Public Document Pack

City of Westminster

# Committee Agenda

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| Title: | **Pension Fund Committee** |
| Meeting Date: | **Thursday 29th October, 2020** |
| Time: | **5.00 pm** |
| Venue: | **This meeting will take place virtually** |
| Members: | **Councillors:**<br><br>Eoghain Murphy (Chairman) Angela Harvey<br>Barbara Arzymanow Patricia McAllister |

**Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda**

**If you require any further information, please contact the Committee Officer, Toby Howes, Senior Committee and Governance Officer.**

**Tel: 07815 663854; Email: thowes@westminster.gov.uk**
**Corporate Website:** www.westminster.gov.uk

**Note for Members:** Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Director of Law in advance of the meeting please.

## AGENDA

## PART 1 (IN PUBLIC)

| | | |
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| **1.** | **MEMBERSHIP**<br><br>To note any changes to the membership. | |
| **2.** | **DECLARATIONS OF INTEREST**<br><br>To receive declarations of interest by Members and Officers of any pecuniary interest or any other significant interest in matters on this agenda. | |
| **3.** | **MINUTES**<br><br>To follow. | |
| **4.** | **PENSION ADMINISTRATION UPDATE**<br><br>Report of the Director of People Services. | **(Pages 5 - 10)** |
| **5.** | **PENSION DATA QUALITY ISSUES**<br><br>Report of the Director of People Services. | **(Pages 11 - 16)** |
| **6.** | **FUND FINANCIAL MANAGEMENT**<br><br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 17 - 38)** |
| **7.** | **QUARTERLY PERFORMANCE REPORT**<br><br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 39 - 92)** |
| **8.** | **LOCAL GOVERNMENT PENSION SCHEME MCCLOUD CONSULTATION - AMENDMENTS TO THE STATUTORY UNDERPIN**<br><br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 93 - 168)** |

**9. SUPREME COURT DECISION ON LOCAL GOVERNMENT PENSION SCHEMES INVESTMENT GUIDANCE** **(Pages 169 - 172)**

Report of the Tri-Borough Director of Treasury and Pensions.

**10. SHAREACTION HEALTHY MARKETS COALITION** **(Pages 173 - 178)**

Report of the Tri-Borough Director of Treasury and Pensions.

**11. RENEWABLE INFRASTRUCTURE** **(Pages 179 - 180)**

Report of the Tri-Borough Director of Treasury and Pensions.

**12. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**

**13. EXCLUSION OF PRESS AND PUBLIC**

**RECOMMENDED:** That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

| Item Nos | Grounds | Para. of Part 1 of Schedule 12A of the Act |
|---|---|---|
| 11 (Appendix), 14, 15 and 16 | Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice | 3 |

**14. PENSION ADMINISTRATION PROVIDER**

Report of the Director of People Services.

**15. OVERPAYMENTS**

Report of the Director of People Services.

## 16. LONDON COLLECTIVE INVESTMENT VEHICLE CQS MULTI ASSET CREDIT FUND

Report of the Tri-Borough Director of Treasury and Pensions.

**Stuart Love**
**Chief Executive**
**21 October 2020**

City of Westminster

# Pension Fund Committee

| | |
|---|---|
| **Date:** | **29th October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Pension Administration Update** |
| **Report of:** | **Sarah Hay, Pensions Officer People Services** |
| **Wards Involved:** | **All** |
| **Policy Context:** | **Service Delivery** |
| **Financial Summary:** | **Limited** |

## 1. Introduction

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicators (KPIs) for the period June 2020 to September 2020. The detailed KPIs are shown in Appendix 1.

## 2. COVID - Update

2.1 Following on from the last committee report on the administration service I can confirm that the service to members is close to the pre Covid service. The main difference being the restricted pension helpdesk still taking calls between 10am and 12pm and 2pm and 4 pm daily. E-mails are being responded to by the helpdesk directly or tasks are being fed into the normal workflow.

2.2 Many of the staff working on our contract via the Lewes office had initially done so by accessing the server via their own laptops. At the last committee asked for assurance that a risk assessment had been carried out by Surrey in relation to staff using their own devices to access our pension fund data. Mike Leigh the Assistant Director of Business Operations confirmed that a risk assessment had been carried out on the citrix access and signed off be Leigh Whitehouse, Executive Director of Resources at Surrey.

2.3 The set up requires two factor authorisations on connection, which means that access is only provided once authorised user id and password are accepted.

The access is through citrix so all processing takes place in the Surrey data centres and as such nothing is stored or processed on the local device. I can confirm that everyone now has Surrey devices.

2.4 I confirmed also at the last committee meeting that the admin team had initially had to complete printing via a few staff accessing the main office a few times a week and that this was a delay in posting out cases. I can now confirm that dot mail has been set up and I have had confirmation being used by all members of the administration team so that letters can be automatically sent out whilst the individual works at home. The committee requested access to numbers which is not currently available just for Westminster as printing is sent to the supplier for all the funds that Surrey provides administration for.

**3. KPI Performance**

3.1 The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including board and committee members.

3.2 This paper covers the period of June 2020 to September 2020. I have included May data also in the appendix for comparison.

3.3 KPI performance in appendix 1 is summarised below:

3.4 The main areas of concern are the late notification of retirement forms, 1 late in July and 1 late in September, followed with 1 case being late for paying the lump sum and actioning on payroll also in September. This was also followed up with late payment where deferred benefits were claimed for 6 members with these people also missing out being added to the next available pension payroll run. The team leader has confirmed to me that the retirement cases were particularly impacted by 3 staff who complete this type of case work all taking annual leave in September. Surrey have confirmed to me that no complaints have been received in relation to the late payment of these pension lump sums or pensions during the period. Most cases were still processed within our ambitious KPI target. The fact that several staff have been allowed to take leave at the same time with the skill set needed to complete these urgent tasks does show a lack of foresight.

3.5 In addition to the retirements above the other late cases related to two late estimates processed by a few days.

3.6 A good point to note is the cases that are coming through onto the KPI data from the status 2 work that has been carried out by ITM for the deferred benefits and the frozen refunds.

## 4. Western Union Existence Checking

4.1 Further to the update on the Western Union (WU) exercise in the last committee report. A second existence exercise has been commenced this year. 257 people have been identified as in scope for an existence check. Due to the Covid pandemic the risks members could face and uncertainty on the access issues for people around the world will have to Western Union establishments we have offered those in scope a choice of 2 options.

Option 1) Complete a witnessed life certificate by 16.10.20
Option 2) Collect a £10 incentive payment from a WU office.

4.2 At the time of writing this report I can confirm that 106 people have returned the life certificate or have asked for an extension so that they can complete the certificate.

4.3 7 People have indicated that they want to take the £10 and have provided e-mail contacts to us additionally. 151 people will therefore go into the WU second phase of this year's project. The project timescales deliberately allow plenty of time for people to respond but for those who do not complete the process or contact the team separately we will look to suspend in March 2021.

4.4 In the last committee update I stated that 14 of the cases that were suspended in October 2019 were still suspended. One member has been in contact with the team in the last month with a new address to claim their pension. Now that the cases have been suspended for a year, we will be reviewing ongoing tracing options and then where appropriate processing these cases as a death case with a memo in January.

4.5 At the last committee meeting I was asked if we held any diversity data in relation to the members within the scope of the WU existence exercise. I confirmed that Ethnicity or other diversity data is not held on the pension software system as it is not necessary for the purposes of determining entitlement under the scheme. The committee held concerns that an existence exercise targeting overseas based pensioners could be targeting one group above another.

4.6 I have checked with Westminster's Data Protection Officer and she has confirmed that if we are going to collect data not necessary for the processing of pensions then we need to justify why we would collect it. If the primary objective of the exercise is to confirm a member's entitlement to continued benefit and that applies to everyone within the exercise, then the fact that you could potentially infer ethnicity based on a locale would not be relevant. I remind the committee that the existence exercise is just one way the fund checks mortality of members. For those based in the UK we carry out regular mortality screening and the people involved in the existence exercise live around the world in several European countries, Australia, New Zealand, Jamaica, America, Canada, India, Japan and others.

## 5. The Exit Cap, Compensation Changes and McCloud

5.1 The Ministry for Housing Communities and Local Government (MHCLG) has introduced new compensation regulations that will become effective from the 4th of November. The new legislation will introduce an exit cap for local authorities of £95K to include both compensation payments and payments into the pension fund where reductions are being waived. The Government Actuary Department (GAD) will be issuing standard factors for upload so that the costing for individuals is consistent across the scheme and not fund specific. The legislation also introduces new compensation limits including restricting pay to be used to no more than £80K for the purpose of calculating a compensation payment and limiting the number of weeks pay to 66 maxima.

5.2 It's important to note that the above changes only apply to authorities under MHCLG other fund employers would have the ability to exceed the 95K cap if they wished to do so. The issue does raise difficulties going forward on delivering different options to people depending on their employer. The new legislation will also prevent people who receive a payment into the pension of receiving a compensation payment above the statutory entitlement. Members will have choice going forward on taking pension or compensation. The LGPS regulations are now out for consultation to align the scheme regulations with the compensation regulations.

5.3 At the time of writing this report redundancy estimates are on hold pending further clarification. The software and documents will need to be updated to give members the options the legislation is introducing and WCC the employer will need to revise the current compensation policy to be compliant.

5.4 The committee should also note that the consultation on the proposed solution for the McCloud underpin closed on 8th of October. The COWPF submitted a response to the questions proposed and we await the results of the consultation for the timetable on legislation changes and the scope we will have going forward as a fund.

5.5 Please be aware that general actuarial assessments indicate that about a quarter of the funds membership could be entitled to a calculation to see if a McCloud underpin would give them a higher pension at retirement or not. For many people the McCloud solution will not actually increase their entitlement beyond the current benefit but the calculation will have to be completed to confirm that. The additional burden on funds resources should not be under estimated.

5.6 I am advising the committee that the pension fund will have to spend additional monies on work related to McCloud and I would recommend that we ask the actuary to carry out work related to an assessment of our data and the members that might be impacted so that we are in a position to prioritise cases and work

constructively with our administrator. The data work the fund has done in the last two years should not be lost by new data gaps being created by an ineffective response to McCloud. The actuary has suggested that initial work on our data can be commenced for £2K plus VAT.

## 6. Summary

6.1 The Pension service operated by Surrey is operating for members on a similar basis to the pre pandemic service. Most staff continue to work from home and there is a reduced helpline service. Our admin team all now have automatic printing set up but data on the number of letters sent out will need to come from Surrey via invoicing information from the third-party supplier which is not currently available. I will update the committee on this at the next meeting.

6.2 The KPI data is acceptable overall but the performance in September is disappointing particularly for the retirement cases. The KPI target the fund has is ambitious but ideally, staff holiday should be managed to ensure the workload is covered more consistently.

6.3 A new overseas existence exercise has been commenced with Western Union. This year's exercise is a flexible process with 2 options for members. The fund is not looking to suspend pensions where members engage with us. The 13 pensions that remain suspended from last years exercise we will look to close the pension record with a memo in case of later contact.

6.4 New compensation legislation has been introduced this will add complexity to the options members get when made redundant. The LGPS regulations are being amended to align with the compensation changes but estimates and processing these cases maybe problematic until the software is amended.

6.5 With the McCloud consultation closed the fund is expecting an update on the proposed solution shortly. It is clear that the impact on McCloud will be significant and that many members will require a calculation to determine if a revised underpin will give them a higher entitlement. I am asking the committee to authorise us to work with the actuary on an initial basis so that we can identify those members in scope and prioritise cases. More information on McCloud will follow in the next months.

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City of Westminster Pension Fund Committee

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| **Date:** | **29th th October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Pension Data Quality Issues** |
| **Report of:** | **Eleanor Dennis,<br>Interim Lead Pensions Specialist,<br>People Services** |
| **Wards Involved:** | **All** |
| **Policy Context:** | **Compliance** |
| **Financial Summary:** | **Limited** |

## 1.0 Introduction

1.1 The Pension Regulator has placed an increased emphasis on the importance of pension schemes ensuring they have good quality data. Managing data is high risk as there are so many elements to maintain and it is constantly changing. The consequences of poor data include impacting on members benefits, which can be expensive for the Fund if things go wrong. Good quality data is necessary to ensure that the scheme is managed properly but this cannot be done effectively if records are inaccurate, incomplete or not up to date.

1.2 Over the last 2 years several data issues have been identified by the pension specialist who has worked closely with the Pension Officer, her team, the Fund administrators and external third parties to analyse, identify and improve the quality of the City Of Westminster Pension Fund (COWPF) data. The key areas of concern for the COWPF data are Status 1 (, Status 2 and address gone aways records.

1.3 Status 1 data discrepancies that have come out of the annual data quality report and ITM analysis have now been resolved. There are two remaining data exercises that are still outstanding the status 2(undecided leaver) queries and the gone aways (COWPF records with no address).

1.4 The COWPF have engaged with ITM to analyse the Fund's data and process outstanding Status 2 records, who have completed half of cases.

1.5 Address tracing has been successful with Target who have a proven track record with many other LGPS Funds and as well as with the COWPF and the first exercise is now complete.

**Key areas data issues were identified**

**2.0 Status 2 – Undecided leavers**

2.1 To date ITM have processed 380 Status cases and 47 cases have fallen out of scope.

2.2 There remains over 300 cases that are with fund employers awaiting them to provide ITM with further data. Years of poor employer engagement have meant some fund employers have been very reluctant to respond despite efforts by teams at both ITM and WCC teams which has had an impact on ITMs ability to complete a higher number of Status 2 cases.

2.3 Both teams continue to engage regularly with employers to obtain the outstanding data and progress has been made. Now that these links have been strengthened and contact details updated, current engagement with Fund employers should lead to better success in future data projects such as McCloud.

2.4 The original estimate for completion of the cases was 4 months. This period has now lapsed due to the project being paused for a month because a

majority of Fund employers were slow or failed to respond to requests for information to enable ITM to process the case.

The deadline was then moved to the end of October 2020 and although ITM have been able to complete 380 cases to date, there is a further 586 cases outstanding. My view is that COWPF agree to allowing ITM until mid-December 2020 in which to complete the remainder of outstanding cases this will not incur any additional charges to the Fund and the costs remain within the estimated £60,772.

2.5 The work completed by ITM continues to be peer reviewed by Orbis BAU in overtime to ensure there is no impact on BAU's delivery. This is at an additional cost to the COWPF of an hourly charge of £25 – £39 per hour, to date 8 hours have been claimed. The quality of ITM's work remains high but Surrey will continue to peer review 10% of cases until COWPF is satisfied with the quality and thereafter this will fall to 5%.

2.6 The good work that ITM has completed to date will impact positively on this years quality report, which will impact on the Fund's ability to continue good governance and administration to it's members.

## 3 Data Tracing

3.1 To date there are over 2600 gone aways (this figure includes new cases since the original extract taken in 2019), in the COWPF before this exercise begin there were over 3000.

3.2 It was decided to prioritise these gone aways by different membership groups. First being the 753 deferred records for members aged over 55, (and 17 pensioners), these phases of the date tracing projects are now complete with Target able to find over 86% of deferred cases.

3.3 In addition, we have also sent Target 317 cases of frozen refunds these are records that Surrey have started to process but where a member has left the Fund some time ago and not received a refund, that they were due. To date Target have been able to find 177 addresses, for this population, 56% of cases.

3.4 Future projects will include continuing to trace an additional 279 records who are aged over 55 and to trace 437 records for members aged 50-55, as these populations are closer to being eligible to take these scheme benefits.

## 4 Data Quality

**4.1** The Pensions Regulator expects pension schemes to review the quality of their scheme data at least annually. The scheme data has to be measured by 2 metrics that of common data and scheme specific data . Schemes are expected to work with their pension administrator towards measuring these and make recommendations to work towards for improving the quality.

**4.2** Previous years have seen the data scores for the COWPF improve significantly because of colloborative data cleansing projects led by the Pensions Specialist such as Status 2 and data tracing. The full report has not yet been made available but the headlines make for another successful year for the COWPF data cleansing.

**4.3** Below shows the trend of improvement in the COWPF's data quality ;

| Year data measured | Common data score % | Change % | Scheme specific data score % | Change % |
|---|---|---|---|---|
| 2018 | 77 | n/a | 71 | n/a |
| 2019 | 86.9 | 9.9 | 83.4 | 12.4 |
| 2020 | 91.7 | 4.8 | 93.8 | 2.1 |

## 4.0 Summary

4.1 The collaborative approach of working across all stakeholders in the Fund's data should lead to continually improving data quality score, a better member experience and compliant robust member data for the City of Westminster pension Fund.

4.2 ITM have continued to maintain delivery in these uncertain times and delivered high quality, right first time processing of Status 2 for the Fund. I believe it is in the best interests of the Fund and its members that they are able to complete the outstanding Status 2 cases and work to a revised timescale of the end the year to complete the outstanding cases. This will ensure the Fund gains true value for money with quality processing and eliminate the legacy status 2 cases.

