**North Yorkshire County Council**

**Pension Board**

**24 January 2019**

**Administration Report**

**1. Purpose of the Report**

To provide Pension Board members with an update on key initiatives undertaken by the administration team of the North Yorkshire Pension Fund.

**2. Pension Fund Committee paper**

Included for information at Appendix 1 is the administration paper and appendices provided to the Pension Fund Committee at their November 2018 meeting.

**3. Breaches Log**

Included at Appendix 2 is the North Yorkshire Pension Fund's Breaches Log for review. There are no new entries.

**4. Annual Benefit Statements**

The final position relating to the 2018 annual benefit statement exercise is as follows:

Actives: 96.25% issued (29,098 statements produced out of 30,233)
The remaining 1,135 are unable to be issued due to the following reasons:

- 254 – member did not work in post in 17/18
- 881 – record marked as having an issue, could be data query or ongoing task. Queries continue to be pursued with the relevant parties.

Deferreds: 100% issued (36,317 statements produced out of 36,317)

Work is well underway on the 2019 year end and benefit statement process.

**5. Letter Review Project**

The letters review continues with additional resource identified and training being provided. This will enable progress to be made at a quicker pace then currently. 30 letters have been reviewed and reduced into 8 with a further 10 brand new letters being created.

**6. Admissions and Terminations Policy**

Included at Appendix 3, for review and comment, is the updated Admissions and Terminations policy which was formally approved at the October Pension Fund Committee meeting.

**7. GMP Reconciliation Project**

The reconciliation stage of the project is continuing to progress. HMRC have now stopped accepting scheme reconciliation queries and responses to outstanding queries which are already in progress will be received until 6th April. ITM are preparing the rectification stage document and this is expected to be received week commencing 14th January.

Once this is received the next stages can be planned and scheduled to correct records.

Current position:

| Status | Reconciled | Unreconciled |
|---|---|---|
| Active | 24,542 | 2,531 |
| Deferred | 31,204 | 2,082 |
| Pensioner | 17,536 | 2,112 |
| Other admin | 1,026 | 2,515 |
| HMRC | | 4,040 |
| **Totals** | **74,308** | **13,280** |

**8. Data Score & Improvement Plan**

In line with the requirement introduced by the Pensions Regulator, to include each fund's data score in the annual return with effect from 2018, NYPF have submitted the following scores:

Common Data: 93.47%
Conditional Data: 85.26%

The valuation data extract was used this year as we are still awaiting clarification from the Regulator regarding which data items should be included. Aon have undertaken a pre valuation data quality check and it was this report we used to measure the data quality against.

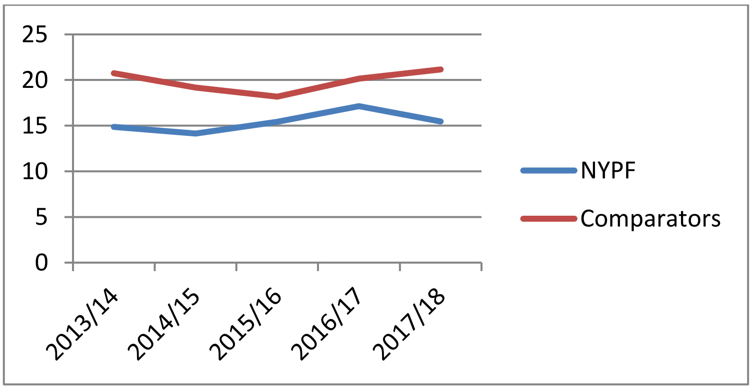
From this a data improvement plan is being created to ensure quality and scores improve from year to year.

Alongside this we are using the Aon report to cleanse the data as much as possible prior to the 2019 valuation.

**9. CIPFA Benchmarking Return 2017/2018**

The benchmarking results for the year 2017/2018 showed the unit cost for NYPF Pensions Administration was £15.46 compared with an average unit cost across the whole of the CIPFA Benchmarking Club of £21.16.

As the graph below demonstrates NYPF continues to provide an efficient, cost effective administration service to it's members.



## 10. Recommendation

10.1. That Pension Board members note the contents of this report.

10.2. That Pension Board members note the contents of the Breaches Log.

10.3. That Pension Board members provide feedback on the Admissions & Terminations Policy.

Phillippa Cockerill
Head of Pensions Administration
County Hall
Northallerton

16 January 2019
Background Papers - Nil

Appendix 1

**North Yorkshire County Council**

**Pension Fund Committee**

**22 November 2018**

**Administration Report**

**Report of the Treasurer**

## 1. Purpose of the Report

1.1. To provide Members with information relating to the administration of the Fund over the year to date and to provide an update on key issues and initiatives which impact the administration team.

## 2. Admission Agreements & New Academies

2.1. The latest position relating to Admission Agreements and schools converting to academy status in the year are shown in **Appendix 1**. We have received a total of 14 new admissions and academies and completed 5 since the last update. The numbers in progress have increased.

## 3. Administration

### 3.1. Membership Statistics

| Membership Category | At 30/06/2018 | +/- Change (%) | At 30/09/2018 |
|---|---|---|---|
| Active | 32,337 | -0.23 | 32,263 |
| Deferred | 36,374 | +0.47 | 36,545 |
| Pensioner (incl spouse & dependant members) | 21,848 | +1.29 | 22,130 |
| **Total** | **90,559** | | **90,938** |

The number of deferred members is increasing as we clear the outstanding work and establish what benefits members are entitled to. As we progress through clearing the outstanding work a more accurate membership position is being established.

