e) *In relation to protecting members' benefits:*

- Substantially the right money is paid into the scheme at the right time;
Confirmed via external audit of accounts
- Assets are appropriately safeguarded;
Confirmed via external audit of the accounts and Pension Committee monitoring

- Payments out of the scheme are legitimate and timely;
Confirmed via external audit of the accounts
 - The Fund is complying with any legal requirements on scheme funding which apply to the LGPS;
The Fund's Funding Strategy Statement is produced in conjunction the Fund's Actuary and any regulation changes are reviewed and implemented where required.
 - The Administering Authority is properly considering the investment policy and investing in accordance with it;
Confirmed via work of Pensions Committee and the adoption of a Statutory Statement of Investment Principles.
 - Contributions in respect of money purchase AVCs are correctly allocated and invested;
Confirmed via external audit of the accounts
- f) *In relation to promoting good administration:*
- Schemes are administered properly and appropriate records maintained;
Confirmed via external audit of the accounts and triennial valuation data verifications
 - Members receive accurate, clear and impartial information without delay.
Confirmed via methods as set out in the Fund's Communication Strategy.
- g) *In addition:*
- A note has been included in the annual report provided to scheme members along with where to raise concerns.
 - Fund Managers are requested to disclose any reportable governance issues as part of the Fund's monitoring process.
 - Procedures are in place for staff within the Borough dealing with the pension fund (this would include Finance, Accounting, Payroll and HR staff as well as Pension Administration staff) covering what they should do if they become aware of a possible breach and also (in very broad terms) whether there are any areas of pensions law etc. they would be expected to know about in their particular role.
 - All Fund employers have been notified of the whistleblowing requirements.

- There is a named officer to maintain record of all breaches, assessments and actions taken – the Interim Statutory Section 151 Officer.
 - Staff are reminded of the procedures
7. Should a breach occur the named officer will write to all Pensions Committee Members setting out action taken and do a full report at the next available Committee.
 8. **Havering, along with a number of other funds, did not manage to deliver the annual benefit statements to deferred members by the statutory deadline of 31 August in 2016. The failure to meet this deadline was due to a lack of resource at the time. The statements were later distributed by the 18 October 2016. This was non-compliant with the *Local Government Regulations 2013 - Regulation 89 (2) - the statement must be issued no later than five months after the end of the Scheme year to which it relates.***
 9. **Non-compliance was reported to The Pensions Regulator (TPR) on the 14 November 2016 (too late to report this under last year's report) and was informed of future processes to mitigate the risk of not achieving this going forward.**
 10. **No further action/correspondence has been received from the TPR.**
 11. **A robust plan was put in place to mitigate risk of not meeting the deadline going forward which included an annual planner to manage resources during busy periods and the introduction of member self-service. The deadlines for 2017 were met.**

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no implications arising directly as the work will be managed within existing resources by, if necessary, re-prioritising work. There are, however, possible financial penalties on non-compliance, hence the need to have procedures in place. The TPR has not issued any financial penalties as a result of the reported non-compliance outlined in Paragraph 8.

Legal Implications and risks:

In determining whether the legal requirements of the Pensions Act have been met, a court or tribunal may take into account any relevant Codes of Practice. Section

70 of the Pensions Act introduces specific requirements for whistleblowing on the persons specified in paragraph 2(b) above where the person has reasonable cause to believe that a duty which is relevant to the administration of the scheme in question and which is imposed by law has not been or is not being complied with and the failure is likely to be of material significance to the pensions Regulator. Failure to notify can result in a penalty notice of £5,000 (max) being imposed on an individual and £50,000 on a corporation.

It is therefore necessary for the Council to have in place certain procedures which draw this to the attention of those persons covered by the legislation and enable any report to be considered and, where appropriate, brought before the Pensions Regulator.

There is no indication of any breach and therefore there appears to be no requirement to report any matters to the Pensions Regulator.