4.3 Target continue to provide good results on tracing member addresses for members of the COWPF, both in the UK and abroad provided they have good data to start with

4.4 It should be noted that data quality is not a one off exercise but should be reviewed regularly to maintain what has been achieved to date and improve further. The COWPF data quality projects have been very successful and if maintained will help the Fund in delivering its objectives to its members and beneficiaries.

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City of Westminster

# Committee Report

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|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Fund Financial Management** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

1.2 The cashflow forecast for the next three years has been updated with actuals to 30 September 2020. The bank position continues to be stable.

## 2. Recommendations

2.1 The Committee is asked to note the risk registers for the Pension Fund.

2.2 The Committee is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

## 3. Risk Register Monitoring

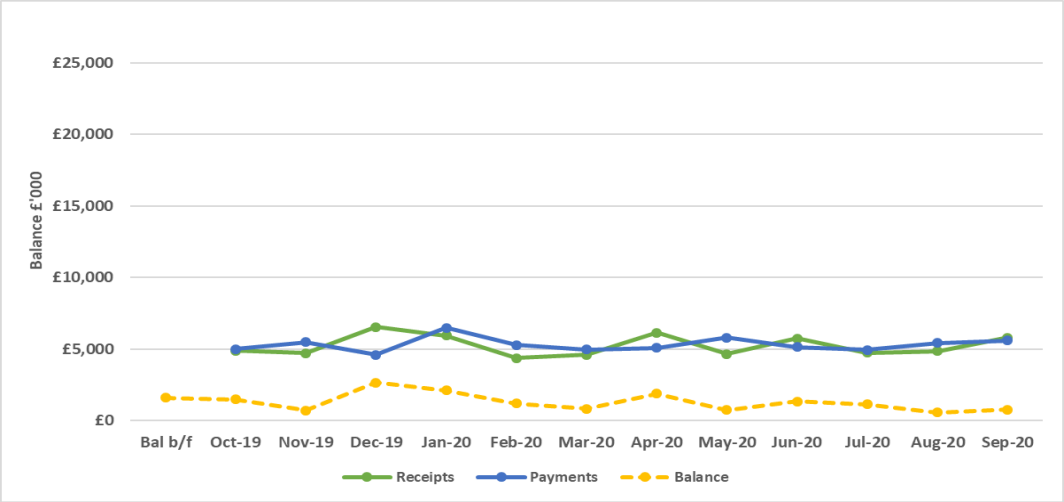
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted in the table below:

| Risk Group | Risk Rank | Risk Description | Movement |
|---|---|---|---|
| Administration | 1st/22 | Following discussions reference the Section 101 agreement between Surrey CC and Westminster Pension Fund, a final decision to change pension administration providers is pending. The Pension Fund is currently looking at options for the moving of the pension administration service to various alternative providers. | **NEW** |
| Governance | 1st/41 | The global outbreak of COVID-19 poses economic and investment uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | ⇔ |
| Governance | 2nd/41 | Significant volatility and negative sentiment in global investment markets arising from disruptive geo-political uncertainty. Increased risk to global economic stability. | ↑ |
| Governance | 3rd/41 | Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal and the economic after effects. | ↑ |
| Administration | 2nd/22 | COVID-19 affecting the day to day functions of the Pensions Administration service, including customer telephony service, payment of pensions, processing of retirements, death benefits, transfers and refunds. | ↓ |

## 4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 30 September 2020 was £752k. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, cash withdrawals from Fund Managers are expected to take place to maintain a positive cash balance.

4.2 The table below shows changes in the bank balance from 1 October 2019 to 30 September 2020.




4.3 Payments and receipts have remained stable over the last 12 months. Officers will continue to keep the cash balance under review and take appropriate action where necessary. The Pension Fund held £7.7m in cash with the global custodian as at 30 September 2020.

4.4 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2020 to 31 March 2021. Actuals have been used for the period to 30 September 2020 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual cashflows, which are then divided equally over the 12 months and then inflated by 2%.

**Current Account Cashflows Actuals and Forecast for period April 2020 - March 2021:**

| | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | *Oct-20* | *Nov-20* | *Dec-20* | *Jan-21* | *Feb-21* | *Mar-21* | *Forecasted Rolling Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | *£000* | *£000* | *£000* | |
| | Actual | Actual | Actual | Actual | Actual | Actual | *F'cast* | *F'cast* | Actual | *F'cast* | *F'cast* | *F'cast* | |
| **Balance b/f** | **807** | **1,875** | **740** | **1,325** | **1,143** | **565** | ***752*** | ***490*** | ***229*** | ***967*** | ***706*** | ***445*** | ***£000s*** |
| Contributions | 2,690 | 2,699 | 2,842 | 2,722 | 2,941 | 2,805 | *2,776* | *2,776* | *2,776* | *2,776* | *2,776* | *2,776* | *33,355* |
| Misc. Receipts[1] | 492 | 117 | 84 | 215 | 97 | 168 | *793* | *793* | *793* | *793* | *793* | *793* | *5,932* |
| Pensions | (3,445) | (3,466) | (3,491) | (3,478) | (3,545) | (3,520) | *(3,470)* | *(3,470)* | *(3,470)* | *(3,470)* | *(3,470)* | *(3,470)* | *(41,766)* |
| HMRC Tax Payments | (630) | (604) | (611) | (586) | (635) | (625) | *(585)* | *(585)* | *(585)* | *(585)* | *(585)* | *(585)* | *(7,202)* |
| Misc. Payments[2] | (984) | (1,534) | (1,008) | (817) | (1,117) | (1,190) | *(1,406)* | *(1,406)* | *(1,406)* | *(1,406)* | *(1,406)* | *(1,406)* | *(15,085)* |
| Expenses | (6) | (175) | (39) | (47) | (126) | (259) | *(178)* | *(178)* | *(178)* | *(178)* | *(178)* | *(178)* | *(1,720)* |
| **Net cash in/(out) in month** | **(1,884)** | **(2,963)** | **(2,223)** | **(1,991)** | **(2,386)** | **(2,621)** | ***(2,070)*** | ***(2,070)*** | ***(2,070)*** | ***(2,070)*** | ***(2,070)*** | ***(2,070)*** | ***(26,487)*** |
| Withdrawal/deposit with Fund Managers | 2,000 | 1,000 | 2,000 | 1,000 | 1,000 | 2,000 | *1,000* | *1,000* | *2,000* | *1,000* | *1,000* | *(12,000)* | *3,000* |
| Special Contributions* | 951 | 828 | 808 | 808 | 808 | 808 | *808* | *808* | *808* | *808* | *808* | *13,838* | *22,893* |
| **Balance c/f** | **1,875** | **740** | **1,325** | **1,143** | **565** | **752** | ***490*** | ***229*** | ***967*** | ***706*** | ***445*** | ***213*** | |

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

4.5 Actual cashflows against the forecast for the quarter ending 30 September 2020 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

**Cashflows Actuals Compared to Forecast for July to September 2020:**

| | Jul-20 | | | Aug-20 | | | Sep-20 | | |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | F'cast | Actual | Var | F'cast | Actual | Var | F'cast | Actual | Var |
| **Balance b/f** | **1,023** | **1,325** | **(302)** | **762** | **1,143** | **(381)** | **501** | **565** | **(64)** |
| Contributions | 2,776 | 2,722 | 54 | 2,776 | 2,941 | (164) | 2,776 | 2,805 | (29) |
| Misc. Receipts[1] | 793 | 215 | 578 | 793 | 97 | 697 | 793 | 168 | 625 |
| Pensions | (3,470) | (3,478) | 7 | (3,470) | (3,545) | 74 | (3,470) | (3,520) | 49 |
| HMRC Tax Payments | (585) | (586) | 1 | (585) | (635) | 50 | (585) | (625) | 40 |
| Misc. Payments[2] | (1,406) | (817) | (589) | (1,406) | (1,117) | (289) | (1,406) | (1,190) | (216) |
| Expenses | (178) | (47) | (131) | (178) | (126) | (52) | (178) | (259) | 81 |
| **Net cash in/(out) in month** | **(2,070)** | **(1,991)** | **(79)** | **(2,070)** | **(2,386)** | **316** | **(2,070)** | **(2,621)** | **552** |
| Withdrawal/deposit with Fund Managers | 1,000 | 1,000 | 0 | 1,000 | 1,000 | 0 | 1,000 | 2,000 | (1,000) |
| Special Contributions* | 808 | 808 | 0 | 808 | 808 | 0 | 808 | 808 | 0 |
| **Balance c/f** | **762** | **1,143** | **(381)** | **501** | **565** | **(64)** | **239** | **752** | **(513)** |

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

**Variances during the quarter to 30 September 2020:**

- Lower number of transfer values in over the quarter than forecasted. Conversely, also a lower number of transfer values out over the quarter compared with the forecast.
- Due to the unanticipated lower volume of miscellaneous receipts, an extra £1m was withdrawn from fund managers in September 2020.

4.6 The three-year cashflow forecast for 2020/21 to 2022/23 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

**Three Year Cashflow Forecast for 2020/21 - 2022/23:**

| | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|
| | £000 | £000 | £000 |
| | F'cast | F'cast | F'cast |
| **Balance b/f** | **807** | **701** | **1,398** |
| Contributions | 33,314 | 33,980 | 34,660 |
| Misc. Receipts[1] | 9,519 | 9,709 | 9,903 |
| Pensions | (41,644) | (42,477) | (43,326) |
| HMRC Tax | (7,020) | (7,160) | (7,303) |
| Misc. Payments[2] | (16,870) | (17,208) | (17,552) |
| Expenses | (2,135) | (2,178) | (2,222) |
| **Net cash in/(out) in year** | **(24,837)** | **(25,333)** | **(25,840)** |
| Withdrawal/(deposit) with Fund Managers | 2,000 | (54,000) | 25,000 |
| Special Contributions* | 22,730 | 80,031 | 32 |
| **Balance c/f** | **701** | **1,398** | **590** |

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
*Deficit recovery contributions

4.7 The deficit recovery receipt expected during 2020/21 totals £22.7m. A final deficit recovery payment of £80m is expected to be received during 2021/22. It is anticipated the Fund will liquidate fund assets during 2022/23 to finance the shortfall in cashflow.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at September 2020

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| Appendix 1 - Tri Borough Pension Fund Risk Management Scoring Matrix | | |
|---|---|---|
| Scoring ( Impact ) | | |
| Impact Description | Category | Description |
| 1 Very Low | Cost/Budgetary Impact | £0 to £25,000 |
| | Impact on life | Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external) |
| | Environment | Minor short term damage to local area of work. |
| | Reputation | Decrease in perception of service internally only – no local media attention |
| | Service Delivery | Failure to meet individual operational target – Integrity of data is corrupt no significant effect |
| 2 Low | Cost/Budgetary Impact | £25,001 to £100,000 |
| | Impact on life | Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external) |
| | Environment | Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community |
| | Reputation | Localised decrease in perception within service area – limited local media attention, short term recovery |
| | Service Delivery | Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator |
| 3 Medium | Cost/Budgetary Impact | £100,001 to £400,000 |
| | Impact on life | Permanent disability or injury or illness |
| | Environment | Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community |
| | Reputation | Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery |
| | Service Delivery | Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator |
| 4 High | Cost/Budgetary Impact | £400,001 to £800,000 |
| | Impact on life | Individual Fatality |
| | Environment | Borough wide damage with medium or long term effect to local ecology or community |
| | Reputation | Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery |
| | Service Delivery | Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators |
| 5 Very High | Cost/Budgetary Impact | £800,001 and over |
| | Impact on life | Mass Fatalities |
| | Environment | Major harm with long term effect to regional ecology or community |
| | Reputation | Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery |
| | Service Delivery | Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators |

| Scoring ( Likelihood ) | |
|---|---|
| Descriptor | Likelihood Guide |
| 1. Improbable, extremely unlikely. | Virtually impossible to occur 0 to 5% chance of occurrence. |
| 2. Remote possibility | Very unlikely to occur 6 to 20% chance of occurrence |
| 3. Occasional | Likely to occur 21 to 50% chance of occurrence |
| 4. Probable | More likely to occur than not 51% to 80% chance of occurrence |
| 5. Likely | Almost certain to occur 81% to 100% chance of occurrence |

| Control | | Details required |
|---|---|---|
| Terminate | Stop what is being done. | A clear description of the specific actions to be taken to control the risk or opportunity |
| Treat | Reduce the likelihood of the risk occurring. | |
| Take | Circumstances that offer positive opportunities | |
| Transfer | Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service. | The name of the service that the risk is being transferred to and the reasons for the transfer. |
| Tolerate | Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control. | A clear description of the specific reasons for tolerating the risk. |

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| Pension Fund Risk Register - Administration Risk | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Group | Risk Ref. | Movement | Risk Description | Impact | | | | Likelihood | Total risk score | Mitigation actions | Revised Likelihood | Net risk score | Reviewed |
| | | | | Fund | Employers | Reputation | Total | | | | | | |
| Admin | 1 | NEW | Following discussions on the 101 agreement between Surrey CC and Westminster Pension Fund, a decision has been taken to change pension administration providers. The Pension Fund is currently looking at moving the pension administration service to alternative providers, with negotiations with interested parties at a very early stage. | 3 | 3 | 3 | 9 | 5 | **45** | TREAT 1) No decision/proposal has been made yet on a definite route as the Pension Fund is still trying to get the necessary data to make a fully informed decision and comply with an optimum procurement route. 2) Officers maintain regular contact with Surrey CC administration team during this time. | 4 | **36** | 15/09/2020 |
| Admin | 2 | ↓ | COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. | 2 | 4 | 3 | 9 | 3 | **27** | TOLERATE 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team. | 3 | **27** | 15/09/2020 |
| Admin | 3 | ↔ | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures. | 1 | 4 | 3 | 8 | 4 | **32** | TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs. | 3 | **24** | 15/09/2020 |
| Admin | 4 | ↔ | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement. | 5 | 3 | 1 | 9 | 3 | **27** | TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | 2 | **18** | 15/09/2020 |
| Admin | 5 | ↔ | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 2 | 3 | 7 | 3 | **21** | TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. | 2 | **14** | 15/09/2020 |
| Admin | 6 | ↔ | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | 4 | 4 | 3 | 11 | 2 | **22** | TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. | 1 | **11** | 15/09/2020 |
| Admin | 7 | ↔ | Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss. | 3 | 2 | 5 | 10 | 2 | **20** | TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year. | 1 | **10** | 15/09/2020 |
| Admin | 8 | ↑ | Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place. | 5 | 2 | 2 | 9 | 2 | **18** | TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers. | 1 | **9** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | 9 | | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation. | 3 | 3 | 2 | 8 | 2 | **16** | TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR. | 1 | **8** | 15/09/2020 |
| Admin | 10 | | Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. | 1 | 3 | 4 | 8 | 2 | **16** | TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions. | 1 | **8** | 15/09/2020 |
| Admin | 11 | | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation. | 1 | 2 | 5 | 8 | 2 | **16** | TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance. | 1 | **8** | 15/09/2020 |
| Admin | 12 | | Poor reconciliation process leads to incorrect contributions. | 2 | 1 | 1 | 4 | 3 | **12** | TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team. | 2 | **8** | 15/09/2020 |
| Admin | 13 | | Failure of pension payroll system resulting in pensioners not being paid in a timely manner. | 1 | 2 | 4 | 7 | 2 | **14** | TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. | 1 | **7** | 15/09/2020 |
| Admin | 14 | | Failure to detect material errors in the bank reconciliation process. | 2 | 2 | 2 | 6 | 3 | **18** | TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team. | 1 | **6** | 15/09/2020 |
| Admin | 15 | | Failure to pay pension benefits accurately leading to under or over payments. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. | 1 | **6** | 15/09/2020 |
| Admin | 16 | | Unstructured training leads to under developed workforce resulting in inefficiency. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members. | 1 | **6** | 15/09/2020 |
| Admin | 17 | | Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment. | 1 | 1 | 1 | 3 | 3 | **9** | TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily. | 2 | **6** | 15/09/2020 |
| Admin | 18 | | Lack of guidance and process notes leads to inefficiency and errors. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams. | 1 | **5** | 15/09/2020 |
| Admin | 19 | | Lack of productivity leads to impaired performance. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT<br>1) Regular appraisals with focused objectives for pension fund and admin staff. | 1 | **5** | 15/09/2020 |
| Admin | 20 | | Rise in ill health retirements impact employer organisations. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Engage with actuary re assumptions in contribution rates. | 1 | **5** | 15/09/2020 |
| Admin | 21 | | Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations. | 1 | **5** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | 22 | | Failure to identify GMP liability leads to ongoing costs for the pension fund. | 1 | 2 | 1 | 4 | 1 | **4** | TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund. | 1 | **4** | 15/09/2020 |