### 3.2. Throughput Statistics

- Period from 1 July 2018 to 30 September 2018

| Casetype | Cases Outstanding at Start | New Cases | Cases Closed | Cases Outstanding at End |
|---|---|---|---|---|
| Transfer In quotes | 9 | 52 | 55 | 6 |
| Transfer Out quotes | 16 | 149 | 143 | 22 |
| Employer estimates | 19 | 87 | 97 | 9 |
| Employee estimates | 21 | 190 | 178 | 33 |
| Retirement quotes | 59 | 625 | 623 | 61 |
| Preserved benefits | 200 | 781 | 718 | 263 |
| Death in payment or in service | 29 | 146 | 139 | 36 |
| Refunds | 76 | 905 | 926 | 55 |
| Actual retirement procedure | 84 | 519 | 469 | 134 |
| Interfund transfers | 38 | 147 | 134 | 51 |
| Aggregate member records | 101 | 193 | 208 | 86 |
| Process GMP | 146 | 3 | 14 | 135 |
| Others | 70 | 187 | 167 | 90 |
| **Total Cases** | **868** | **3984** | **3871** | **981** |

- We saw an increase in leaver notifications in September as the staff turnover in schools was processed for August.
- Alongside the above cases the Pensions team also handled 4,805 phone calls (average 94 per day) and 2,471 emails received via the Pensions Inbox (average 38 per day) in the quarter to 30 September 2018.
- The weekly focussed work days continue and are proving successful in driving down the volume of outstanding work.

3.3. **Performance Statistics**

- The performance figures for the period 1 July 2018 to 30 September 2018 are as follows:

| Performance Indicator | Target in period | Achieved |
|---|---|---|
| **Measured work achieved within target** | 98% | 89% |
| **Customers surveyed ranking service good or excellent** | 94% | 88% |
| **Increase numbers of registered self-service users by 700 per quarter** | 700 | 1,189 |

- High work volumes and high demand within the team continue to impact our ability to meet the agreed performance indicator for work achieved within target. The administration team continue to focus on reducing the outstanding work and focusing on ensuring the day to day business as usual work is being processed within agreed timescales. We continue to chase employers on a regular basis for all outstanding queries.

3.4. **Commendations and Complaints**

- This quarter the following commendations and complaints were received:

**Commendations**

| Date | Number | Summary |
|---|---|---|
| Jul 2018 | 2 | Excellent service |
| Aug 2018 | 4 | Helpful staff |
| Sept 2018 | 2 | Help and support of staff |

**Complaints**

| Date | Number | Summary |
|---|---|---|
| Jul 2018 | 1<br>1 | Administration - Incorrect retirement option provided to member<br>Regulatory - Benefits automatically combined |
| Aug 2018 | 2<br><br>1 | Administration - Incorrect retirement option provided to member<br>- Member unhappy we hadn't updated his wife's name<br>Regulatory - Member unhappy that only benefit available is a refund |
| Sept 2018 | 3<br><br><br>1 | Administration - Incorrect retirement option provided to member<br>- Member accusing us of stealing benefits<br>- Lack of response to an enquiry<br>IHER appeal |

- The complaint categories are:

1. Administration - these can relate to errors in calculations, delays in processing and making payment of benefits.
2. Regulatory - these relate to a complaint where regulations prevent the member being able to do what they want to.
3. Ill Health Early Retirement appeal - these are where members have been declined for early retirement on the grounds of ill health and are appealing the decision through the Internal Disputes Resolution Procedure.

**Lessons Learned**

Having reviewed the complaints received in the period it is apparent that errors are occurring in the retirement process relating to the need to know which sections of the current letters need to be included or not. Work has recommenced on developing the new 'smart' letters as a priority.

3.5. **Annual Benefit Statements 2018**

- 143 out of 144 files have been received, posted to records and queries raised.
- There was a major issue with the City of York return this year with nearly 50% of members' data being incorrect. We are liaising with them to obtain a revised file but this has meant we have been unable to issue benefit statements for these members yet.
- The latest position regarding the issuing of annual benefit statements as at 30 September 2018 is:
  - Actives: issued 26,413 out of 30,563 = 86.42% (nearly half of those unissued are CYC members)
  - Deferreds: issued 36,153 out of 36,242 = 99.76%
- Work continues on producing statements as we correct data or calculation errors.

## 4. Admissions and Terminations Policy

4.1. The draft Admissions and Terminations Policy is attached as **Appendix 2.** The content of the document has been fundamentally changed to bring it in line with new regulation and processes of the Fund. The document has been reviewed by the Fund's Actuary, Aon, and legal advisors, Ward Hadaway to ensure that it complies with regulation. Members are asked to approve the policy. Following approval, employers will be consulted on the updated policy.

4.2. This policy does not currently include scheduled employers, for example, academies; this will be included in a later iteration of the policy and will be brought back to PFC for approval at a later date.

## 5. Issues and Initiatives

5.1. **GMP Reconciliation**

- The GMP reconciliation project continues with files of queries being worked on when received from ITM.
- Processing has continued in this period with progress being made on the GMP value reconciliation. This has resulted in 1,000 records requiring manual checking. This work is being undertaken within the pension team.
- Work continues in moving towards the rectification phase.
- Current position:

| Status | Reconciled | Unreconciled |
|---|---:|---:|
| Active | 22,621 | 4,452 |
| Deferred | 29,891 | 3,395 |
| Pensioner | 16,248 | 3,400 |
| Other admin | 1,026 | 2,515 |
| HMRC | | 4,040 |
| **Totals** | **69,786** | **17,802** |

5.2. **Breaches Policy & Log**

- Included at **Appendix 3** is the North Yorkshire Pension Fund's Breaches Log for review. There is one new entry relating to the 2018 annual benefit statement exercise. This has been reviewed by the Pension Board at their meeting in October and their response is included.

5.3. **Efficiency Initiatives**

- The letters project continues to make progress with new letters being created to support changes to processes. Progress was impacted by the upgrade of the administration system but issues are now resolved and work can recommence.