Human Resources Implications and risks:

The Council has a whistle blowing/confidential reporting policy which this procedure will complement. There is a need for staff to be informed of the requirements and what they should do if they become aware of a possible breach. The actions proposed should ensure that this is the case. The principles of whistle blowing will be adhered to in relation to anonymity.

Equalities implications and risks:

This report sets out the Whistle blowing requirements of the Pensions Act and the report highlights that there have been no identified breaches. This means that there are not any direct equality implications.

However, there could be future cases related to anyone connected with the running of the pension scheme where there is a dimension of discrimination or victimisation based upon protected characteristics. In these cases, reference should be made to the Council's wider Whistle Blowing and Confidential Reporting Policy in order to comply with the Equality Act 2010.

BACKGROUND PAPERS

Background Papers List
TPR letter dated 14 November 2016

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PENSIONS COMMITTEE
19 March 2017

Subject Heading:	The Admission of Harrison Catering Services Ltd to the London Borough of Havering Pension Fund
SLT Lead:	Debbie Middleton
Report Author and contact details:	Caroline Berry Pensions Project & Contract Manager 01708 432185 Caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013. Schedule 2 part 3
Financial summary:	The pension fund actuary has assessed the level of Indemnity and Loxford Schools Trust – Abbs Cross Site will act as guarantors

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The purpose of this report is to inform the London Borough of Havering Pension Fund committee of the proposed “closed agreement” admission of Harrison Catering Services Ltd into the London Borough of Havering Pension fund under the provisions of The Local Government Pension Scheme Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance. This is due to the TUPE of Catering staff from Abbs Cross Academy to Harrison Catering Services Ltd for the provision of Catering services to the Academy.

RECOMMENDATIONS

That the admission of Harrison Catering Services Ltd into the London Borough of Havering Pension Fund as an admitted body to enable 4 members of staff who transferred from Abbs Cross Academy to continue membership of the Local Government Pension Scheme (LGPS) be noted, subject to:

- (a) All parties signing up to an Admission agreement, and
- (b) An Indemnity of £69,000 by way of Harrison Catering Services Ltd securing a guarantee in an approved form from the Loxford School Trust – Abbs Cross Site to protect the pension fund.

REPORT DETAIL

1. Harrison Catering Services Ltd succeeded in winning the contract to provide catering services to the Abbs Cross Academy. The contract is for a minimum of five years and will commence on 1 October 2017
2. When the Abbs Cross Academy catering services transfer from the Academy to Harrison Catering on 1 October 2017, the contracts of employment of 4 employees transfer from the Academy to Harrison Catering Services Ltd. The Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) Amendment Regulations 2014 (“TUPE”) protects the employment terms and conditions of the relevant employees except for pension rights which in this instance are covered under the New Fair Deal guidance 2013. All of the employees concerned are members of the LGPS at the date of transfer.
3. New Fair Deal Guidance is a non-statutory policy setting out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The guidance is needed to address Pension rights not covered by TUPE.
4. The Pension Regulations require the Local Government Pension Scheme (LGPS) Pension Funds to allow an admission to its scheme if the organisation is one that provides or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.

5. Where a transferee admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2, Part 3, an administering authority **must** admit to the LGPS the eligible employees of the transferee admission body, and where it does so, the terms on which it does are noted in the admission agreement for the purposes of these Regulations.

6. Harrison Catering Services Ltd falls within the definition contained in Schedule 2, Part 3 of the Local Government Pension Scheme Regulations 2013 and as such will be eligible to become a transferee admission body. Under Schedule 2, Part 3, the administering authority must admit to the scheme the eligible designated employees of the transferee admission body, provided the transferee admission body and the scheme employer undertakes to meet the relevant requirements of the regulations through an admission agreement. Legal engrossment of the admission agreement is subject to the service transfer taking place.