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| Pension Fund Risk Register - Investment Risk | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk Group | Risk Ref. | Movement | Risk Description | Impact | | | | Likelihood | Total risk score | Mitigation actions | Revised Likelihood | Net risk | Reviewed |
| | | | | Fund | Employers | Reputation | Total | | | | | | |
| Investment | 1 | | The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | 5 | 4 | 2 | 11 | 4 | **44** | TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor. | 3 | **33** | 15/09/2020 |
| Investment | 2 | | Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. | 5 | 4 | 1 | 10 | 4 | **40** | TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review took place during June 2020 and a new strategic asset allocation was agreed. | 3 | **30** | 15/09/2020 |
| Investment | 3 | | Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020. | 4 | 4 | 1 | 9 | 3 | **27** | TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply. | 3 | **27** | 15/09/2020 |
| Investment | 4 | | Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.5m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks. | 5 | 3 | 3 | 11 | 3 | **33** | TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures. | 2 | **22** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Governance | 5 | | That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious. | 4 | 4 | 3 | 11 | 2 | **22** | TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 2) Member presence on Shareholder Committee and officer groups. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director.<br>4)Fund representation on key officer groups. | 2 | **22** | 15/09/2020 |
| Funding | 6 | | Scheme members live longer than expected leading to higher than expected liabilities. | 5 | 5 | 1 | 11 | 2 | **22** | TOLERATE: The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down. | 2 | **22** | 15/09/2020 |
| Funding | 7 | | Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability | 5 | 3 | 2 | 10 | 3 | **30** | TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. | 2 | **20** | 15/09/2020 |
| Funding | 8 | | Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms. | 4 | 4 | 2 | 10 | 2 | **20** | 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes. | 2 | **20** | 15/09/2020 |
| Funding | 9 | | Employee pay increases are significantly more than anticipated for employers within the Fund. | 4 | 4 | 2 | 10 | 2 | **20** | TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 4) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). | 2 | **20** | 15/09/2020 |
| Funding | 10 | | Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution | 5 | 3 | 2 | 10 | 2 | **20** | TOLERATE - 1) Political power required to effect the change. | 2 | **20** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational | 11 | | Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown. | 3 | 2 | 4 | 9 | 3 | **27** | 1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 5% towards renewables and 20% to an active ESG equity mandate, as well as moving the LGIM passive mandate into the LGIM future world fund. 5) An ESG and RI Policy has been drafted for the Pension Fund. | 2 | **18** | 15/09/2020 |
| Governance | 12 | | Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales. | 3 | 2 | 1 | 6 | 3 | **18** | 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance. | 3 | **18** | 15/09/2020 |
| Governance | 13 | | London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers. | 3 | 3 | 2 | 8 | 3 | **24** | 1) Pension Fund Committee Chair is a member of the shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV. | 2 | **16** | 15/09/2020 |
| Funding | 14 | | Impact of economic and political decisions on the Pension Fund's employer workforce. | 5 | 2 | 1 | 8 | 2 | **16** | 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation. | 2 | **16** | 15/09/2020 |
| Funding | 15 | | Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers. | 4 | 2 | 1 | 7 | 2 | **14** | TOLERATE: Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. | 2 | **14** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | 16 | | Impact of increases to employer contributions following the actuarial valuation | 5 | 5 | 3 | 13 | 2 | **26** | TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes. | 1 | **13** | 15/09/2020 |
| Funding | 17 | | There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments. | 5 | 4 | 3 | 12 | 2 | **24** | TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review. | 1 | **12** | 15/09/2020 |
| Governance | 18 | | Failure to take difficult decisions inhibits effective Fund management | 5 | 3 | 4 | 12 | 2 | **24** | TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought. | 1 | **12** | 15/09/2020 |
| Governance | 19 | | Changes to LGPS Regulations | 3 | 2 | 1 | 6 | 3 | **18** | TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored. | 2 | **12** | 15/09/2020 |
| Funding | 20 | | Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy. | 5 | 3 | 3 | 11 | 2 | **22** | TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific. | 1 | **11** | 15/09/2020 |
| Financial | 21 | | Financial loss of cash investments from fraudulent activity. | 3 | 3 | 5 | 11 | 2 | **22** | TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls). | 1 | **11** | 15/09/2020 |
| Operational | 22 | | Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation. | 3 | 3 | 5 | 11 | 2 | **22** | TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR. | 1 | **11** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Governance | 23 | | Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage. | 5 | 2 | 4 | 11 | 2 | **22** | TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters. | 1 | **11** | 15/09/2020 |
| Funding | 24 | | Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. | 5 | 3 | 3 | 11 | 2 | **22** | TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. | 1 | **11** | 15/09/2020 |
| Regulation | 25 | | A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets. | 5 | 5 | 1 | 11 | 2 | **22** | TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. | 1 | **11** | 15/09/2020 |
| Governance | 26 | | Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding | 2 | 2 | 1 | 5 | 4 | **20** | TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer. | 2 | **10** | 15/09/2020 |
| Governance | 27 | | Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation. | 5 | 3 | 2 | 10 | 2 | **20** | TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided. | 1 | **10** | 15/09/2020 |
| Operational | 28 | | Financial failure of third party supplier results in service impairment and financial loss | 5 | 4 | 1 | 10 | 2 | **20** | TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers. | 1 | **10** | 15/09/2020 |
| Investment | 29 | | Failure of global custodian or counterparty. | 5 | 3 | 2 | 10 | 2 | **20** | TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review. | 1 | **10** | 15/09/2020 |
| Operational | 30 | | Financial failure of a fund manager leads to value reduction, increased costs and impairment. | 4 | 3 | 3 | 10 | 2 | **20** | TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV). | 1 | **10** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investment | 31 | | Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers. | 5 | 3 | 2 | 10 | 2 | **20** | TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data. | 1 | **10** | 15/09/2020 |
| Governance | 32 | | Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves. | 4 | 3 | 3 | 10 | 2 | **20** | TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences. | 1 | **10** | 15/09/2020 |
| Governance | 33 | | Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests. | 3 | 3 | 4 | 10 | 2 | **20** | TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews. | 1 | **10** | 15/09/2020 |
| Operational | 34 | | Inaccurate information in public domain leads to damage to reputation and loss of confidence. | 1 | 1 | 3 | 5 | 3 | **15** | Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year. | 2 | **10** | 15/09/2020 |
| Funding | 35 | | Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing. | 5 | 3 | 1 | 9 | 2 | **18** | TREAT: 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly. | 1 | **9** | 15/09/2020 |
| Governance | 36 | | Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions. | 4 | 3 | 2 | 9 | 2 | **18** | TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval). | 1 | **9** | 15/09/2020 |
| Governance | 37 | | Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator | 1 | 3 | 5 | 9 | 2 | **18** | TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board. | 1 | **9** | 15/09/2020 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Regulation | 38 | | Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up). | 3 | 2 | 2 | 7 | 2 | **14** | TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD. | 1 | **7** | 15/09/2020 |
| Operational | 39 | | Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process. | 2 | 2 | 3 | 7 | 2 | **14** | TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. | 1 | **7** | 15/09/2020 |
| Funding | 40 | | The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. | 4 | 2 | 1 | 7 | 2 | **14** | TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. | 1 | **7** | 15/09/2020 |

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City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Performance of the Council's Pension Fund** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 30 June 2020, together with an update of the funding position.

1.2 The Fund outperformed the benchmark net of fees by 2.7% over the quarter to 30 June 2020 and the estimated funding level was 97.7% as at 30 June 2020.

## 2. Recommendation

2.1 The Pension Fund Committee is asked to note the performance of the investments and the funding position.

## 3. Background

3.1 This report presents a summary of the Pension Fund's performance to 30 June 2020 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.2 The investment performance report shows that over the quarter to 30 June 2020, following the downturn in markets caused by the COVID-19 outbreak, the market value of the assets increased by £211m to £1,516m. The Fund outperformed the benchmark net of fees by 2.7% over the quarter, largely due to outperformance within the Baillie Gifford, CQS and Insight mandates. Longview, Hermes, Aberdeen Standard and Pantheon underperformed their benchmarks by -5.7%, -0.2%, -2.6% and -2.6% net of fees respectively.

3.3 Over the 12-month period to 30 June 2020, the Fund outperformed its benchmark net of fees by 1.0%, largely as a result of excellent performance within the Baillie Gifford global equity fund. Over the longer three-year period to 30 June 2020, the Fund outperformed the benchmark net of fees by 0.4%, with Baillie Gifford being the major contributor. Longview and Aberdeen Standard underperformed their benchmarks net of fees by -3.6% and -1.1% respectively during this period.

3.4 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte removed Longview's Global Equity strategy from their rated manager list following the departure of the co-founder and CIO Ramzi Rishani. Additionally, in early October 2020, it was announced that Alistair Graham will be stepping down from the role of CIO of Longview Partners on 31st December 2020 and leaving the firm in June 2021. Alex Philipps will become CIO and Paul Crinion will be appointed as Head of Research with effect from 1st January 2021. Longview also announced the retirements of Ken Campbell, Head Trader, and Dan Langan, Chief Finance Officer (CFO) and Head of Compliance. Emma Davies and Sheila Tickner will transition into these roles, both have worked for Longview for ten years and eight years respectively.

3.5 During the last quarter, the London CIV (LCIV) appointed Jason Fletcher as permanent Chief Investment Officer (CIO), a role which he commenced in July 2020. Jacqueline Jackson also joined as Head of Responsible Investment, commencing her role in June 2020. Going forward, the LCIV is expected to appoint a new Head of Operations, Head of Private Markets and a third client relations manager.

3.6 In July 2020, the LCIV announced its intention to add an additional manager(s) to the Multi Asset Credit mandate, alongside CQS. However, the investment advisor, Deloitte, continues to rate CQS positively. The LCIV's move is the subject of a separate report within the agenda.

3.7 Following commencement of business contingency plans subsequent to the COVID-19 outbreak, LGIM have reported a number of reporting and operational concerns due to the impact of remote working and a spike in annual leave over the summer. Deloitte continues to monitor this and engage with the manager.

3.8 In May 2020, Baillie Gifford announced the retirement of Senior Partner and Portfolio Manager, Charles Plowden. Malcolm MacColl will succeed as Senior Partner from 1 May 2021, and Malcolm will work closely with the Chief Executive Officer (CEO) and the other Senior Partner. In addition, Helen Xiong will transfer from the Baillie Gifford US equity team to the Growth Alpha Fund as Portfolio Manager.

3.9 During the quarter, Insight saw one of its holdings, Marstons, downgraded from high grade to high yield. There were, however, no defaults within the Insight Buy and Maintain mandate during this period.

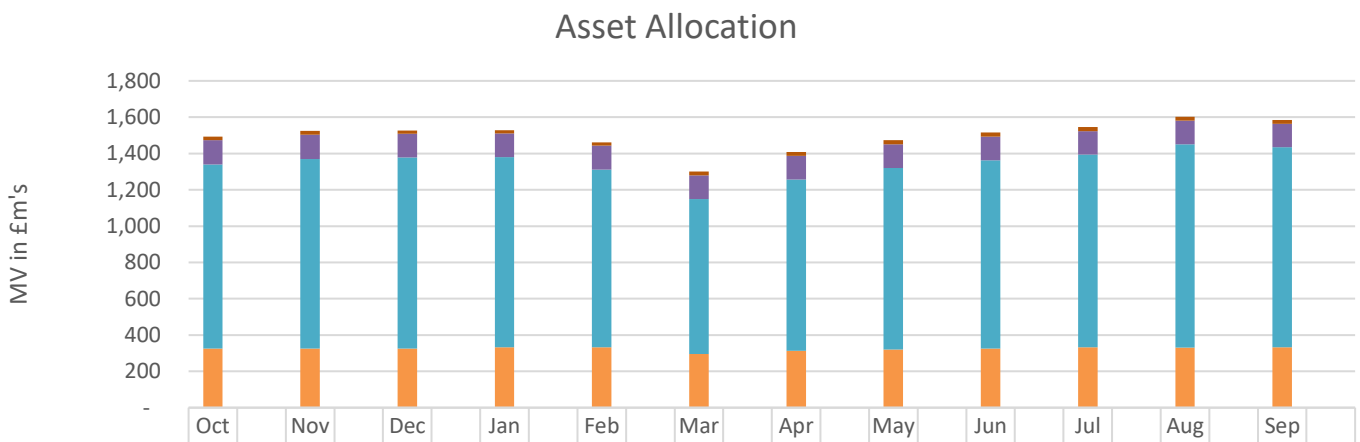
3.10 From September 2020, the Hermes valuations will no longer be subject to material valuation uncertainty caused by the COVID-19 outbreak. During June 2020, Dermot Kiernan was announced as Fund Director, with over 30 years' experience working within the real estate industry. Additionally, Lib Dear joined from Cushman & Wakefield as the new investment manager in July 2020.

3.11 During the quarter, Aberdeen Standard also made the decision to remove the material valuation uncertainty clause and lifted the suspension on trading. Following the announcement of a fund restructure in April 2020, Les Ross, Deputy Portfolio Manager, formally became the new Portfolio Manager from 1 August 2020. In June 2020, Aberdeen Standard announced the appointment of Stephen Bird, as the new CEO Designate and Director of Standard Aberdeen Life from 1 July 2020.

3.12 The estimated funding level (Appendix 2) for the Westminster Pension Fund has increased slightly by 0.5% to 97.7% as at 30 June 2020 (97.2% at 31 March 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 87.0% as at 30 June 2020 (86.0% at 31 March 2020), resulting from positive performance within the Fund over the quarter. The Council plans to pay off its deficit by 2022, including payments of £22.7m in 2020/21 and £80.0m in 2021/22.

## 4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 October 2019 to 30 September 2020. Asset allocations may vary due to changes in market value.




| | Oct | | Nov | | Dec | | Jan | | Feb | | Mar | | Apr | | May | | Jun | | Jul | | Aug | | Sep | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Infrastructure | 20 | 1% | 20 | 1% | 18 | 1% | 18 | 1% | 18 | 1% | 21 | 2% | 20 | 1% | 23 | 2% | 23 | 2% | 22 | 1% | 21 | 1% | 21 | 1% |
| Property | 134 | 9% | 134 | 9% | 130 | 8% | 131 | 8% | 132 | 9% | 130 | 10% | 130 | 9% | 130 | 9% | 130 | 8% | 130 | 8% | 130 | 8% | 130 | 8% |
| Equities | 1,0 | 68% | 1,0 | 68% | 1,0 | 68% | 1,0 | 68% | 979 | 66% | 855 | 65% | 944 | 66% | 1,0 | 67% | 1,0 | 68% | 1,0 | 68% | 1,1 | 69% | 1,1 | 69% |
| Fixed Income | 325 | 22% | 325 | 21% | 326 | 21% | 334 | 22% | 332 | 22% | 295 | 22% | 314 | 22% | 320 | 21% | 326 | 21% | 332 | 21% | 331 | 21% | 333 | 21% |

Fixed Income Equities Property Infrastructure

*Fixed Income includes bonds and Multi Asset Credit

4.2 As per the investment strategy review in 2020, the current Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure, 5% within property and 5% in renewables infrastructure.

4.3 At the 23 October 2019 meeting, the Committee committed to transfer its existing UK equity allocation with Majedie to Legal and General's global passive equity portfolio on a temporary basis, pending an asset allocation review. The legacy assets were transferred into the transition account on 20 November 2019 and trading into the LGIM global passive mandate was completed on 13 December 2019.

4.4 Following the global COVID-19 outbreak during the first quarter of 2020, global equity markets were significantly impacted and saw the greatest fall in equity markets since the financial crisis of 2008. Despite the market volatility during this time, equity markets have recovered in the subsequent period.