5.4. **Administration System**

- The contract for the existing administration software expires on 31 December 2019 with an option to extend for a further two years.
- A full review of our requirements is underway in order to inform whether the current software and its provider is capable of meeting our needs now and in the future.
- The review will not be completed in time for the contract expiry so it has been agreed we will be triggering at least one year of the two year extension.

## 6. Member Training

6.1. The Member Training Record showing the training undertaken over the year to 30 September 2018 is attached as **Appendix 4**.

6.2. Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 5**. Please contact Adam Tennant (01609 535916 or email adam.tennant@northyorks.gov.uk) for further information or to reserve a place on an event.

## 7. Meeting Timetable

7.1. The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 6.**

## 8. Recommendations

8.1. Members to note the contents of the report.

8.2. Members to approve the Admissions and Terminations Policy (**Appendix 2**).

8.3. Members to note the contents of the Breaches Log (**Appendix 3**).

Gary Fielding
Treasurer of North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

14 November 2018

Appendix 1

**Academy Conversions** – 15 'in progress'

| Name of School | Local Education Authority | Multi Academy Trust (MAT) Name | Conversion Date | Current Position |
|---|---|---|---|---|
| Tadcaster East Community Primary School | NYCC | Ebor Academy Trust | 1.9.2018 | Completed |
| Baldersby St James CoE Voluntary Controlled Primary School | NYCC deemed to be employer | Hope Learning Trust | 1.9.2018 | Completed |
| Stakesby Community Primary School | NYCC | Enquire Learning Trust | 1.9.2018 | Completed |
| Braeburn Primary & Nursery School | NYCC | Ebor Academy Trust | 1.10.2018 | Completed |
| Archbishop of York's CoE Junior School | COYC | South York Multi Academy Trust | 1.11.2018 | Completed |
| Ainderby Steeple CoE Primary School | NYCC | Dales Academies Trust | 1.1.2019 | Delayed from 1.9.2018.In progress |
| Danesgate Community School | COYC | South York Multi Academy Trust | 1.1.2019 | Will be progressed nearer the time |
| George Pindar School | NYCC | Hope Learning Trust | 1.1.2019 | Will be progressed nearer the time |
| Graham School | NYCC | Hope Learning Trust | 1.1.2019 | Will be progressed nearer the time |
| Stillington Primary School | NYCC | Hope Learning Trust | 1.2.2019 | Will be progressed nearer the time |
| Northallerton School & Sixth Form College | NYCC | Arete Learning Trust | 1.4.2019 | Will be progressed nearer the time |
| Sherburn High School | NYCC | Star Multi Academy Trust | 1.8.2019 | Will be progressed nearer the time |
| Naburn CoE Primary School | COYC | South York Multi Academy Trust | Not known | Delayed from 1.10.2018. Will be progressed nearer the time |
| Lord Deramore's Primary School | COYC | South York Multi Academy Trust | Not known | Delayed from 1.11.2018. Will be progressed nearer the time |
| Fishergate Primary School | COYC | South York Multi Academy Trust | Not known | Delayed from 1.12.2018. Will be progressed nearer the time |
| Escrick CoE VC Primary School | NYCC | South York Multi Academy Trust | Not known | Will be progressed when conversion date known |
| St Oswald's CE Primary School | COYC | South York Multi Academy Trust | Not known | Will be progressed when conversion date known |
| Elvington CoE Primary School | COYC | South York Multi Academy Trust | Not known | Actuarial calculations provided based on conversion date of 1.7.18. Conversion delayed, new date not yet known |

| Name of School | Local Education Authority | Multi Academy Trust (MAT) Name | Conversion Date | Current Position |
|---|---|---|---|---|
| Langton Primary School | NYCC | Evolution Schools Learning Trust | Not known | Original conversion date was 1.10.2016 but MAT advised it has been delayed. New date not yet known. |
| Thirsk School & Sixth Form College | NYCC | Arete Learning Trust | Not known | Original conversion date was 1.2.2018. MAT has advised no definite agreement in place at present |

**Admission Bodies** –16 ‘in progress’

| **Name of Employer** | **Name of Contractor** | **Staff Transfer Date** | **Current Position** |
|---|---|---|---|
| Outwood Primary Academy Greystone (Outwood Grange Academies Trust) | ISS Mediclean | 5.11.2018 | In progress – transfer of catering staff |
| NYCC – catering contracts at:<br>Bedale CoE Primary School<br>Colburn Community Primary School<br>Masham CE (VC) Primary School | Mellors Limited | 1.9.2018 | Not advised of transfers until October! Now in progress |
| NYCC - catering contracts at:<br>Spofforth CoE Primary School<br>Follifoot CoE Primary School<br>Goldsborough CoE Primary School<br>Sicklinghall Community Primary School | P&A Catering | TBC | Not advised of transfers until October! Now in progress |
| NYCC - catering contract at:<br>Water Street Community Primary School | Dolce Limited | TBC | Not advised of transfer until October! Now in progress |
| Baldersby St James CoE Primary Academy (Hope Learning Trust) | Absolutely Catering Limited (part of the CH&Co Catering Group) | 5.11.2018 | In progress - transfer of catering staff |
| Tockwith CoE Primary Academy | Hutchison Catering Limited | 19.1.2018 | In progress - transfer of catering staff |
| City of York Council | York Mind | 1.1.2019 | Draft admission agreement provided |
| City of York Council (Haxby Hall Care Home) | Yorkare Homes Ltd | Early Jan 2019 | Future service rate provided, admission agreement will be progressed nearer the time |
| Barlby High School (Hope Learning Trust) | Hutchison Catering Ltd | 1.4.2019 | Will be progressed nearer the time |
| City of York Council libraries | Contract not yet awarded | 1.4.2019 | Future service rate provided, admission agreement will be progressed nearer the time |
| Yorkshire Coast Homes | | | Possible merger with Coast & Country Housing Ltd. Coast & Country Housing Ltd transferred its engagements to YCH on 1.10.2018 and YCH changed its name to Beyond Housing Limited. Waiting to see if a merger goes ahead. |