7. The London Borough of Havering will seek to sign appropriate transferee admission agreements to allow Harrison Catering Services Ltd to be admitted to the London Borough of Havering Pension Fund. When the admission agreement is formed Harrison Catering will be required to pay contribution rates as determined by the Fund Actuary. This has been set initially at 38.2% of pensionable pay.

IMPLICATIONS AND RISKS

Financial implications and risks:

Continued membership in the LGPS means there is no loss to contributions into the Fund. As noted in the report, employer contributions to be paid by admitted bodies are determined by the Fund's Actuary.

There are no immediate financial implications to the Fund arising from the Fair Deal arrangements.

The Fund's actuary has determined a bond or indemnity is required to cover the assessed level of risk arising in relation to premature termination of the provision of service or assets provided by Harrison Catering Services by reason of insolvency, winding up or liquidation and the level of bond set by the actuary is £69,000.

Harrison Catering Services has sought to opt for a guarantor and this will be provided by Loxford Schools Trust – Abbs Cross Site.

There are risks to the letting authority (Loxford Schools Trust – Abbs Cross Site) if the bond levels are not reviewed in line with employee and legislative changes. This risk will be managed by putting in place a timescale for bond reviews and

ensure this is included in the admission agreement. Bond renewals are to be carried out by the Fund's actuary.

The letting authority (Loxford Schools Trust – Abbs Cross Site) also faces risk if the admitted body is unable to meet any funding deficits at the end of a contract. This risk will be managed by putting in place regular reviews of Harrison Catering Service's employer rates. Any deficit not met by Harrison Catering Service at the end of the contract will be met by the letting authority (Abbs Cross Academy).

The risk of non-payment of contributions, which would have a cash flow impact, is actively managed by the Pension Administration team on a monthly basis with appropriate escalation for non-compliance. Cashflow performance is reported in the Pension Fund Annual Report.

Legal implications and risks:

Academies are scheme employers for the purposes of the local government pension scheme. Where they let contracts for the provision of services, their contractors are eligible to become admission bodies, subject to the completion of an admission body agreement and the provision of a bond or indemnity, if required, to cover the risks to the pension fund arising from premature termination of the provision of service by reason of insolvency, winding up or liquidation of the admission body.

Academies are public sector bodies required to have regard to the Government's policy guidance "Fair Deal for staff pensions: staff transfer from central Government" (published with immediate effect on the 4 October 2013) when outsourcing services. Where staff are compulsorily transferred (TUPE) from the public sector (the Academy) to an independent provider of public services (Accent Catering services Limited) those staff will generally have a right of continued access to the relevant public service pension arrangements (Havering LGPS).

In the case of the Academy employees transferring to their new catering contractor, Fair Deal obligations can be achieved by means of an admission body agreement, between the administering authority (Havering) and the letting authority (the Academy) and the employing/admission body (the contractor) allowing the transferring employees to remain members of the Local Government Pension Scheme. The Academy and the contractor have applied for admission on a closed basis and actuarial assessments have been undertaken on that basis in order to assess contributions and the bond value.

In agreeing the recommendation, the Pension Fund Committee will ensure that the Academy's current employees enjoy their current pension protection when transferring to their new employer and will reduce the risk of any complaints to the Pension Regulator and Pensions Ombudsman resulting from a failure to ensure Fair Deal pension protection for its employees on transfer.

Human Resources implications and risks:

Admitted body status will allow transferring staff continued membership eligibility of the LGPS. Where the service transfer relates to employees of the London Borough of Havering full consultation is undertaken with affected staff and the recognised trade unions in line with TUPE requirements. In respect of other service transfers the current employing body is responsible for undertaking the equivalent consultation.

Equalities implications and risks:

The proposed admission of Harrison Catering Services Ltd into the London Borough of Havering Pension Fund will not only ensure that New Fair Deal guidance has been followed but will also enable the Abbs Cross Academy staff who will be compulsorily transferred to Harrison Catering Services to continue to enjoy pension protection when transferred to their new employer.

BACKGROUND PAPERS

None

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