4.5 Capital calls for the Pantheon Global Infrastructure Fund took place during May and September 2020, totalling £4.7m.

4.6 The value of pension fund investments managed by the LCIV as at 30 September 2020 was £472m. This represents 30% of Westminster's investment assets. A further £658m continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062**

**Background Papers:** None

**Appendices:**

Appendix 1: Deloitte Investment Report, Quarter Ending 30 June 2020
Appendix 2: Barnett Waddingham Funding Level Update at 30 June 2020

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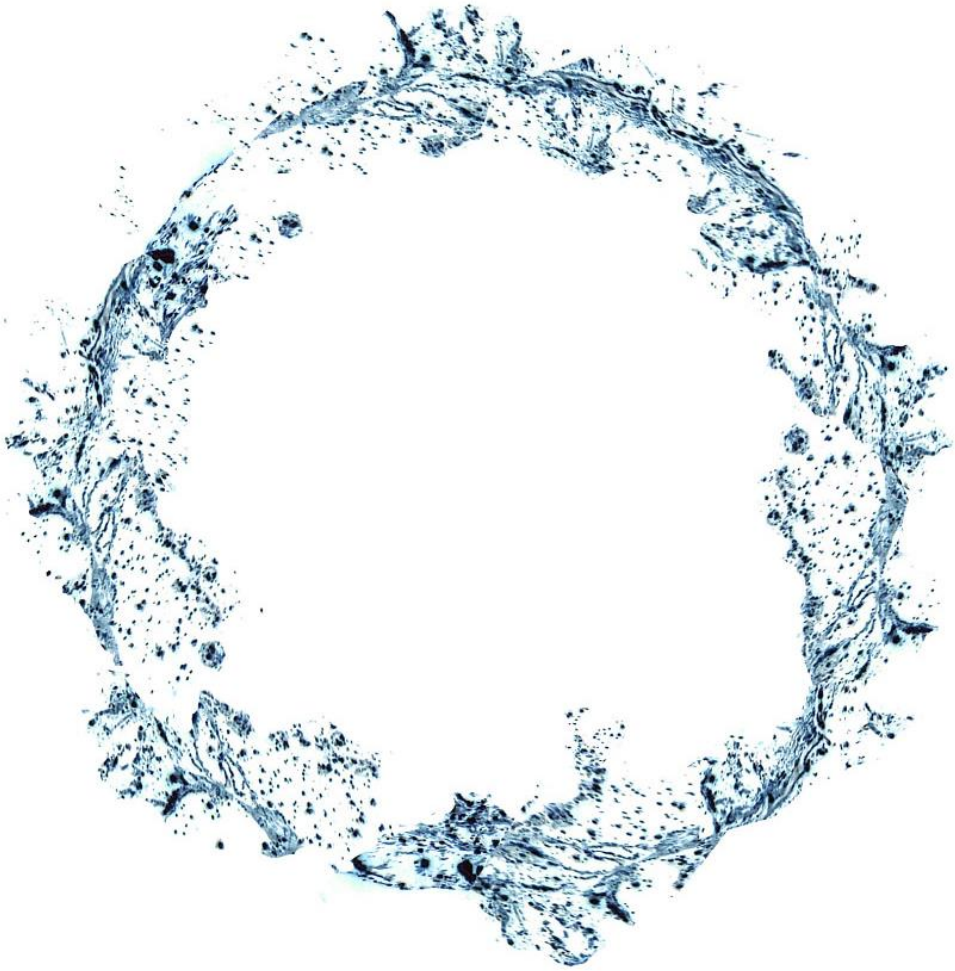
Deloitte.



# City of Westminster Pension Fund

## Investment Performance Report to 30 June 2020

Deloitte Total Reward and Benefits Limited
October 2020

# Contents

# 1 Market Background

## Global Equities

At the start of the second quarter, the 'epicentre' of the COVID-19 outbreak was still in Europe, but latterly moved west to both North and South America with countries such as USA and Brazil experiencing large spikes in reported cases. By the end of June, most countries in Europe had brought the outbreak under some form of control, albeit local outbreaks were still emerging.

Economic data for April showed the damage caused by lockdown restrictions with unprecedented contractions in economic activity around the world. However, by the end of the second quarter some early economic indicators - such as US jobs and retail data - suggested that the economic recovery was underway. That said, the global economy has a long way to go to get back to pre COVID-19 levels of economic activity and recover significant falls in GDP.

After the sharp downturn in global equity markets during March, global equity markets rebounded strongly in the second quarter of 2020, returning 18.4% in local currency terms (or 19.7% in sterling terms). Investors were undoubtedly reassured by unprecedented levels of fiscal and monetary stimulus which had a stabilising effect on capital markets around the world. Equity markets were also buoyed by the gradual easing of lockdown restrictions and hopes of a speedy V-shaped economic recovery.

There was a large dispersion in returns at a sector level with different industries impacted by the COVID-19 outbreak to differing degrees. Basic Materials was the best performing sector in the second quarter returning 26.6%, whilst Industrials (19.3%) and Technology (16.8%) also made large gains. Oil & Gas (-9.4%) was the one sector to deliver a negative return over the second quarter with investors recognising that it would take some time for global oil demand to recover to pre COVID-19 levels.

UK equities also rebounded over the quarter (the FTSE All Share index returned 10.2%) but lagged overseas markets. The UK market's high concentration to underperforming sectors such as Oil & Gas and Financials and continued uncertainty over the UK's future trading relationship with the EU are likely contributors to underperformance. The FTSE 250 Index (13.9%) outperformed the FTSE 100 Index (9.1%) due to its greater diversification and smaller exposure to the Oil & Gas and Financials sectors.

## Government bonds

Nominal gilt yields continued to trend lower over the quarter decreasing 15-20 bps across the curve. In fact, for the first time in history yields fell into negative territory at shorter maturities. Demand for gilts remains elevated in such uncertain economic times. The Bank of England has committed to buy sufficient quantities of gilts, through its recently expanded quantitative easing programme, to offset the necessary increase in gilt issuance required to fund the government's enlarged spending plans. The All Stocks Gilt Index subsequently delivered a positive return of 2.5% over the 3 months to 30 June 2020.

Real yields on index-linked gilts also trended lower, decreasing by 20-30 bps at the short-end and by 40-50 bps for longer maturities with a corresponding rise in long term inflation expectations, perhaps as a result of record levels of monetary stimulus. The All Stocks Over 5 Year Index-Linked Gilts Index returned 11.5% over the quarter.

## Corporate bonds

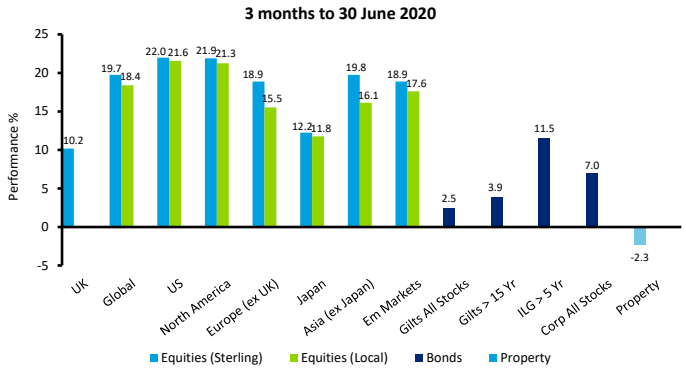
Credit spreads narrowed 65 basis points in the second quarter as risk appetite returned, underpinned by central bank support, which includes promises to purchase both investment grade and high yield corporate debt. Corporate bonds therefore outperformed equivalent gilts over the quarter with the iBoxx All Stocks Non-Gilt Index returning 7.0%.

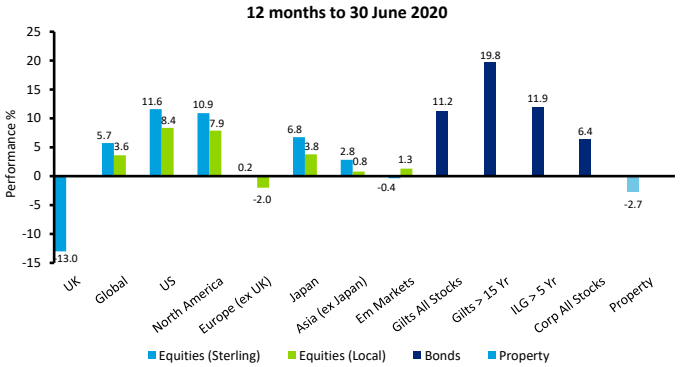
Although credit spreads have narrowed, they remain above historic average levels. However, the risk of default remains elevated and shouldn't be underestimated given the severity of COVID-19's economic impact. Although the first peak of the COVID-19 virus appears to have passed its worst point, the exact shape and speed of the economic recovery remains as uncertain as the future spread of the virus.

## Property

The UK property market trended lower over the second quarter with the MSCI UK All Property Index delivering a negative return of -2.3%. Whilst there was increased activity over the second quarter transactions remains suppressed versus pre-pandemic levels. Consequently, gating restrictions remain in place across many property funds. Furthermore, negative performance over the second quarter is unlikely to represent the full extent of property market depreciation. Further valuation falls seem likely in the months ahead.

The reduction in business activity during lockdown has severely disrupted corporate cashflows over the second quarter and tenants across all sectors requested rental deferments, most notably in the holiday and leisure industries. The COVID-19 lockdown has also accelerated longer term structural trends including the decline in high street shopping in favour of online shopping, whilst increased levels of remote working may affect future demand for central offices.



# 2 Total Fund

## 2.1 Investment Performance to 30 June 2020

The following table provides a summary of the performance of the Fund's managers.

| Manager | Asset Class | Last Quarter (%) | | Last Year (%) | | Last 3 Years (% p.a.) | | Since inception (% p.a.) | |
|---|---|---|---|---|---|---|---|---|---|
| | | Fund Net of fees | B'mark | Fund Net of fees | B'mark | Fund Net of fees | B'mark | Fund Net of fees | B'mark |
| LGIM | Global Equity | 18.5 | 18.5 | 2.0 | 2.1 | 5.7 | 5.7 | 9.9 | 9.9 |
| LCIV | Global Equity | 27.9 | 19.6 | 17.2 | 5.2 | 14.0 | 7.9 | 15.5 | 11.3 |
| Longview | Global Equity | 14.1 | 19.8 | -5.0 | 5.9 | 4.9 | 8.5 | 10.3 | 11.2 |
| Insight[1] | Buy and Maintain | 8.2 | 5.1 | 6.0 | 4.2 | n/a | n/a | 6.3 | 5.3 |
| LCIV | Multi Asset Credit | 12.7 | 1.3 | -4.6 | 5.0 | n/a | n/a | -1.3 | 5.1 |
| Hermes | Property | -2.3 | -2.1 | -1.5 | -2.3 | 4.8 | 4.0 | 8.3 | 7.0 |
| Aberdeen Standard | Property | 0.3 | 2.9 | 4.7 | 13.2 | 6.9 | 8.0 | 8.1 | 7.5 |
| Pantheon | Global Infrastructure | -0.4 | 2.2 | 6.9 | 9.1 | n/a | n/a | 9.3 | 10.5 |
| **Total** | | **15.8** | **13.0** | **4.2** | **3.2** | **5.7** | **5.3** | **n/a** | **n/a** |

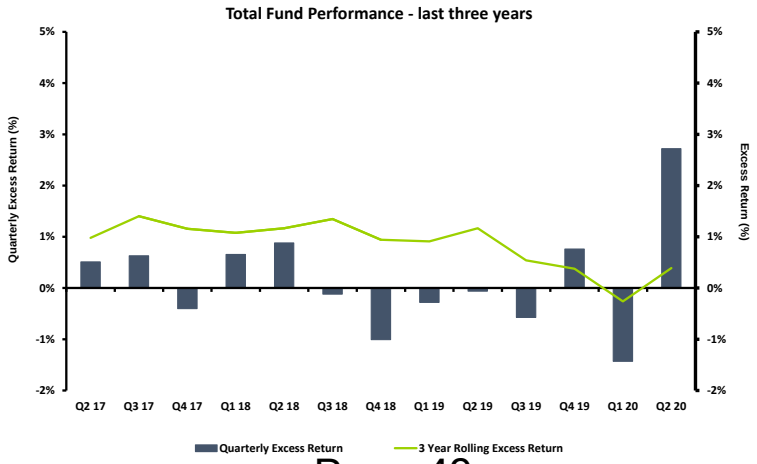
*Source: Northern Trust. Figures may not tie due to rounding.*
*[1]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 30 June 2020, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund*

Over previous quarters, we have estimated net of fees returns based on gross of fees performance figures provided by the Fund's custodian, Northern Trust. We received communication following quarter end that the returns provided by Northern Trust are now calculated on a net of fees basis.

We have updated our historical data to reflect this. All performance figures quoted in this report are consistent with the net of fees figures provided by Northern Trust.

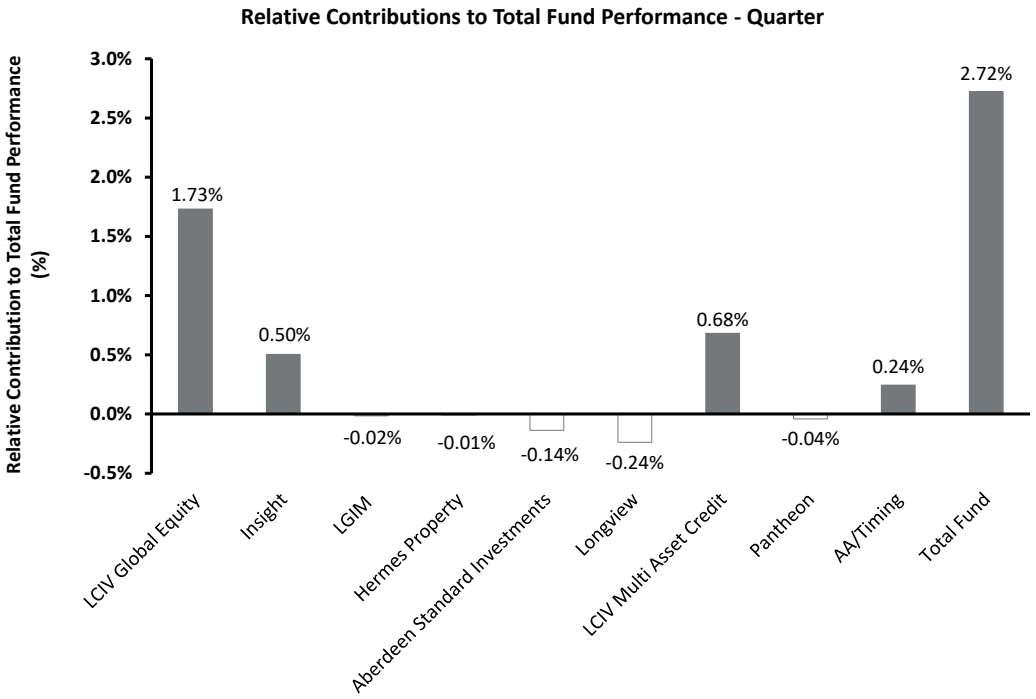
Over the quarter to 30 June 2020, the Fund delivered a positive return of 15.8% on a net of fees basis, recovering the losses over the first quarter of 2020 following the COVID-19 outbreak. The Fund outperformed the fixed weight benchmark by 2.7% over the three month period (this does not tie to the above table as a result of rounding), largely due to outperformance by the LCIV Global Equity Fund, the LCIV Multi Asset Credit Fund and Insight. Over the year and three year periods to 30 June 2020, the Fund has outperformed the benchmark by 1.0% and 0.4% p.a. respectively on a net of fees basis.

The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.

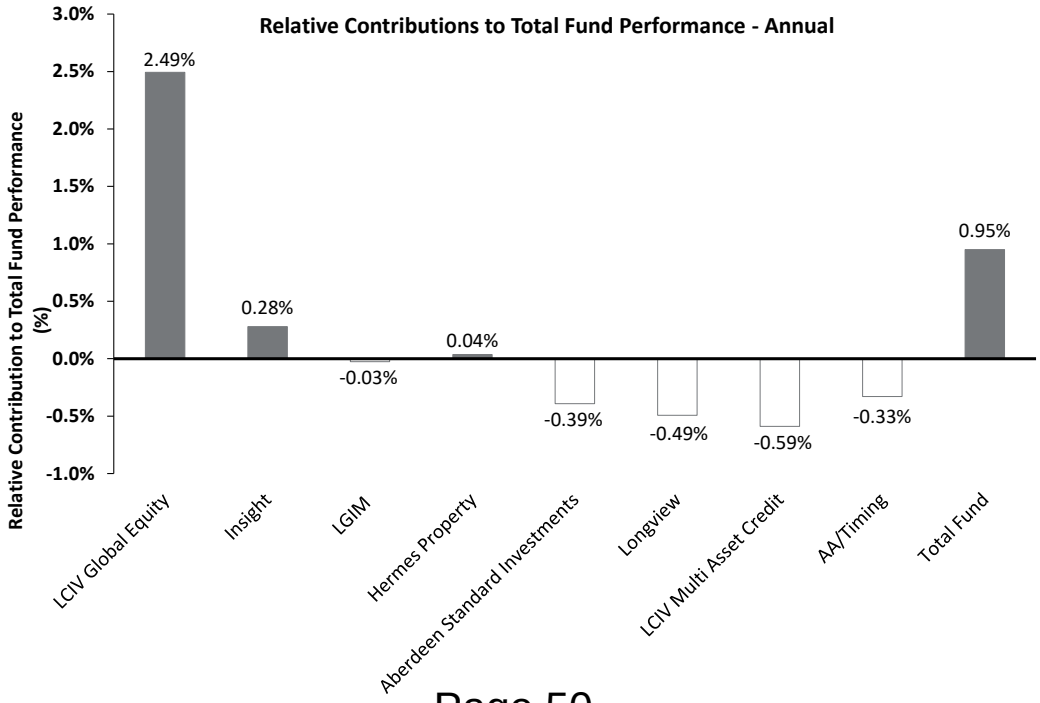


## 2.2 Attribution of Performance to 30 June 2020

Over the quarter to 30 June 2020, the Fund outperformed its fixed weight benchmark by 2.7% on a net of fees basis. Outperformance was primarily driven by the LCIV Global Equity Fund, the LCIV Multi Asset Credit Fund and Insight who outperformed their respective benchmarks by 8.3%, 11.4% and 3.1% respectively, whilst both the LCIV Multi Asset Credit Fund and the Insight Buy and Maintain Fund were the largest detractors to performance over the first quarter of 2020. It should be noted that the LCIV Multi Asset Credit Fund is measured against a cash plus benchmark, which over shorter time horizons will result in relative performance differences.