**Exiting Employers – 6**

| Name of Employer | Date exited the Fund |
|---|---|
| Joseph Rowntree Charitable Trust | 31.12.17. |
| Superclean Services Limited | 16.7.17 |
| OCS Group UK Limited | Only one member who left 31.3.17 (only told March 18). Exit calculation needed from the actuary once OCS confirm who will pay fees |
| Be Independent | TUPE transferred back to the City of York Council wef 1.8.18. Exit calculation will be requested once all information has been received from York |
| York Arts Education (Community Interest Company) | Only two members, last one left 31.3.2018. Exit calculation requested from the actuary |
| Housing & Care 21 | Last member left 31.8.18. NYCC indemnify any exit debt |

Appendix 2

North Yorkshire Pension Fund

# Admissions and Terminations Funding Policy

**If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335**

## 1 Introduction

1.1 This document details the North Yorkshire Pension Fund's (**Fund**) policy on admissions into the Fund and~~,~~ the methodology for assessment of a deficit or surplus payment on the exit of an employer's participation in the Fund. It supplements the general funding policy of the Fund as set out in the [1]Funding Strategy Statement (**FSS**).

## 2 Admissions to the Fund

2.1 Admission bodies are a specific type of employer under the Regulations that do not automatically qualify for admission into the Local Government Pension Scheme (**Scheme**) and must satisfy certain criteria set out in the Local Government Pension Scheme Regulations 2013 (as amended) (**Regulations**). Admission bodies are required to have an 'admission agreement' with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

2.2 North Yorkshire County Council (**NYCC**) as the Administering Authority for the Fund will decide which bodies can become an admission body in the Fund. 2.3 The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees depending on the circumstance of the admission. Whether the admission is 'open' or 'closed' is generally at the option of the applicable transferring employer (if any) and admission body, but there might be an impact on the rate of contributions payable.

2.4 In general paragraph 1(d) admission bodies will be admitted on a 'fully funded' basis i.e. a funding shortfall will not be passed to the admission body unless the transferring employer requests that a proportion of (or all of) the funding shortfall is passed to the admission body.

2.5 All actuarial and legal fees will be recharged to the transferring employer or the admission body. The Administering Authority will ask for confirmation of who is paying the fee before the invoice is issued.

## 3 Subsumption, guarantor or bond requirements for entry

3.1 The Regulations require the admission body to carry out (to the satisfaction of the Fund and where applicable the transferring employer) 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. The Regulations further require 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 Fund with a third party financial services organisation. If for any reason a bond is not desirable the Regulations require that the admission body secures a guarantee in a form acceptable to the Fund.

[1] The FSS can be found on the Fund's website at www.nypf.org.uk > Pension Fund / Investments > Policies and Strategies.

3.2 Whilst each application is assessed on its own merits under the above criteria, the Administering Authority wishes to limit the risk to the Fund and to other employers arising from any proposed admission. The Administering Authority's expectation is that in the substantial majority of all admissions it will require the admission body to provide either a qualifying bond or guarantee. The Administering Authority further considers that the costs inherent in the provision of a third party bond by the admission body is sufficient reason why it may not be desirable for the admission body to secure a bond. Therefore, the Administering Authority will in most cases be prepared to accept that the admission instead proceeds on the basis of a guarantor being offered. This is most often the transferring employer.

3.3 Further, when considering applications for admission body status the Administering Authority’s clear preference is that there should be a subsumption commitment from a suitable Scheme employer (as well as a guarantor from within the Fund). However, where there is no suitable party willing to give a subsumption commitment and/ or where there is no suitable and willing guarantor, the Administering Authority will still consider applications on a case-by-case basis.

3.4 A subsumption commitment means that a Scheme employer in the Fund (usually the transferring employer) agrees that they will take on responsibility for the future funding of the liabilities of the admission body once they have exited the Fund, and (where relevant) the admission body has paid any exit payment as determined by the actuary.

3.5 A guarantor provides a commitment to meet any obligation or liability of the admission body under the admission agreement.

3.6 The guarantor must be a party permitted to give such a guarantee under the Regulations and must be acceptable to the Administering Authority. Usually, this is the transferring employer.

3.7 The Administering Authority will, if it deems appropriate, accept an admission where there is no guarantee or subsumption commitment offered. This acceptance may be subject to additional conditions. Such conditions will often include the following:

- the Fund’s actuary will be asked to use the low risk funding target or the ongoing orphan funding target to assess contribution requirements; and/or
- the admission body must have a bond or indemnity from an appropriate third party in place. Any bond amount will be subject to review on a regular basis~~.~~ in line with the Regulations; and
- the admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide.

3.8 Some relevant factors that the Administering Authority may consider when deciding whether to apply any of the conditions above, in the absence of a guarantor or subsumption commitment, are:

- uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- if the admission body has an expected limited lifespan of participation in the Fund;

- the general trading risk of the proposed admission body and their financial record;

- the average age of employees to be admitted and whether the admission is closed to new joiners.

**Admission bodies formerly known as Transferee Admission Bodies (TABs)**

3.9 The most frequent category of admission body is those admitted under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations, namely that the proposed admission body 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.

3.10 The settlement of commercial terms between the transferring employer and the proposed admission body (including any mitigations that might be offered to the proposed admission body in respect of the usual costs of participation as an employer in the Scheme) are a commercial matter which the Administering Authority will not be involved in.

3.11 Deficit recovery periods for these admission bodies will be set in line with the Fund's general policy as set out in the FSS.

**Admission bodies formerly known as Community Admission Bodies (CABs)**

3.12 Where a body believes that it is eligible for admission other than under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations and requests admission into the Fund, the Administering Authority will consider each application on a case-by-case basis.

**Town and Parish Councils**

3.13 New town and parish councils entering the Fund will be treated as follows:

- If there is a subsumption commitment from a suitable Scheme employer then the participation will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.

- If there is no subsumption commitment from a suitable Scheme employer then the town or parish council must pre-fund for termination with contribution requirements assessed using the low risk funding target or ongoing orphan funding target.

3.14 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

### Grouped bodies

3.15 The Fund groups the following types of employers for setting contribution rates.

- Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 1 April 2008, Drainage and Burial Boards).

- Local Management of Schools (LMS) Pools (NYCC LMS pool and the City of York Council (CoYC) LMS pool) admitted prior to 1 April 2019.

3.16 The LMS pool refers to the grouping of a number of transferee admission bodies relating to catering and cleaning contracts within schools who were admitted to the Fund prior to 1 April 2019. Employers in the LMS pool pay the same aggregate total contribution rate as that payable by NYCC or the CoYC depending on which pool they are in.

3.17 At each triennial valuation, the actuary will pool together the assets and liabilities of the council with the other employers within the appropriate LMS pool to determine the employer contribution rate.

## 4 Employer contributions and funding targets

4.1 The Fund's actuary will calculate the employer contributions payable from the start of the admission agreement.

4.2 These will consist of the future service rate (FSR) or primary contribution rate and additional (secondary) contributions required to remove any funding shortfall. Where the admission body transfers on a fully funded basis (i.e. the level of notional assets is set to be equal to the full value of the transferring liabilities using the appropriate funding target described below) then the initial contribution rate will be equal to the FSR. This would generally be the case in an outsourcing of a service or function from a Scheme employer.

4.3 The FSR is net of employee contributions but includes an allowance for the lump sum death benefit payable on death in service and administration costs.

4.4 The actuary will also calculate the funding position of the admission body at the commencement date. This shows the notional assets attributable to the admission body, along with the value of liabilities using the appropriate funding target. This is needed even when the admission body starts fully funded since any accounting figures or calculations at future triennial valuations will use the assets and liabilities at commencement as their starting point. In some cases the asset transfer may need to be re-calculated if the commencement date or data on transferring members is different to that used by the actuary in their initial calculations.

4.5 If the transferring employer is providing a subsumption commitment, the subsumption funding target will be used by the actuary when calculating the FSR and the value of liabilities. The low risk funding target can be used where explicitly requested by the transferring employer. The appropriate funding target to be adopted depends on what will happen to the liabilities of the admission body once the contract ends or it has otherwise exited the Fund (e.g. when the last active member has left).

### Subsumption funding target

4.6 This approach can be used where the admission body has a 'subsumption commitment' from a suitable Scheme employer (usually the transferring employer). It is used to calculate the initial assets allocated to the admission body and its contributions as well as for the exit valuation (updated to allow for financial market conditions at the exit date).

4.7 The assumptions used under the scheduled body / subsumption funding target assume investment in assets that are the same as the long term investment strategy of the Fund as a whole.

4.8 Therefore the potential outperformance over low risk investment in government bonds (gilts) is factored in, giving a lower contribution rate but also there is exposure to the volatility of equity based investments and the risk of the expected outperformance not being achieved and the impact on the contributions.

4.9 This funding target gives a lower contribution rate but less certainty that the liabilities are being fully covered and can therefore lead to volatility in the FSR over the life of the admission agreement and increases the risk of a shortfall or surplus emerging over the period of participation of the admission body in the Fund. This approach results in the same assumptions being used to set contributions for the admission body as apply to the Scheme employer letting the contract (although the assumptions are updated to allow for financial market conditions at the calculation date, whether that is the date of commencement or exit).

### Ongoing orphan funding target

4.10 This approach is used where the transferring employer is not prepared to offer a subsumption commitment in relation to the admission body. This means that no employer exists in the Fund that would be prepared to take on future responsibility of the liabilities of the admission body once the admission body has exited the Fund.

4.11 On the exit of the admission body, its liabilities will become 'orphan liabilities' in the Fund. This means that should a shortfall arise in respect of these liabilities after the admission body has exited the Fund, all remaining employers in the Fund would be required to pay additional contributions to pay off this shortfall.

4.12 In that case, the exit valuation of the admission body would be carried out on the low risk funding target in order to protect the other employers in the Fund. This assumes that after the exit of the admission body the Administering Authority would wish to back the orphan liabilities with low risk investments such as government bonds.

4.13 The assumptions used under the ongoing orphan funding target are broadly designed to target the low risk funding target at exit of the admission body but reflect the fact that exit of the admission body will occur at some point in the future and allow for the possibility of the expected return on government bonds changing before the exit date.

4.14 Prior to the exit date it is still assumed that the assets of the admission body are invested in line with the long term investment strategy of the Fund as a whole and this is reflected in the "in-service" discount rate adopted as part of the ongoing orphan funding target.

4.15 This funding target would generally result in a higher initial contribution rate than if a subsumption commitment existed (where the subsumption funding target would be adopted), but a lower initial contribution rate than if the low risk funding target is adopted (see below), although unlike the matched approach described below investment risk underlying the Fund's investment strategy is retained under this approach.

### Low risk funding target

4.16 This approach is used to reduce the risk of an uncertain and potentially large shortfall being due to the Fund at the exit of the admission body.