The Fund outperformed its benchmark by 1.0% on a net of fees basis over the year to 30 June 2020. This can primarily be attributed to the Fund's investment in the LCIV Global Equity Fund, which considerably outperformed its MSCI-based benchmark over the year. The LCIV Multi Asset Credit Fund was the largest detractor to performance over the year, owing primarily to the extent of the underperformance over the first quarter of 2020. The negative attribution represented by the "AA/Timing" bar reflects the impact of holding a position in the LCIV UK Equity Fund at the beginning of the year period, which underperformed its FTSE-based benchmark over the period until its disinvestment at the beginning of December 2019.



## 2.3 Asset Allocation as at 30 June 2020

The table below shows the assets held by manager and asset class as at 30 June 2020.

| Manager | Asset Class | End Mar 2020 (£m) | End June 2020 (£m) | End Mar 2020 (%) | End June 2020 (%) | Benchmark Allocation (%) |
|---|---|---|---|---|---|---|
| LGIM | Global Equity (Passive) | 523.4 | 620.2 | 40.1 | 40.9 | 45.0 |
| LCIV | Global Equity | 276.4 | 353.6 | 21.2 | 23.3 | 20.0 |
| Longview | Global Equity | 55.5 | 63.3 | 4.3 | 4.2 | 0.0 |
| | **Total Equity** | **855.3** | **1,037.1** | **65.6** | **68.4** | **65.0** |
| Insight | Buy and Maintain | 219.1 | 236.9 | 16.8 | 15.6 | 13.5 |
| LCIV | Multi Asset Credit | 78.8 | 88.8 | 6.0 | 5.9 | 6.5 |
| | **Total Bonds** | **297.9** | **325.7** | **22.8** | **21.5** | **20.0** |
| Hermes | Property | 62.3 | 60.9 | 4.8 | 4.0 | 5.0 |
| Aberdeen Standard | Property | 68.6 | 68.8 | 5.3 | 4.5 | 5.0 |
| | **Total Property** | **130.9** | **129.7** | **10.0** | **8.6** | **10.0** |
| Pantheon | Global Infrastructure | 20.6 | 23.0 | 1.6 | 1.5 | 5.0 |
| | **Total Infrastructure Equity** | **20.6** | **23.0** | **1.6** | **1.5** | **5.0** |
| **Total** | | **1,304.6** | **1,515.5** | **100.0** | **100.0** | **100.0** |

*Source: Northern Trust*
*Figures may not sum due to rounding*

The total value of the Fund's assets increased by c. £210.8m over the quarter to 30 June 2020 as a result of positive Total Fund performance with the majority of assets recovering some, if not all, of the losses from the first quarter of 2020 following the COVID-19 outbreak.

The Fund's equity allocation increased over the period to an overweight position, such was the extent of the rebound in global equity markets following the COVID-19 outbreak. The Fund's equity exposure is expected to reduce as Pantheon continues to draw down capital, funded from the remaining Longview allocation. The Fund remained overweight to bonds at quarter end, whilst the property allocation reduced to an underweight position.

During the second quarter of 2020, Pantheon issued one capital call request for $2.7m to be paid by 12 May 2020. This was funded from the bank account held with Northern Trust. Following quarter end, a further capital call of $2.4m was drawn by Pantheon on 21 September 2020, taking the Fund's total unfunded commitment to Pantheon to c. $60.7m as at the end of September 2020.

Following quarter end, the Committee agreed to fully disinvest from the Hermes UK Property Fund. The proceeds of this disinvestment won't be received until later this year/early 2021. The funds received from this investment will be used to fund an allocation to renewable infrastructure equity.

In addition, the Committee selected Morgan Stanley as an active equity manager to add to the portfolio and will invest in the LCIV Global Sustain fund (managed by Morgan Stanley). The Fund has also agreed that the current passive equity allocation will be transitioned to the LGIM Future World Fund. There will be no change to the Fund's strategic asset allocation. The implementation of these changes is yet to commence.

## 2.4 Yield analysis as at 30 June 2020

The table below shows the yield as reported by the managers on each of the Fund's investments.

| Manager | Asset Class | Yield as at 30 June 2020 |
|---|---|---|
| LGIM | Global Equity (Passive) | 2.23% |
| LCIV | Global Equity | 0.92%* |
| Longview | Global Equity | 2.42% |
| Insight | Buy and Maintain | 2.32% |
| LCIV | Multi Asset Credit | 4.95%* |
| Hermes Property | Property | 3.30% |
| Aberdeen Standard Investments | Long Lease Property | 4.30% |
| | **Total** | **2.23%** |

**LCIV funds' yields are provided by the underlying managers (Baillie Gifford and CQS).*

# 3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

| Manager | Mandate | Triggers for Review | Rating |
|---|---|---|---|
| LGIM | Global Equity (Passive) | Major deviation from benchmark returns<br>Significant loss of assets under management | 1 |
| Baillie Gifford | LCIV Global Equity | Loss of key personnel<br>Change in investment approach<br>Lack of control in growth of assets under management | 1 |
| Longview | Global Equity | Loss of key personnel<br>Change in investment approach<br>Lack of control in growth of assets under management | 2 |
| Insight | Buy and Maintain | Departure of any of the senior members of the investment team | 1 |
| CQS | LCIV Multi Asset Credit | Significant changes to the investment team responsible for the fund | 1 |
| Hermes | Property | Significant growth in the value of assets invested in the fund<br>Changes to the team managing the mandate | 1 |
| Aberdeen Standard Investments | Property | Richard Marshall leaving the business or ceasing to be actively involved in the fund without having gone through an appropriate hand-over<br>A build up within the fund of holdings with remaining lease lengths around 10 years | 1 |
| Pantheon | Global Infrastructure | Significant changes to the investment team responsible for the fund | 1 |

## 3.1 London CIV

### Business

As at 30 June 2020, the London CIV had assets under management of £8,971m within the 13 sub-funds (not including commitments to the London CIV Infrastructure Fund and London CIV Inflation Plus Fund), an increase of £1,328m over the quarter primarily as a result of positive market movements over the period. The total assets under oversight, including passive investments held outside the London CIV platform was £19.6bn, an increase of £2.9bn over the three month period with a further £0.5bn committed to the recently launched London CIV Infrastructure Fund and London CIV Inflation Plus Fund.

### Multi Asset Credit Fund

The London CIV has decided to add an additional manager to the LCIV Multi Asset Credit Sub Fund mandate, alongside CQS, and is looking to implement the change over the next 3-6 months.

The manager selection process will be led by Rob Hall, Asim Meghji and Jason Fletcher and the process will be subject to independent oversight from Exco and internal oversight from a committee made up of London CIV board members. London CIV has confirmed that there will be no change to the objectives of the sub fund and the selection process will cover cost transparency and responsible investment and engagement. London CIV is looking to select a manager, or managers, which will be complementary to CQS.

London CIV is looking to ensure that all relevant parties and stakeholders are well informed throughout the process.

*COVID-19 Impact:*

The London CIV's employees continue to work remotely, and are expected to remain so for the foreseeable future. The London CIV has continued to host monthly LCIV Business Updates to keep investors informed and up to date with regards to progress with mandate developments and fund launches. All Meet the Manager sessions continue to go ahead as planned.

### Personnel

As reported last quarter, Jason Fletcher was appointed as permanent Chief Investment Officer and started the role in July following a short handover period. Jason takes over from Kevin Corrigan, who has been interim CIO since November 2019.

It was also reported last quarter that Jacqueline Jackson had been appointed Head of Responsible Investment. Jacqueline joined in June and is working alongside pool members to better understand ESG requirements and expectations alongside continuing to develop the London CIV's commitment to responsible investment. Jacqueline has already signed the London CIV up as an affiliate to Pensions for Purpose and the Task Force on Climate Related Disclosures ("TCFD").

The London CIV is expected to appoint a new Head of Operations following terms being accepted for the position and will begin advertising for a new Head of Private Markets. The London CIV is also looking to appoint a third Client Relations Manager.

***Deloitte view –*** It is positive to see a permanent Chief Investment Officer and we hope for continued stability going forward. We are continuing to monitor developments on the business side as well as the new fund launches.

## 3.2 LGIM

### Business

As at 30 June 2020, Legal & General Investment Management ("LGIM") had assets under management ("AuM") of c. £1,241m, an increase of c. £45m since 31 December 2019.

*COVID-19 Impact and Reporting Issues:*

Whilst only announced biannually, we expect LGIM's assets under management to have suffered a material fall from the COVID-19 market crash in early 2020.

More widely, LGIM had to adjust its business operations in light of the COVID-19 lockdown restrictions. LGIM reported that it enacted its business contingency planning, and that it had evolved to enable greater agile working for employees to ensure business continuity.

Despite enacting these contingency plans, we have recently noted a number of reporting/operational concerns on a range of reporting issues which LGIM has cited have been delayed due to the impact of remote working and a spike in annual leave over the summer. We plan to follow-up with LGIM with the aim of resolving these issues to ensure that the Fund receives timely information going forwards.

### Personnel

There were no significant personnel or team changes at the Index Team level over the second quarter of 2020.

***Deloitte View -*** We continue to rate Legal & General positively for its passive capabilities.

## 3.3 Baillie Gifford

### Business

As at 30 June 2020, Baillie Gifford held c. £262bn in assets under management, a c. £64bn increase over the quarter primarily as a result of market movements. The Global Alpha Fund held assets under management of c. £43.6bn as at 30 June 2020.

*COVID-19 Response:*

As reported last quarter, due to Baillie Gifford investing significantly in technology in the years prior to COVID-19, all staff members are able to work remotely whilst maintaining connection to all of Baillie Gifford's major systems. In addition, Baillie Gifford has encouraged the use of communication tools such as video conferencing to allow client, staff and supplier interaction to continue. As such, Baillie Gifford continues to feel that all operations are working as normal.

### Personnel

As reported last quarter, in May 2020, Baillie Gifford announced that Charles Plowden, Senior Partner and Portfolio Manager of the Global Alpha Growth Fund, would retire with effect from 30 April 2021. Charles leaves after 38 years with the firm.

Malcolm MacColl, as of 1 May 2021, will succeed Charles as Senior Partner. The role primarily is one of governance, as such Malcolm will be well placed to continue to fully contribute as a Portfolio Manager and analyst for Global Alpha clients. Malcolm will work closely with Andrew Telfer, CEO and other Senior Partner.

During May 2020, Helen Xiong, previously an investment manager in the Baillie Gifford US Equity team, joined the Global Alpha strategy. Helen has been involved with the Global Alpha Growth portfolio for eight years as both an analyst and an idea generation 'scout', and was recently promoted to become a partner of the firm. Helen will have a period of familiarisation and handover, and will become a Portfolio Manager on 1 May 2021 as Charles retires. As such, Helen will be replaced by Dave Bujnowski who is based in Baillie Gifford's New York office and has 24 years of investment experience.

Additionally over the quarter, Mark Urquhart, Co-Head of the Long Term Global Growth team alongside James Anderson, became sole Head of the team from 1 June 2020. In recent years, James has taken a step back from the day to day management of the Long Term Global Growth portfolios to focus on research. The Long Term Global Growth portfolios will be run by Mark and Tom Slater, but James will remain a full-time member of the team.

***Deloitte view -*** We continue to rate Baillie Gifford positively for its equity capabilities.

## 3.4 Longview

### Business

As at 30 June 2020, Longview held c. £21.0bn in assets under management, an increase of c. £2.2bn over the quarter as a result of positive market returns, with net outflows of £459m from the firm over the second quarter of 2020.

*COVID-19 Impact:*

Longview reported that it had enacted its business continuity plan earlier in the year, in light of the COVID-19 outbreak. All Longview employees are able to carry out their duties remotely, without disruption to any critical functions. Longview has stated that employees are in open commutation throughout each day to ensure that the firm's operational capabilities continue and that Longview is working closely with all third-party providers to ensure continuation of service.

### Personnel

Over the quarter, Longview announced that two members of its London Executive Committee would be retiring from their respective positions. Ken Campbell, Head Trader, is to retire from financial services at the end of December 2020 and will relocate to the USA. Meanwhile Dan Langan, CFO and Head of Compliance, will also retire from the industry before the end of 2020.

To accommodate these changes, Emma Davies, who has worked at Longview for 10 years, will become CFO and Sheila Tickner, who has worked at Longview for 8 years, will become Head of Compliance in London.

In addition, on 1 July 2020, Emma joined the London Executive Committee alongside Ben Welsher, who was previously Head of Operations before becoming Chair of the Operating Committee. Greg Wiles, who has worked at Longview since 2005, subsequently replaced Ben as Head of Operations.

***Deloitte view –*** We have removed Longview's Global Equity strategy from our rated manager list following the departure of the co-founder and CIO Ramzi Rishani. As such, going forward, we will not be recommending the Longview Global Equity strategy to clients.

## 3.5 Insight

### Business

As 30 June 2020, Insight's assets under management stood at c. £736bn, an increase of c. £55bn over the quarter.

Over the quarter, the Insight Buy and Maintain Fund's assets under management increased by c. £0.2bn, with total assets under management reaching c. £2.8bn as at 30 June 2020.

*COVID-19 Impact:*

Over the quarter, Insight continued to make use of its business continuity plan, which emphasises the ability of all employees to work remotely through a remote access platform. The platform itself supports all investment and operational systems used by Insight, allowing business operations to be maintained without access to Insight offices.

Specific to the Buy and Maintain Fund, Insight saw one of its holdings, Marstons', downgraded from investment grade to high yield over the second quarter of 2020. There were no defaults within the portfolio over the quarter. Insight recognises that the current slow downgrade pace and better than expected levels of defaults has been supported by the unprecedented level of government and monetary support, with the operating environment for corporates supported by government support programmes, furlough schemes and loan guarantees. Insight anticipates that, as some of these schemes begin to end, there may be an increase in the level of downgrades and defaults.

### Personnel

Insight made no changes to its Buy and Maintain Fund team over the second quarter of 2020.

***Deloitte view –*** We rate Insight positively for its Fixed Income capabilities but continue to monitor how growth is being managed across the business.

## 3.6 CQS

### Business

Over the quarter, CQS' total assets under management increased by c. $2.7bn to total $17.7bn as at 30 June 2020 as a result of positive market movements. Over the same period, the Credit Multi Asset Fund's assets under management increased by c. $2.6bn, managing c. $9.9bn on behalf of its clients as at 30 June 2020.

*COVID-19 Impact:*

At the fund level, the LCIV Multi Asset Credit Fund experienced 60 credit rating downgrades, representing c. 7.5% of the portfolio, and one default, representing c. 0.2% of the portfolio, over the quarter to 30 June 2020.

### Personnel

There were no specific team/personnel changes to the Credit Multi Asset Fund team over the quarter to 30 June 2020.

***Deloitte View -*** We continue to rate CQS positively for its multi asset capabilities.

## 3.7 Hermes

### Business

As at 31 March 2020, Hermes held total assets under management of c. £32.9bn, a decrease of c. £4.2bn since 31 December 2019. Over the quarter, as a result of market movements, total assets under management of the HPUT decreased by c. £46m to c. £1.4bn at 24 June 2020.

*COVID-19 Impact:*

During the quarter, the Hermes Trust's valuers placed material valuation uncertainty clauses on all assets due to the circumstances brought about by COVID-19. Following the RICS Leadership Forum's decision that the material valuation uncertainty generally be lifted with effect from 9 September 2020, the Trust's valuations are no longer subject to the material valuation uncertainty clause and as a result will be able to issue primary units and accept instructions for the reinvestment of income.

Redemptions have been deferred over the first and second quarters of 2020. The latest redemption notice date was 30 September 2020 and the Trust has six weeks from this date to confirm whether to accept or defer any further redemptions.

As at 24 June 2020, Hermes had collected 78% of the total rent demanded for Q2 2020, and 58% for Q3 2020.

### Personnel

During June 2020, Hermes announced Dermot Kiernan as Fund Director for the HPUT, with Dermot expected to commence the role during Autumn 2020. Dermot has three decades worth of experience within the real estate investment industry and will join from M&G Real Estate where he has held the position of Fund Manager of the M&G UK Property Fund since 2009 and was also fund manager of two other UK portfolios. Prior to this, Dermot had held positions at LaSalle Investment Management, where he primarily managed commercial property portfolios initially as an asset manager and subsequently a fund manager.

Hermes anticipates that Dermot will bring an investment philosophy that compliments the responsible investment approach of the HPUT. In the period leading up to Dermot commencing the role, Hermes has stated that Chris Darroch will remain in place as Interim Fund Director and will assist in the detailed handover.

Additionally, Hermes announced that a new investment manager, Lib Dear, joined the HPUT team in July to support in accessing the market and acquisitions. Lib joins from Cushman & Wakefield where she worked in the Hospitality Capital Markets team and is a qualified surveyor.