4.17 The low risk approach assumes a notional investment in government bonds for the admission body. Under this approach the investment risk is substantially reduced and it is expected that the assets and liabilities of the admission body would move broadly in line with either other. It does not eliminate investment risk and other funding risks remain, but it gives more certainty that the employer rate is providing funding to ‘match’ the liabilities. However it gives a substantially higher contribution rate as no allowance for any expected outperformance of the Fund's assets over the low risk funding target is factored in.

## 5 Termination of an employer

### Exit events

5.1 In accordance with Regulation 64 the LGPS Regulations 2013, when an employer (including an admission body) leaves the Fund, an exit valuation is carried out by the Fund’s actuary to determine the level of any surplus or deficit in the outgoing employer's share of the Fund. All actuarial and legal fees relating to the exit will be passed on to the exiting employer unless a prior agreement is in place with the transferring employer.

5.2 There are a number of events that will trigger an exit:

- when a contract comes to an end;
- when a contract is terminated early;
- when the employer no longer has any active members in the Fund;
- when the admission body is in breach of its obligations under the admission agreement, or the admission agreement is otherwise terminated by one of the parties;
- the insolvency, winding up or liquidation of the admission body
- the withdrawal of approval by HMRC to continue as a Scheme employer; or
- the admission body fails to pay any sums due in a timely manner.

5.3 When an admission agreement comes to an end or a scheduled body exits the Fund, any active employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

**Basis of exit valuations**

5.4 An exit valuation is carried out to value the liabilities of the employer at the date of exit. The basis used to calculate the liabilities depends on the circumstances of the exit and in particular who takes responsibility of any future liabilities. The Fund's policy is outlined below; however each exit will be assessed on a case by case basis.

5.5 If the employer has a subsumption commitment in place from a suitable Scheme employer within the Fund, the subsumption funding target will be used as the basis of the exit valuation. If the transferring employer requested that the low risk funding target was adopted on admission to the Fund, the same funding target will be used as the basis of the exit valuation. The subsuming employer will, following any termination payment made by the employer, be responsible for any future liabilities that arise in relation to the former employees of the exiting employer. Any liabilities formally attributable to the exiting employer will be assessed at each Triennial Valuation and the subsuming employer's contribution rates will be adjusted to reflect this.

5.6 For all other exiting employers where there is no subsumption commitment in place, the Fund's policy is to use the low risk funding target as the basis of the exit calculation. This is to protect the other employers in the Fund who will become responsible for any future 'orphan liabilities' that arise in relation to the former employees of the exiting employer post exit.

Grouped Scheduled Bodies - Town and Parish Councils admitted prior to 31 March 2008

5.7 On termination of participation within the grouped scheduled bodies, the exit valuation is based on a simplified share of the group deficit amount, which is calculated on a subsumption funding target. This involves calculating the notional deficit share, as at the last triennial valuation, based on the proportion of payroll that body has within the group. An adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last triennial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit. Any liability that cannot be reclaimed from the exiting employer will be underwritten by the group and not all employers in the Fund.

5.8 Following the termination of the grouped body, any residual assets and liabilities will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

Grouped Bodies - LMS Pools admitted prior to 1 April 2019

5.9 On termination of an admission body within the LMS pool, a termination valuation will generally be calculated on a scheduled body funding target. The assets and liabilities relating to the active employees will, assuming there is a subsumption commitment in place in the admission agreement relating to that admission body, be subsumed by NYCC or the CoYC depending on which pool they are in. If there is no subsumption commitment in place, the parties will be offered the opportunity to put one in place on exit. If this option is not taken then the low risk funding target will be used to calculate any exit debt.

### Notification of termination

5.10 In many cases termination of an admission agreement can be predicted, for example, because the admission body wishes to terminate their contract. In this case admission bodies are required to notify the Fund of their intention as soon as possible. The Fund requires a minimum of 3 months' written notice for early termination of an admission agreement.

5.11 Where termination is disclosed in advance or in the opinion of the Administering Authority there are circumstances which make it likely that an employer will become an exiting employer, the Fund may request a revised certificate from the Actuary that specifies the amount that the rates should be adjusted by prior to exit in line with Regulation 64(4) of the Regulations. This will allow the Fund to address any shortfall or surplus over a period of time rather than requesting a single lump sum payment on exit.

### Payment of exit debt

5.12 If the Fund actuary has calculated a deficit at the exit date the exiting employer is liable for payment. The Fund will usually require a lump sum payment from the exiting employer in the first instance. Where an exit payment cannot be met in full or in part by the exiting employer the Fund will attempt to recover any outstanding payment from a bond or alternative indemnity that may be in place.

5.13 Following the use of any bonds or indemnities (if any), any remaining debt will be recovered in a lump sum payment from the guarantor (if there is one).

5.14 If there is no guarantor any outstanding debt will be recovered from any related employer in the case of a Schedule 2, Part 3, 1(d)(i) body. The Fund may request a lump sum payment or it may be agreed, if the related employer is a contributing employer of the Fund, that the rates and adjustment certificate be revised to allow for the recovery of the remaining debt over a reasonable period of time, as determined by the Fund.

5.15 In any other case the debt will be subsumed by all other employers in the Fund. The rates and adjustment certificate for all contributing employers will be revised to allow for the recovery of any remaining exit debt over a reasonable period of time, determined by the Fund, at the next triennial valuation following exit.

5.16 Any lump sum payments will be required within 30 days following the issue of the revised rates and adjustment certificate showing the exit payment due unless another period is specified by the Fund. Any late payments will incur charges in accordance with the Fund's Charging Policy.

5.17 In exceptional circumstances the Fund may consider allowing an exiting employer to pay an exit payment over an agreed period of time, where it is not considered to pose a material risk to the solvency of the Fund.

### Suspending payment of exit amounts

5.18 At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an exiting employer under Regulation 64(2A) of the Regulations. This can be for a period of up to three years after the exit date (the maximum period permitted by the Regulations).

5.19 Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply;

- The employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension notice
- The employer is not a ‘closed’ Admitted Body (no new active members are permitted to join the Fund).
- Any application for the Administering Authority to grant a suspension notice is made within three months of the exit date.

5.20 The Administering Authority reserves the right to withdraw a suspension notice if the terms of the agreement to award a suspension notice are not being upheld by the employer.

5.21 If a suspension notice is awarded, the exit valuation will be deferred until the earlier of

- the end of suspension period, or;
- the point at which the suspension notice is withdrawn (for any reason).

5.22 If one or more new active members are admitted to the Fund the employer’s full participation in the Fund will resume.

5.23 During the period of any suspension notice, the employer must continue to make contributions to the Fund as certified in the rates and adjustments certificate.

**Surplus on Exit**

5.24 If the actuary has calculated a surplus at the exit date, Regulation 64(2ZA) requires the Administering Authority to pay the surplus to the exiting employer within three months of exit or, such longer time as the administering authority and the exiting employer may agree.

5.25 If the scheme employer and admission body wish to change the default position on the payment of an exit credit then they should include suitable provisions in any service agreement between themselves. The Regulations require the Administering Authority to pay the exit credit to the exiting employer in all circumstances and regardless of whether this might be considered fair in light of the relative risk and cost exposure of the parties.

5.26 When an exit credit payment is made, no further payments are due from the Administering Authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.

# Appendix 3

| Date | Category | Description of Breach | Cause of Breach | Regulation being breached | Effect of Breach & Wider Implications | Response to Breach | Referred to PFC | Referred to PB | Outcome of Referral to PFC & PB | Reported to Regulator | Progress Review 1 | Progress Review 2 | Progress Review 3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31/08/2017 | Administration | Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members | Large backlog meant we were unable to establish which category members should fall into at statement date.<br>Year End queries still outstanding at issue date. | | 85.88% of Active members received a statement = 14.12% did not<br>94.51% of Deferred members received a statement = 5.49% did not | Large backlog means we do not yet know actual total eligible for a statement.<br>Continue to reduce the backlog with targetted initiatives. Target is to have a controlled work throughput by end 2018.<br>Continue to work through errors & queries & issue ABS' when able to.<br>Introduce monthly returns for our 2 largest employers by end of 2018 so that errors can be identifed in real time rather than at year end. | 14/09/2017 | 19/01/2018 | Noted the position, no requirement to report.<br>Creation of Breaches Log to record position. | N | 30/11/2017 | 28/02/2018 | 30/05/2018 |
| 08/11/2017 | Administration | Statutory deadline for issuing Personal Savings Statements not met for all members | Human error | | 2 members received statements after the 6/10/2017 deadline.<br>192 manual calculations undertaken and 56 statements issued.<br>3.5% of members affected | Statements issued immediately.<br>Process under review by team leader.<br>Checklist created and process will be audited in 2018 to ensure checklist being used and process being robustly followed | 22/02/2018 | 19/01/2018 | PB - Noted the position, no requirement to report.<br>PFC - Noted the position, no requirement to report. | N | 30/04/2018 | 31/08/2018 | 30/09/2018 |
| 18/12/2017 | Administration | Incorrectly paid trivial commutation to a member who has benefits with another fund and had not commuted those benefits | Human error | | Member received benefits he wasn't entitled to. No other member affected.<br>Payment is an unauthorised payment & must be reported to HMRC, resulting in tax liability at 55% for the member & additional tax for the scheme. | As soon as realised payment was unauthorised, informed member and reported to HMRC.<br>Awaiting confirmation of scheme tax liability. | 22/02/2018 | 19/01/2018 | PB - Noted the position, no requirement to report.<br>PFC - Noted the position, no requirement to report. | N - Reported to HMRC | | | |
| 31/08/2018 | Administration | Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members | Year End queries still outstanding at issue date. | | 86.52% of Active members received a statement = 13.48% did not<br>99.76% of Deferred members received a statement = 0.24% did not | Backlog has been reduced so in a better position regarding correct eligibility for statements.<br>Significant year end queries (2,399) have impacted statement production. Ers being chased for response.<br>Continue to work through errors & queries & issue ABS' when able to.<br>Viability of monthly returns being investigated | | 11/10/2018 | PB - noted the position, agreed not to report this time but will in 2019. | | | | |

## Appendix 4

| Date | Title or Nature of Course | Blackie J | Mulligan P | Swiers H | Weighell J | Clark J | Portlock D | M Chambers | A Solloway | A Thompson | C Lunn | I Gillies | C Steward | Unison (Vacancy) | Unison (Vacancy) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 17 November 2017 | Investment Strategy Workshop | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | | | |
| 6-8 December 2017 | LAPFF Annual Conference, Bournemouth | ✓ | | | | | | | | | | | | | |
| 20 December 2017 | Pension Workshop | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | |
| 28 February - 2 March 2018 | LGC Investment Seminar, Carden Park, Cheshire | ✓ | | | | | | | | | | | | | |
| 7-9 March 2018 | PLSA Investment Conference, Edinburgh | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | | | | | |
| 21-23 May 2018 | PLSA Conference | | | | | ✓ | | | | | | | | | |
| 25 May 2018 | Property Debt Workshop | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | | |
| 18 June 2018 | CIPFA Pension Board | | | | | | ✓ | | | | | | | | |
| 27 June 2018 | CIPFA Pension Board Annual Event | | | | | | ✓ | | | | | | | | |