***Deloitte view –*** Following the announcement by Hermes to appoint Dermot Kiernan as the new Fund Manager, we will continue to monitor any further personnel changes that occur in the coming months alongside the handover to Dermot later in the year. Following quarter end, the Fund agreed to fully disinvest from the HPUT with the proceeds expected to be received in late 2020/early 2021.

## 3.8 Aberdeen Standard Investments

### Business

As at 30 June 2020, the Aberdeen Standard Investments Long Lease Property Fund had a total fund value of c. £2.6bn, increasing by c. £9m over the quarter.

*COVID-19 Impact:*

As reported over the first quarter of 2020, due to material valuation uncertainty, ASI announced the decision to suspend trading on the ASI Long Lease Property Fund, effective 18 March 2020, due to the market disruption caused by COVID-19 and the material uncertainty it has created around valuing the Fund's investments fairly in order to protect the interests of all investors in the Fund.

Following quarter end, Aberdeen Standard Investments has been informed by the Long Lease Property Fund's independent valuers that there is sufficient market based evidence to remove the material valuation uncertainty clause. As such, ASI has lifted the suspension on trading, effective 3 August 2020. As a result, the Long Lease Property Fund's dealing has reverted to normal.

### Personnel

In April 2020, ASI announced that as part of their real estate management team restructure to align with the future direction of the business, Richard Marshall, Portfolio Manager of the ASI Long Lease Property Fund, will leave ASI at the end of October 2020. Les Ross, Deputy Portfolio Manager will formally become the new Portfolio Manager from 1 August 2020. Richard has held the position of Portfolio Manager of the ASI Long Lease Property Fund since 2006 and his contribution has been viewed as one of the key factors to the Fund's success.

The announcement of Richard's departure follows ASI's previous announcement in March 2020 that they would be restructuring their real estate leadership and management teams to better align with the future direction of the business led by Neil Slater. Three new leadership roles of Head of Real Estate Investment Strategy, Head of Real Estate Investment Management and Head of Real Estate Business Management, Finance, Operations & Structuring were subsequently created, with Anne Breen, Andy Creighton and Paolo Alonzi taking on the roles respectively from 1 April 2020. Mike Hannigan, Head of Real Estate UK also stated his intention to retire from ASI, with an interim corporate strategy role created for him during the period to retirement reporting to Neil.

Later in April 2020, a further update was provided by ASI with a new Global Real Estate Management Team created to work alongside the Real Estate Leadership Team who will take ownership of key investments and functional outcomes. The Team

will be further split into fund management and asset management, with fund management appointing Heads of each area of business who will provide line management responsibility of the respective fund managers in that area.

In May 2020, Martin Gilbert, Chairman of ASI, retired from most of his board roles at the AGM but will remain as Chairman of ASI until September 2020 to ensure a smooth transition period.

At the end of June 2020, ASI announced the appointment of Stephen Bird as the new CEO Designate and Director of Standard Life Aberdeen (SLA) to take effect from 1 July 2020. Stephen Bird will succeed the incumbent Keith Skeoch, who will formally step down as CEO and from the board of directors in September 2020, subject to regulatory approval.

***Deloitte View –*** We are closely monitoring the changes to senior leadership at ASI. Keith Skeoch's departure was somewhat expected in the near future, and we see Stephen Bird as a very capable appointment. With regards to real estate and the Long Lease Property Fund, while the departure of Richard Marshall was a surprise, Les Ross is the obvious replacement and is very experienced and well positioned to take over. That said, Richard's contribution to the fund was significant and we continue to closely monitor both the fund and wider business.

## 3.9 Pantheon

### Business

As at 31 March 2020, Pantheon's total assets under management stood at c. $51bn, an increase of c. $2bn over the quarter since 31 December 2019.

Following the final close in March 2019, the Global Infrastructure III Fund had $2.2bn in committed assets. As at 30 June 2020, the Global Infrastructure III Fund had completed 27 deals, with $1,247m in closed or committed deals. This represents a 56% commitment level.

*COVID-19 Impact:*

Pantheon's business continuity plan ensures all staff are able to work from home, with all systems and processes in full operation. Pantheon has continued to prioritise the safety and well-being of its employees and partners, whilst also ensuring that services to clients have continued at an expected level. Pantheon has increased its use of video or conference calls to continue participation in meetings despite the global restrictions to travel. In addition, Pantheon has provided a series of communications to clients with regular updates on Pantheon's response, portfolios and the wider economy as a result of COVID-19. Pantheon also continues to provide up-to-date guidance on expected capital calls and distributions so clients can plan accordingly.

### Personnel

There were no specific team/personnel changes to the Global Infrastructure III Fund team over the quarter.

***Deloitte View -*** We continue to rate Pantheon positively for its global infrastructure capabilities.

# 4 London CIV

## 4.1 Investment Performance to 30 June 2020

At the end of the second quarter of 2020, the assets under management within the 13 sub-funds of the London CIV was £8,971m with a further £506m committed to the Infrastructure and Inflation Plus Funds. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £2.9bn to c. £19.6bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

| Sub-fund | Asset Class | Manager | Total AuM as at 31 Mar 2020 (£m) | Total AuM as at 30 June 2020 (£m) | Number of LCIV clients | Inception Date |
|---|---|---|---|---|---|---|
| LCIV Global Alpha Growth | Global Equity | Baillie Gifford | 2,415 | 3,089 | 13 | 11/04/16 |
| LCIV Global Equity | Global Equity | Newton | 584 | 692 | 3 | 22/05/17 |
| LCIV Global Equity Focus | Global Equity | Longview Partners | 678 | 776 | 5 | 17/07/17 |
| LCIV Equity Income | Global Equity | Epoch Investment Partners | 210 | 236 | 2 | 08/11/17 |
| LCIV Emerging Market Equity | Global Equity | Henderson Global Investors | 302 | 366 | 6 | 11/01/18 |
| LCIV Sustainable Equity Fund | Global Equity | RBC Global Asset Management (UK) | 382 | 470 | 3 | 18/04/18 |
| LCIV Sustainable Equity Exclusion Fund | Global Equity | RBC Global Asset Management (UK) | 210 | 321 | 2 | 11/03/20 |
| LCIV Global Total Return | Diversified growth fund | Pyrford | 309 | 270 | 4 | 17/06/16 |
| LCIV Diversified Growth | Diversified growth fund | Baillie Gifford | 589 | 602 | 7 | 15/02/16 |
| LCIV Absolute Return | Diversified growth fund | Ruffer | 862 | 754 | 8 | 21/06/16 |
| LCIV Real Return | Diversified growth fund | Newton | 113 | 122 | 2 | 16/12/16 |
| LCIV MAC | Fixed Income | CQS | 713 | 936 | 12 | 31/05/18 |
| LCIV Global Bond | Fixed Income | PIMCO | 276 | 338 | 3 | 30/11/18 |
| **Total** | | | **7,643** | **8,971** | | |

*Figures may not sum due to rounding*

Over the quarter to 30 June 2020, the LCIV Sustainable Equity Exclusion Fund gained one new investor, whilst one London Borough disinvested from the LCIV Global Total Return Fund and the LCIV Diversified Growth Fund and two disinvestments were made from the LCIV Absolute Return Fund.

# 5 LGIM – Global Equity (Passive)

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

## 5.1 Passive Global Equity – Investment Performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| LGIM - Net of fees | 18.5 | 2.0 | 5.7 | 9.9 |
| FTSE World (GBP Hedged) Index | 18.5 | 2.1 | 5.7 | 9.9 |
| Relative | 0.0 | -0.1 | 0.0 | 0.0 |

*Source: Northern Trust*
*Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark*

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

Over the quarter to 30 June 2020, the Legal & General World Equity Index Fund – GBP Currency Hedged successfully tracked its FTSE-based benchmark. The fund delivered absolute returns of 18.5% on a net of fees basis, making up much of the losses realised over the first quarter of 2020.

The fund marginally underperformed its benchmark over the year but has tracked the benchmark over the three-year period to 30 June 2020.

# 6 LCIV – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark by 2-3% p.a. on a gross of fees basis over rolling 5 year periods.

## 6.1 Global Equity – Investment performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Baillie Gifford – Net of fees | 27.9 | 17.2 | 14.0 | 15.5 |
| MSCI AC World Index | 19.6 | 5.2 | 7.9 | 11.3 |
| Relative | 8.3 | 12.1 | 6.1 | 4.2 |

*Source: Northern Trust*
*Inception date taken as 18 March 2014*

Over the quarter to 30 June 2020, the LCIV Global Alpha Growth Fund, managed by Baillie Gifford, delivered a positive absolute return of 27.9% on a net of fees basis, outperforming the MSCI AC World Index benchmark by 8.3%.

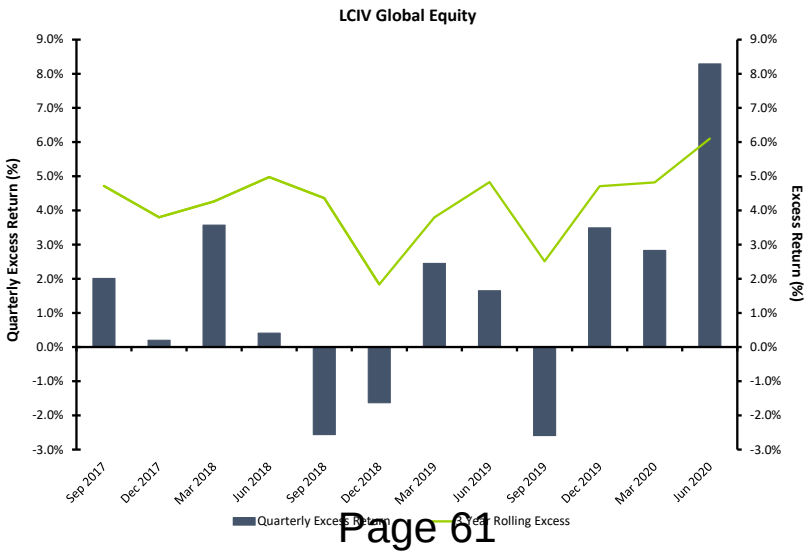
Baillie Gifford's bias towards technology-enabled growth stocks proved to be beneficial over the quarter, owing to the resilience of such stocks during a period where the majority of consumers have been forced to "move online" as a result of the COVID-19 outbreak and consequent restrictions.

The strategy's turnover increased over the quarter with Baillie Gifford looking to take advantage of companies that are reacting to the accelerated technology adoption developments. Baillie Gifford is also looking to benefit from companies in areas where there has been a marked improvement in competition, and those companies where the manager has recognised evidence of fundamental changes, particularly within companies with a robust history of growth.

At a sector level, Baillie Gifford's overweight positions in Consumer Discretionary, Communication Services and Healthcare relative to the benchmark proved favourable over the quarter. Combined, these three sectors alone delivered positive returns of c. 9% over the second quarter of 2020.

Over the 12-month and annualised three-year periods to 30 June 2020, the fund outperformed its benchmark by 12.1% and 6.1% p.a. respectively on a net of fees basis, delivering absolute returns of 17.2% and 14.0% p.a. on a net of fees basis respectively.

The graph below shows the net quarterly returns and the rolling three-year excess returns relative to the benchmark. The fund's current three-year excess return is ahead of the target (+2% p.a.), having outperformed the benchmark by 6.1% p.a. over the three year period to 30 June 2020.



## 6.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 26.9% of the fund and are detailed below.

| Top 10 holdings as at 30 June 2020 | Proportion of Baillie Gifford Fund |
|---|---|
| Amazon | 4.3% |
| Naspers | 3.6% |
| Moody's | 2.9% |
| Alphabet | 2.8% |
| Microsoft | 2.5% |
| Alibaba | 2.3% |
| Mastercard | 2.3% |
| Shopify | 2.2% |
| Prudential | 2.2% |
| Anthem | 2.0% |
| **Total** | **26.9%** |

*Source: London CIV*
*Figures may not sum due to rounding*

The table below represents the top 5 contributors to performance over the quarter to 30 June 2020.

| Top 5 contributors as at 30 June 2020 | Contribution (%) |
|---|---|
| Amazon | +1.64 |
| Shopify | +1.58 |
| Tesla | +1.10 |
| SEA | +0.95 |
| Naspers | +0.91 |

Over the quarter, investors looked to companies who have reinvested in technology that support activities that can be completed without breaking lockdown and social distancing restrictions. As such, given its already lofty market position, Amazon particularly benefitted from the increased lockdown measures over the quarter with consumers encouraged to use more of its products and services. Shopify, which provides online stores and retail point-of-sale systems, also provided a significant positive contribution to performance over the quarter with share prices rising following an increase in business in the e-commerce space.

Despite some strategic Financials positions contributing positively to performance over the first quarter of 2020, the strategy's stock selection in the sector detracted from performance over the quarter to 30 June 2020 with AIA, Ping Ann Insurance and Prudential delivering weak returns.

# 7 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

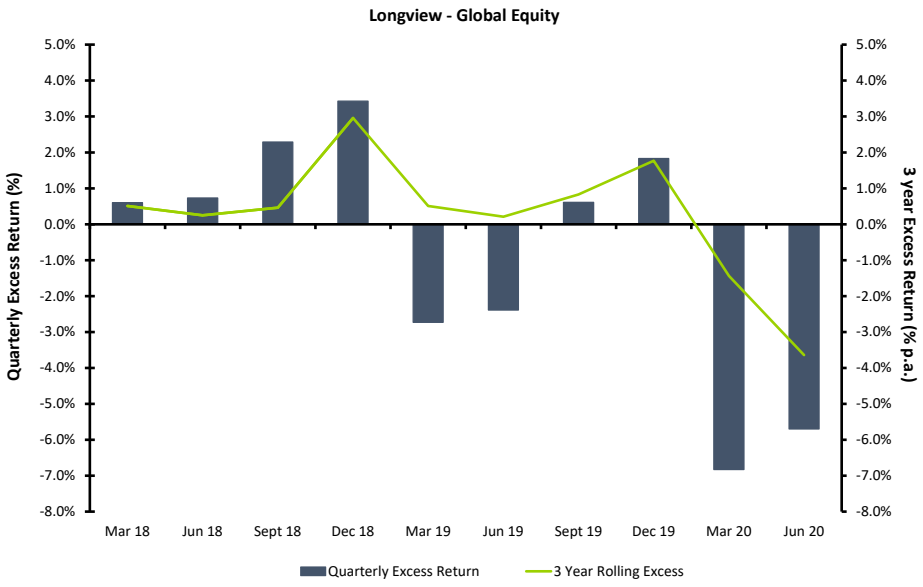
## 7.1 Active Global Equity – Investment Performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Longview - Net of fees | 14.1 | -5.0 | 4.9 | 10.3 |
| MSCI World Index | 19.8 | 5.9 | 8.5 | 11.2 |
| Relative | -5.7 | -11.0 | -3.6 | -0.9 |

*Source: Northern Trust*
*Inception date 15 January 2015*

Over the quarter, the Longview Global Equity Fund delivered a positive return of 14.1% on a net of fees basis, but underperformed its MSCI World Index benchmark by 5.7%, as equity markets notably rebounded over the second quarter of 2020. Over the longer year and three-year periods to 30 June 2020, the fund has underperformed its benchmark by 11.0% and 3.6% p.a. respectively.

The fund targets an outperformance of 3% p.a. over a three-year period. The chart below shows the quarter and rolling three year returns.




The Global Equity Fund's underperformance relative to the MSCI-based benchmark was primarily attributable to the strategy's underweight positions, and stock selection, in Technology and large internet stocks.

Unlike the MSCI World Index, Longview does not hold investments in Apple, Amazon, Microsoft and Facebook. Following strong Q2 2020 performance across these stocks as a result of social distancing requirements and other restrictions, the decision to not hold an allocation to these stocks can be attributed to over half of the strategy's underperformance relative to the benchmark. Longview opted not to invest in these stocks as, historically, Longview has believed that they do not fit the manager's process due to a lack of experience and information on the future – which Longview uses within its valuation methodology. Over the quarter, these beliefs have changed, with Longview researching each of the aforementioned companies further to better understand the companies and their impact. Resultantly, Longview has recently added a position to Alphabet (Google).

Social distancing and the strategy's underlying exposure to changes in interest rates continued to have a negative impact on the strategy, after significantly impacting returns over the first quarter of 2020. Longview has updated its assumptions as a result of the expectation of considerably lower rates, resulting in fair market valuation reductions and a subsequent review of the

strategy's Financials exposure. As such, given the sensitivity to macro trends and the inability to cut costs following recent headwinds, Longview has decided to sell its position in Wells Fargo.

In contrast to the first quarter of 2020, the strategy's cyclical business positions were of the best performing stocks over the quarter to 30 June 2020, following market belief that the increased levels of stimulus spending will allow these business to recover.