**APPENDIX 5**

## UPCOMING TRAINING AVAILABLE TO MEMBERS

| ***Provider*** | ***Course / Conference Title*** | ***Date(s)*** | ***Location*** | ***Themes / Subjects Covered*** |
|---|---|---|---|---|
| LAPFF | LAPFF Annual Conference | 5-7 December 2018 | The Hilton, Bournemouth | 'Back to the Future' – Conference to include: Financial regulations, Directors' remuneration, Precarious work, Gender pay gap, Workplace Diversity and Climate change. |
| LGPS | Annual LGPS Governance Conference | 17-18 Jan 2019 | Bristol | 'Clarity in Confusion'<br>Conference to include: Investment costs, Responsible Investment and Climate Risk, Infrastructure investment, Fund valuation, Upcoming scheme consultations, Investment spotlight, Legal update |
| LGC | Investment Seminar | 28 February - 1 March 2019 | Carden Park Cheshire | Keeping the LGPS affordable and accessible through austerity and uncertain times.<br>Content tbc. |
| PLSA | Investment Conference | 6-8 March 2019 | EICC Edinburgh | The conference is aimed at trustees, chief investment officers, pension scheme managers, asset managers and investment specialists.<br>The forward looking programme focusses on the major trends and events affecting UK investors and markets.  The conference consists of plenary and specialist stream sessions focusing on Defined Benefit, Defined Contribution, Investment & Governance as well as a new stream on Asset Allocation. |

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|---|---|---|---|---|
| PLSA | Local Authority Conference | 13-15 May 2019 | De Vere Water Park Hotel Gloucestershire | A specialist pension event for Local Authorities, designed to look at the ever-changing Local Authority Pension Scheme.<br><br>The conference includes keynote speeches, specialist breakout sessions, a Learning Zone, fringe meeting, a welcome drinks reception, conference dinner and exhibitions |

**APPENDIX 6**

## PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2018 AND 2019

| Meeting Date | Time & Venue | Event | Fund Managers |
|---|---|---|---|
| 22 November 2018 | 10am, Brierley Room | Pension Fund Committee | |
| 21 February 2019 | 10am, Brierley Room | Pension Fund Committee | |
| 22 February 2019 | 10am, TBC | Pension Fund Committee | 2 Managers TBC |
| 23 May 2019 | 10am, Brierley Room | Pension Fund Committee | |
| 24 May 2019 | 10am, TBC | Pension Fund Committee | 2 Managers TBC |
| 4 July 2019 | 10am, Brierley Room | Pension Fund Committee | |
| 12 September 2019 | 10am, Brierley Room | Pension Fund Committee | |
| 13 September 2019 | 10am, TBC | Pension Fund Committee | 2 Managers TBC |
| 21 November 2019 | 10am, Brierley Room | Pension Fund Committee | |
| 22 November 2019 | 10am, TBC | Pension Fund Committee | 2 Managers TBC |

Appendix 2

| Date | Category | Description of Breach | Cause of Breach | Regulation being breached | Effect of Breach & Wider Implications | Response to Breach | Referred to PFC | Referred to PB | Outcome of Referral to PFC & PB | Reported to Regulator | Progress Review 1 | Progress Review 2 | Progress Review 3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31/08/2017 | Administration | Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members | Large backlog meant we were unable to establish which category members should fall into at statement date.<br>Year End queries still outstanding at issue date. | | 85.88% of Active members received a statement = 14.12% did not<br>94.51% of Deferred members received a statement = 5.49% did not | Large backlog means we do not yet know actual total eligible for a statement.<br>Continue to reduce the backlog with targetted initiatives. Target is to have a controlled work throughput by end 2018.<br>Continue to work through errors & queries & issue ABS' when able to.<br>Introduce monthly returns for our 2 largest employers by end of 2018 so that errors can be identifed in real time rather than at year end. | 14/09/2017 | 19/01/2018 | Noted the position, no requirement to report.<br>Creation of Breaches Log to record position. | N | 30/11/2017 | 28/02/2018 | 30/05/2018 |
| 08/11/2017 | Administration | Statutory deadline for issuing Personal Savings Statements not met for all members | Human error | | 2 members received statements after the 6/10/2017 deadline.<br>192 manual calculations undertaken and 56 statements issued.<br>3.5% of members affected | Statements issued immediately.<br>Process under review by team leader.<br>Checklist created and process will be audited in 2018 to ensure checklist being used and process being robustly followed | 22/02/2018 | 19/01/2018 | PB - Noted the position, no requirement to report.<br>PFC - Noted the position, no requirement to report. | N | 30/04/2018 | 31/08/2018 | 30/09/2018 |
| 18/12/2017 | Administration | Incorrectly paid trivial commutation to a member who has benefits with another fund and had not commuted those benefits | Human error | | Member received benefits he wasn't entitled to. No other member affected.<br>Payment is an unauthorised payment & must be reported to HMRC, resulting in tax liability at 55% for the member & additional tax for the scheme. | As soon as realised payment was unauthorised, informed member and reported to HMRC.<br>Awaiting confirmation of scheme tax liability. | 22/02/2018 | 19/01/2018 | PB - Noted the position, no requirement to report.<br>PFC - Noted the position, no requirement to report. | N - Reported to HMRC | | | |
| 31/08/2018 | Administration | Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members | Year End queries still outstanding at issue date. | | 86.52% of Active members received a statement = 13.48% did not<br>99.76% of Deferred members received a statement = 0.24% did not | Backlog has been reduced so in a better position regarding correct eligibility for statements.<br>Significant year end queries (2,399) have impacted statement production. Ers being chased for response.<br>Continue to work through errors & queries & issue ABS' when able to.<br>Viability of monthly returns being investigated | 22/11/2018 | 11/10/2018 | PB - noted the position, agreed not to report this time but will in 2019.<br>PFC - noted position, agreed not to report this time. | N | N/A | N/A | N/A |
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