## 7.2 Performance Analysis

The tables below represent the top 5 and bottom 5 contributors to performance over the second quarter of 2020.

| Top 5 contributors as at 30 June 2020 | Contribution |
|---|---|
| Parker Hannifin | +0.92 |
| IQVIA | +0.46 |
| Emerson Electric | +0.43 |
| WW Grainger | +0.35 |
| Alphabet | +0.11 |

Parker Hannifin provided the largest contribution to performance, which alongside other cyclical stocks, rebounded and was further helped by the release of its third quarter results which suggested the company had been less impacted by COVID-19 than first anticipated. IQVIA, a medical research company, was the second largest contributor to performance over the second quarter. IQVIA released guidance to investors to offer clarity on how it has been impacted by COVID-19, helping to ease investor concerns as the company has been able to continue its research business remotely.

The largest detractor to performance over the second quarter of 2020 was the strategy's position to Compass, a global food and support service company which has been materially impacted by increased social distancing measures, reducing customer demand for areas of their business such as catering to offices. Wells Fargo, a US bank, was one of the largest detractors to performance for the second quarter running, owing to significant headwinds from low interest rates and loan losses. With Wells Fargo being the strategy's most interest rate sensitive holding, as mentioned above, Longview has decided to sell its position.

| Top 5 detractors as at 30 June 2020 | Contribution |
|---|---|
| Compass | -1.11 |
| Wells Fargo | -0.86 |
| Whitbread | -0.81 |
| Medtronic | -0.61 |
| Fiserv | -0.58 |

# 8 Insight – Buy and Maintain

Insight was appointed to manage a buy and maintain credit portfolio. The fund aims to invest in predominantly investment grade credit which the manager believes can be held to maturity. The manager's fee is based on the value of assets.

## 8.1 Buy and Maintain Fund - Investment Performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Since Inception (% p.a.) |
|---|---|---|---|
| Insight Non Gilts - Net of fees | 8.2 | 6.0 | 6.3 |
| iBoxx £ Non-Gilt 1-15 Yrs Index | 5.1 | 4.2 | 5.3 |
| Relative | 3.0 | 1.8 | 1.1 |

*Source: Northern Trust*
*Inception date taken as 12 April 2018*

The Insight Buy and Maintain Fund delivered a return of 8.2% on a net of fees basis over the quarter to 30 June 2020, outperforming its temporary iBoxx non-gilt benchmark by 3.0%. Over the year to 30 June 2020, the Buy and Maintain Fund delivered a positive return of 6.0%, outperforming its benchmark by 1.8% on a net of fees basis.

The strategy's positive returns on an absolute basis can primarily be attributed to the narrowing of credit spreads and a fall in gilt yields over the quarter.

The Buy and Maintain Fund's US dollar credit exposure detracted from performance slightly over the quarter, lagging behind GBP-denominated credit. Despite this, Insight has targeted its purchase activity towards US dollar denominated bonds, alongside sectors that have recently underperformed but continue to exhibit robust credit fundamentals, in the belief that such positions will add value over the longer term.

In addition, following the increase in credit issuance in the secondary market as companies looked to increase liquidity and maintain cashflow, the Buy and Maintain Credit Fund added issues from companies such as Caterpillar, New York Life and RBS at attractive discounts. Insight sold its position in Burlington North and Santa Fe (BNSF) as a result of poor ESG scores and unsatisfactory engagement. Also, Insight maintained an exposure to Intu SGS, which remained operational despite its parent issuer, Intu Plc, going into administration. Intu has been present on Insight's watchlist since before the COVID-19 outbreak.

Insight's allocation to high yield credit increased over the quarter due to a credit downgrade of one the strategy's holdings, Marstons', which makes up c. 0.5% of the portfolio. Insight had previously placed the pub securitisation on its watchlist to reflect the significant impact of COVID-19. Insight has stated that it is comfortable with continuing to hold this credit in the portfolio with the bonds securitised by over 800 pubs which are mostly tenanted, and the reopening of pubs likely to be helpful for Marstons' short term cashflow. The company recently sold 60% of its brewing business to Carlsberg who now operate the brewery, with Marstons' using the proceeds of the sale to pay down some of the short-term financing it had in place.

Insight has confirmed that there were no defaults within the Buy and Maintain portfolio over the second quarter of 2020.

## 8.2 Performance Analysis

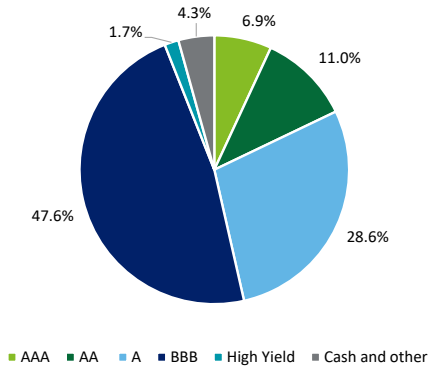
The table below summarises the Buy and Maintain portfolio's key characteristics as at 30 June 2020.

| | 31 March 2020 | 30 June 2020 |
|---|---|---|
| Yield (%) | 3.1 | 2.3 |
| No. of issuers | 172 | 171 |
| Modified duration (years) | 8.1 | 8.7 |
| Spread duration (years) | 8.2 | 8.9 |
| Government spread (bps) | 265 | 208 |
| Swaps spread (bps) | 250 | 201 |

| | | |
|---|---|---|
| Largest issuer (%) | 1.4 | 1.3 |
| 10 largest issuers (%) | 10.9 | 10.4 |

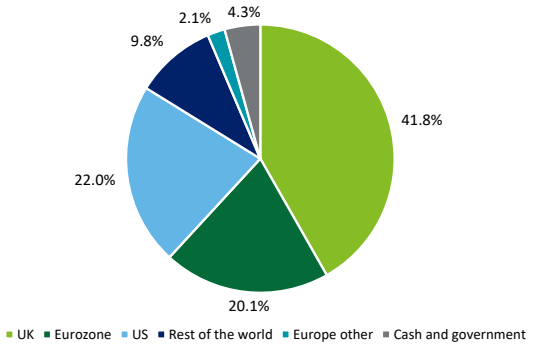
*Source: Insight*

The graph below shows the split of the Buy and Maintain portfolio by credit rating.

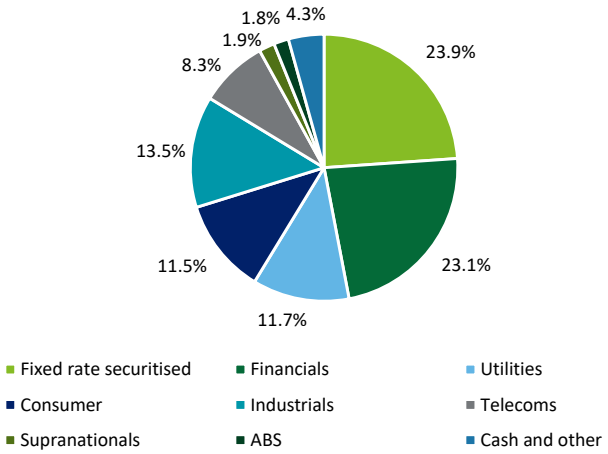



As at 30 June 2020, the fund's investment grade holdings made up c. 94.1% of the portfolio, a decrease of 1.8% following the downgrade of Marstons' to high yield, and the sale of BNSF, as mentioned above. The fund remains predominantly invested in BBB and A rated bonds.

The graph below shows the split of the Buy and Maintain portfolio by country as at 30 June 2020.




The graph below shows the split of the Buy and Maintain portfolio by sector as at 30 June 2020.




The table below shows the top 10 issuers by market value as at 30 June 2020.

| Issuer name | Rating* | Holding (%) |
|---|---|---|
| International Bank for Reconstruction & Development | AAA | 1.3 |
| RI Finance | BBB | 1.1 |
| Spectra Energy Partners | BBB | 1.0 |
| London and Quadrant Housing | A | 1.0 |
| AA Bond Company | BBB | 1.0 |
| Tesco Property | BBB | 1.0 |
| Rac Bond | BBB | 1.0 |
| Pension Insurance | BBB | 1.0 |
| Heathrow Funding Ltd | BBB | 1.0 |
| Notting Hill Genesis | A | 1.0 |

**Ratings provided by Insight*

# 9 LCIV – Multi Asset Credit

CQS was appointed to manage a multi asset credit mandate, under the London CIV platform, in October 2018 with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. An annual fee covers the manager's and the London CIV platform management fees.

## 9.1 Multi Asset Credit – Investment Performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Since Inception (% p.a.) |
|---|---|---|---|
| CQS – MAC –Net of fees | 12.7 | -4.6 | -1.3 |
| 3 Month Libor + 4% | 1.3 | 5.0 | 5.1 |
| Relative | 11.5 | -9.6 | -6.4 |

*Source: Northern Trust*
*Inception date taken as 30 October 2018*

Over the three month period to 30 June 2020, the LCIV Multi Asset Credit Fund, managed by CQS, outperformed its cash-based benchmark by 11.5% on a net of fees basis. Over the year, the strategy delivered a negative return of -4.6% on a net of fees basis, underperforming the benchmark by 9.6%.

Each of the Multi Asset Credit Fund's underlying asset classes contributed positively to returns over the second quarter of 2020. The strategy's asset backed securities positioning delivered the largest contribution to performance, with the portfolio's European BB and BBB rated CLOs and US credit risk transfer securities also delivering strong performance.

Over the first quarter of 2020, the strategy's European bias contributed negatively to performance, particularly within its high yield bonds and loans allocations. Over the quarter to 30 June 2020 however, the portfolio's tilt towards Europe proved beneficial, with the European recovery beginning earlier than in the US. European loans subsequently provided the greatest return across all underlying asset classes; however, both European and US loans lagged the wider loan market recovery.

The strategy saw positive returns from throughout its high yield positioning over the quarter, recovering some of the first quarter's losses, with performance largely attributed to an increase in investor demand for riskier assets following the increase in government stimulus and the prospect of the economy returning to normal. European high yield bonds outperformed their US counterparts as a result of higher levels of favourable government technical support, resulting in lower issuance and fewer downgrades when compared to the US.

Whilst market recovery has been recognised, CQS anticipates that challenges still lie ahead especially in the more economically sensitive sectors, causing some dispersion across sectors. As a result, the manager is positioning the portfolio so as to benefit from a recovery that is likely to take longer than is currently implied in market pricing, having repositioned the portfolio over the quarter to reduce its allocation to high yield given an expected rise in defaults, especially in the US. The defensive positioning of the portfolio includes a greater allocation to Financials, Telecoms and Healthcare.

Over the quarter to 30 June 2020, CQS experienced 60 credit rating downgrades, representing c. 7.5% of the portfolio, and one default, representing c. 0.2% of the portfolio. The single defaulting company was American Addiction Centers, which CQS had previously identified as being at risk. Management had resisted the requirement to adapt the company's out-of-network business model as conditions changed as a result of COVID-19, which led to large-scale liquidity issues and the company subsequently defaulted on 30 June 2020.

Following quarter end, as at 1 October 2020, there have been no further defaults within the portfolio.

## 9.2 Portfolio Analysis

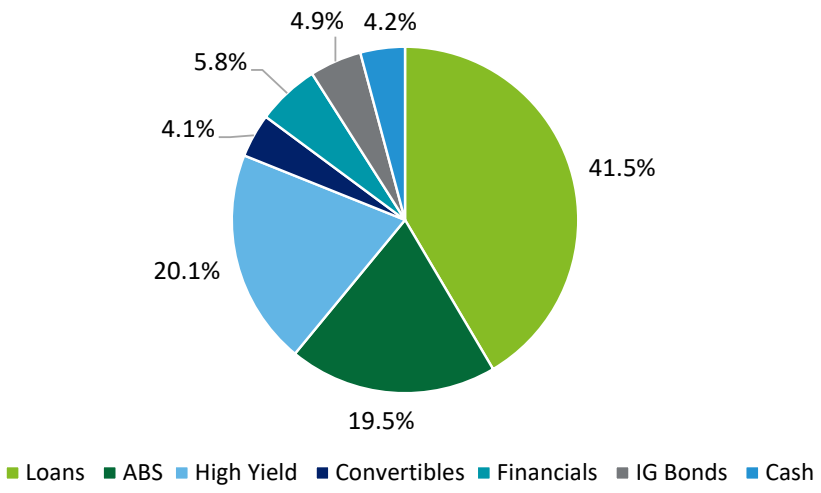
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 30 June 2020.

| | 31 Mar 2020 | 30 June 2020 |
|---|---|---|
| Weighted Average Bond Rating | BB- | BB- |
| Long Bond Equivalent Exposure with Public Rating (%) | 84.4 | 86.8 |
| Investment with Public Rating (%) | 86.5 | 89.8 |
| Yield to Maturity (%) | 7.9 | 5.5 |
| Spread Duration | 3.8 | 4.1 |
| Interest Rate Duration | 1.1 | 1.4 |

*Source: CQS*

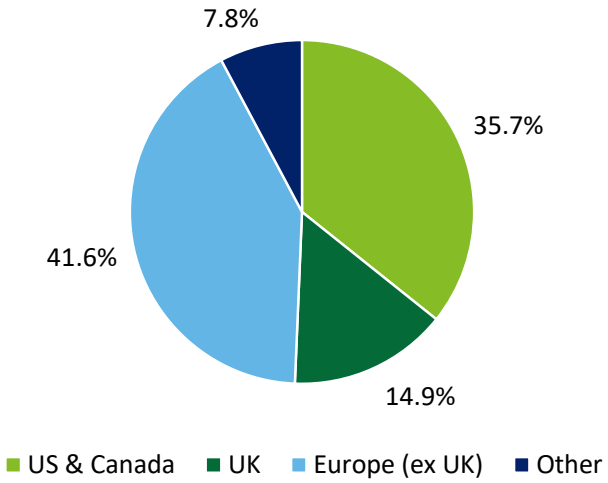
## 9.3 Asset Allocation

The asset allocation split of the Multi Asset Credit Fund as at 30 June 2020 is shown below.




## 9.4 Country Allocation

The graph below shows the regional split of the LCIV Multi Asset Credit Fund as at 30 June 2020.



# 10 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

## 10.1 Property – Investment Performance to 30 June 2020

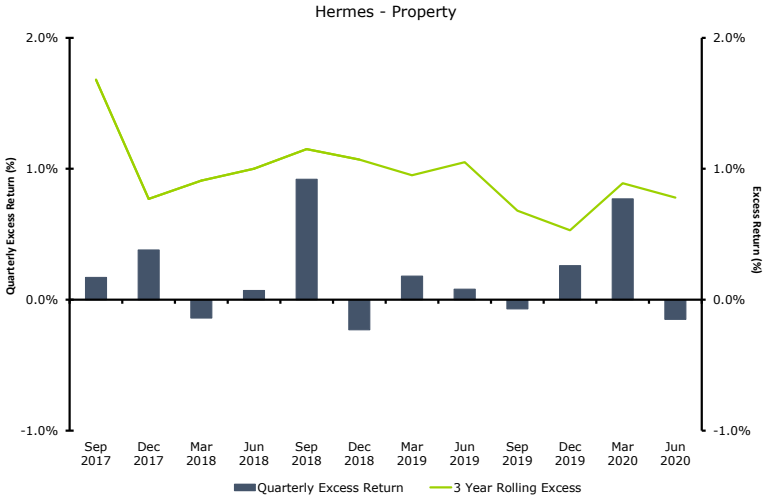
| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| **Hermes – Net of fees** | -2.3 | -1.5 | 4.8 | 8.3 |
| **Benchmark** | -2.1 | -2.3 | 4.0 | 7.0 |
| **Relative** | -0.2 | 0.8 | 0.8 | 1.3 |

*Source: Northern Trust*
*Inception date is taken as 26 October 2010*

On a net of fees basis, the Hermes Property Unit Trust underperformed its IPD-based benchmark by 0.2% over the second quarter of 2020, delivering negative absolute returns of -2.3%. Over the one-year and three-year periods to 30 June 2020, the strategy has outperformed the benchmark by 0.8% and 0.8% p.a. respectively.

As highlighted within the Manager Updates section of this report, during the quarter Hermes placed a material uncertainty clause on the valuation of the HPUT, with limited market transactions providing the independent valuers with insufficient information with which to value its assets. Hermes stated that the independent valuers, Knight Frank and RICS, would continue to monitor the situation closely. As at 24 June 2020, the independent valuers were able to lift the material uncertainty clauses on assets in certain sectors, including industrial and supermarket, however 64% of the Trust remained subject to the clauses as at 24 June 2020. Following quarter end, the RICS Leadership Forum came to the conclusion that the material valuation uncertainty should generally be lifted with effect from 9 September 2020, the Trust's valuations are therefore no longer subject to the material valuation uncertainty clause.

The HPUT's allocation to industrial and supermarket assets provided the largest positive contribution to performance over the quarter, which was attributed to a resilient occupier market, stable investment sentiment and the lifting of the material uncertainty clause. However, these positive contributions were outweighed by negative returns seen across the Trust's office, shopping centre, retail warehouse and unit shops as investment sentiment within these sectors remained subdued alongside the fundamental structural changes occurring as a result of COVID-19.




The Trust completed the sale of Camden Works, a London based office, during the quarter at a price of £42.6m, representing a 10% premium on the latest valuation. Hermes acknolwedged that the asset had reached business plan completion and considered the asset to carry some degree of risk, with limited future growth potential.

The Trust also sold Portobello House, Ladbroke Grove, a pub in London for £2.9m, reflecting a net initial yield of c. 2.6%. The transaction price had been agreed pre COVID-19 and reflects a significant premium to valuation.

Hermes completed the acquisition of a retail warehouse investment in St Lawrence Retail Park, York, for c. £16.1m, representing a net initial yield of 8.7%. The site totals 9.6 acres, comprising a 102,360 sq. ft. retail warehouse with a low site coverage of 25%. The unit is let to B&Q with 4.6 years unexpired. The asset is located close to York city centre and offers redevelopment options through residential change of use or splitting up the store to accommodate multiple occupants.

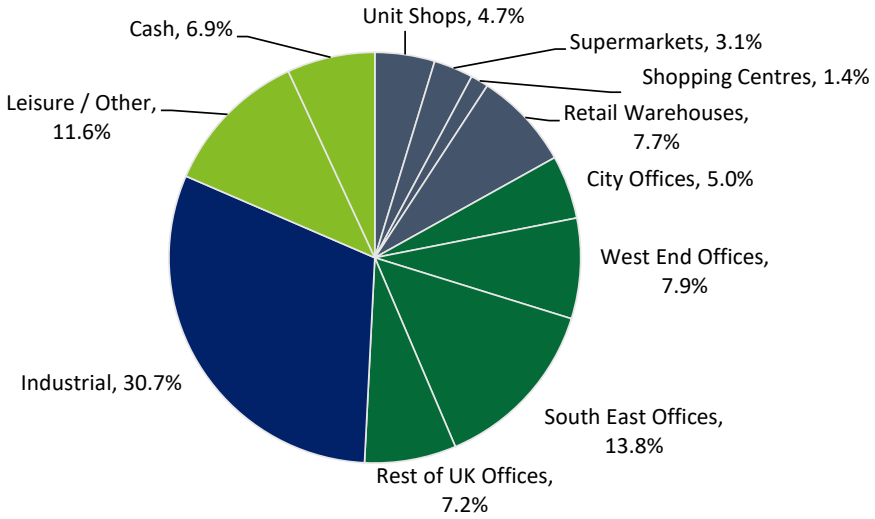
As at 24 June 2020, Hermes stated that 78% of total Q2 2020 rent demanded had been collected by the HPUT. The collection rates for the industrial and office sectors' collection rates were 85% and 91% respectively, contributing approximately 70% of total rent demanded. Unit shops/shopping centres and leisure/other sectors, which continued to undergo headwinds, had collection rates of 40% and 25% respectively.

Hermes stated that, as at 15 June 2020, the Trust had collected 58% of total Q3 rent demanded, with Hermes stating that continous engagement and support provided to tenants is helping to deliver an increase in collection rates compared with previous quarters. However, the sector discepencies are likely to remain.

As at 24 June 2020, the Trust had an average lease length of 8.3 years compared with 7.1 years as at 25 March 2020.

## 10.2 Portfolio Summary as at 30 June 2020

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 June 2020 shown below.




The table below shows the top 10 directly held assets in the fund as at 30 June 2020, representing c. 35.3% of the fund.

| Asset | Sub-sector | Value (£m) |
|---|---|---|
| Maybird Shopping Park, Stratford-upon-Avon | Retail Warehouses | 65.2 |
| 8/10 Great George Street, London SW1 | Offices | 62.1 |
| Broken Wharf House, London | Leisure/Other | 60.0 |
| Polar Park, Bath Road, Heathrow | Industrials | 52.5 |
| Horndon Industrial Park, West Horndon CM13 | Industrials | 49.5 |
| 27 Soho Square, London W1 | Offices | 47.1 |
| Sainsbury's, Beaconsfield | Supermarkets | 42.9 |
| Round Foundry & Marshalls Mill, Leeds | Offices | 39.5 |
| The Summit Centre, Heathrow | Industrials | 34.8 |
| Boundary House, London EC1 | Offices | 34.3 |
| **Total** | | **487.9** |

*Source: Hermes*

# 11 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

## 11.1 Long Lease Property – Investment Performance to 30 June 2020

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| Aberdeen Standard - Net of fees | 0.3 | 4.7 | 6.9 | 8.1 |
| Benchmark | 2.9 | 13.2 | 8.0 | 7.5 |
| Relative | -2.6 | -8.5 | -1.1 | 0.5 |

*Source: Aberdeen Standard Investments*
*Since inception: 14 June 2013*

Over the quarter to 30 June 2020, the ASI Long Lease Property Fund delivered 0.3% on a net of fees basis, underperforming its FT British Government All Stocks Index benchmark by 2.6%.

The Long Lease Property Fund has outperformed the wider property market, as measured by the MSCI (formerly IPD Monthly) UK All Property Index, by 2.6% over the quarter on a net of fees basis. Outperformance relative to IPD can be attributed to the Fund's stronger tenant quality, with the impact of COVID-19 continuing to dominate the property market over the second quarter of 2020. Outperformance has also been driven by the portfolio's long, inflation-linked leases and the lack of any high street, shopping centre or retail warehouse exposure with these sectors particularly impacted by the COVID-19 outbreak.

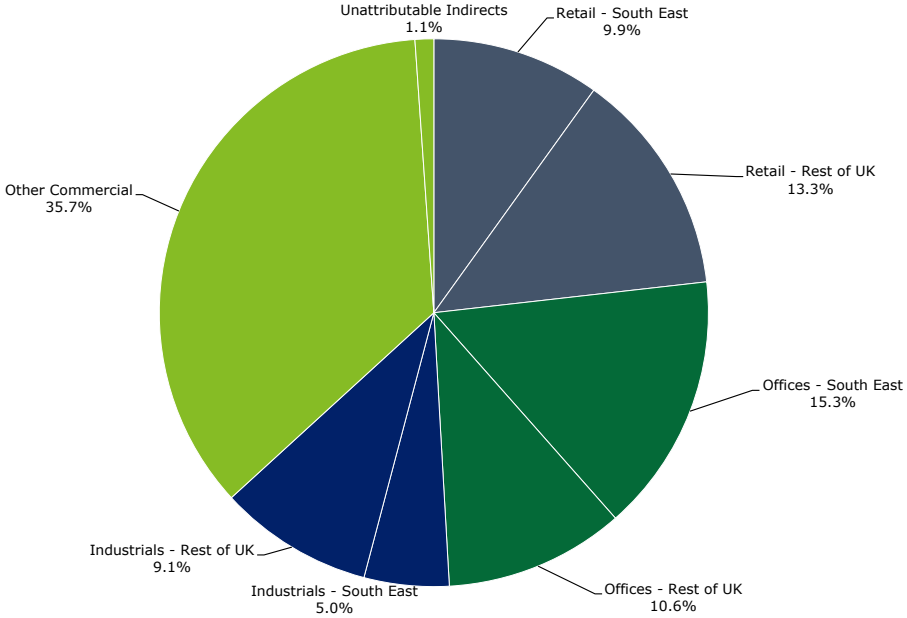
As a result of the continued lack of transactional activity, and therefore the lack of market evidence for external valuers, ASI stated that the "material uncertainty clause" remained in place regarding the valuation of the portfolio as at 30 June 2020. Following quarter end, ASI announced that the deferral of trading of the Long Lease Property Fund, alongside the "material uncertainty clause" relating to valuations, has been lifted with dealing returning to normal as at 3rd August 2020. This follows confirmation from the external valuers that there is sufficient market based evidence to provide accurate and reliable valuations for the strategy's assets.

As markets begin to return to a degree of normality, ASI expects long lease property to continue to outperform the wider market. Whilst ASI suspects the values of its higher quality assets may strengthen, the manager admits that those assets in the hospitality, leisure, pub and restaurant sectors are expected to realise a decline in values.

Rent collection has proved to be a challenge for landlords as a result of the COVID-19 outbreak. The Long Lease Property Fund has collected 92.2% of its rental income over the second quarter of 2020, with 3.8% subject to deferment arrangements and 3.8% of rent unpaid or subject to ongoing discussions with tenants. ASI has collected 89.7% of its Q3 2020 rent as at 8 September, with the proportion of the portfolio subject to deferment arrangements increasing to 6.1% and the proportion unpaid or subject to ongoing discussions with tenants increasing to 4.2%.

## 11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 June 2020 is shown in the graph below.




Over the quarter to 30 June 2020, the Fund's allocation to the office and retail sectors remained at 25.9% and 23.2% respectively. The allocations to industrials and other commercial properties decreased by 0.2% to 14.1% and increased by 0.2% to 35.7% respectively over the quarter.

Q2 and Q3 2020 rent collection, split by sector, as at 18 August 2020 is reflected in the table below:

| Sector | Proportion of Fund (%) | Q2 2020 collection rate (%) | Q3 2020 collection rate (%) |
|---|---|---|---|
| Alternatives | 6.1 | 99.2 | 100.0 |
| Car Parks | 3.7 | 100.0 | 100.0 |
| Car Showrooms | 2.9 | 100.0 | 79.6 |
| Hotels | 7.9 | 92.1 | 82.8 |
| Industrial | 15.0 | 100.0 | 90.1 |
| Leisure | 3.3 | 50.0 | 66.0 |
| Public Houses | 5.6 | 0.0 | 25.8 |
| Offices | 27.4 | 100.0 | 90.7 |
| Student Accommodation | 9.6 | 100.0 | 83.2 |
| Supermarkets | 18.5 | 100.0 | 99.7 |
| **Total** | **100.0** | **89.6** | **81.0** |

The leisure sector, primarily pubs and restaurants, has been impacted the most by the COVID-19 outbreak with assets with tenants subject to restrictions having limited trade.

As at 15 July 2020, six tenants have issued requests to ASI for rent deferment, representing 13.7% of Fund income:

- Marstons' plc, whose pubs had closed for trade but have now largely re-opened, has deferred its rent payments for Q2, to be repaid over the next 12 months. Q3 rent is to be paid monthly.
- Park Holidays, which has had holiday bookings cancelled, on park leisure facilities closed and parks only open to existing lodge and caravan owners, has had 50% of its rent deferred for Q2 to be repaid in Q4. Parks have since re-opened on a reduced service basis and Q3 rent is to be paid monthly.
- Caprice (The Ivy) has re-opened after previously being closed for trade. Rent deferment is being discussed.
- Z-hotels has re-opened, previously closed for trade. Rent has been deferred for Q2, to be repaid over the next 12 months.
- Merlin Attractions' Legoland park and hotel has now re-opened, following previous closure. Rent deferment is being discussed for Q3, having paid rent in full for Q2.
- Napier University, following concerns over the lack of summer trade as a result of no summer schools and the cancellation of the Edinburgh Fringe Festival, has deferred 50% of its Q3 rent.

The table below shows details of the top ten tenants in the fund measured by percentage of net rental income:

| Tenant | % Net Income | Credit Rating |
|---|---|---|
| Tesco | 7.6 | BBB |
| Whitbread | 5.8 | BBB |
| Sainsbury's | 4.7 | BB |
| Marston's | 4.5 | BB |
| Asda | 3.9 | BBB |
| Salford University | 3.7 | A |
| QVC | 3.5 | BB |
| Save the Children | 3.5 | BB |
| Lloyds Bank | 3.4 | AA |
| Poundland | 3.4 | B |
| Total | 44.0* | |

*Total may not equal sum of values due to rounding

As at 30 June 2020, the top 10 tenants contributed 44.0% of the total net income of the Fund. Of which 16.2% of the net income came from the supermarket sector, with Tesco, Sainsbury's and Asda continuing to make up a significant proportion of the Fund at quarter end.

The unexpired lease term decreased from 25.0 years as at 31 March to 24.7 years as at 30 June 2020. The proportion of income with fixed, CPI or RPI rental increases increased by 0.1% to 90.5% over the quarter. The progression of the UK Statistics Authority's announcement to reform RPI to bring it into line with CPIH is being monitored as, should this take place, this would reduce the Fund's long term rental income growth.

## 11.3 Sales and Purchases

Due to the impact of the UK lockdown, ASI has continued to see a significant reduction in market activity.

Due to the suspension of drawing funds, ASI currently had one sale and leaseback acquisition on hold. The Fund expects to complete this transaction once the investment restrictions are lifted.

Additionally, two pre-let funding hotel projects, equating to 3.5% of total Fund value, have had construction suspended in line with government advice. The Dalata hotel in Glasgow was due to complete in Summer 2021 and the Dalata hotel in Bristol was due to complete in Autumn 2021. Completion dates for both properties have now been delayed until Autumn 2021 and early 2022 respectively.

# 12 Pantheon – Global Infrastructure Fund III

Pantheon was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

## 12.1 Global Infrastructure - Investment Performance to 30 June 2020

### Capital Calls and Distributions

Westminster committed $91.5m to Pantheon in February 2019.

- Over the quarter, Pantheon issued one capital call and one capital distribution:
  - A capital call of $2.7m for payment by 12 May 2020, representing c. 3.0% of Westminster's total commitment.
  - A capital distribution of $0.7m on 25 June 2020, representing c. 0.8% of Westminster's total commitment.
- Following quarter end, Pantheon has issued one net capital call:
  - A net capital call of $0.9m for payment by 21 September 2020, consisting a capital call of $2.4m (representing c. 2.7% of Westminster's total commitment) and a capital distribution of $1.6m (representing c. 1.7% of Westminster's total commitment).

The remaining unfunded commitment as at 21 September 2020 was c. $60.7m, with the Fund's total contribution at c. $30.9m and the Fund's $91.5m commitment c. 34% drawn.

### Activity

The PGIF III did not complete any further deals over the second quarter of 2020.

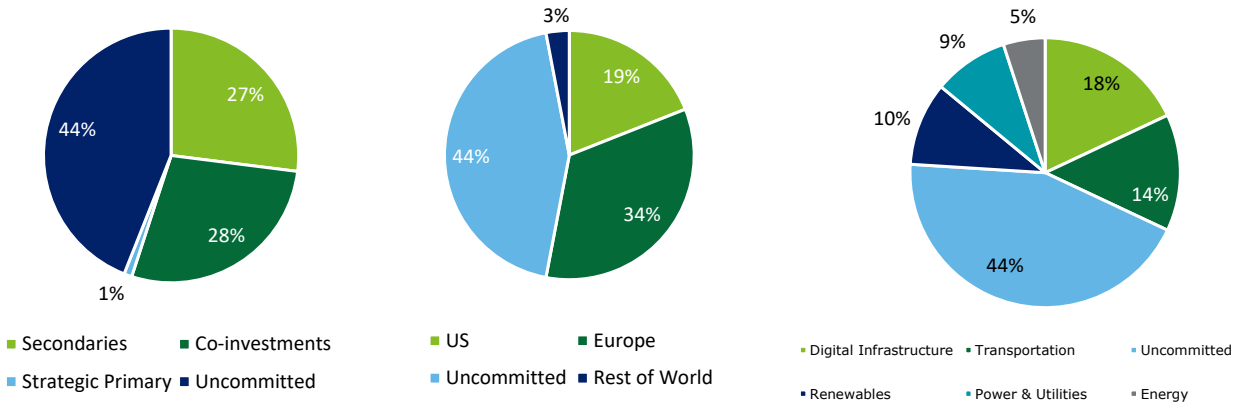
Over the quarter, Pantheon stated that the PGIF III was in the process of closing three further European co-investment deals – a $42m energy infrastructure project, a $25m telecommunications deal and a $66m telecommunications deal.

### Pipeline

Pantheon currently has an investment pipeline of infrastructure opportunities, with potential near-term deals representing c. $3.4bn of potential investments across secondary deals and co-investments. This pipeline represents opportunities shared between all Pantheon products with a demand for infrastructure. There is no guarantee that each of these opportunities will be completed.

## 12.2 Asset Allocation

The charts below show the current diversification by strategy, geography and sector in PGIF III as at 30 June 2020.



The target geographic diversification is 30-50% North America, 40-60% Europe and 3-15% Asia and others. The PGIF III also aims to be 15-20% energy infrastructure (midstream), 20-30% energy infrastructure (power/utility), 20-30% transportation, 10-20% PPP/social infrastructure and 10-20% other.

## 12.3 Investments Held

The table below shows a list of the investments held by PGIF III as at 1 July 2020.

| Project Name | Geography | Sector | Type | Deal Size ($m) | Commitment Date | COVID-19 Impact |
|---|---|---|---|---|---|---|
| Roger | Europe | Regulated Transmission & Distribution | Secondary | 28 | Dec 17 | High |
| TRAC Domestic | North America | Asset-Backed | Co-investment | 12 | Dec 17 | Low |
| Naturgy | Europe | Regulated Transmission & Distribution | Co-investment | 33 | May 18 | Medium |
| Luton Airport | Europe | Transportation | Co-investment | 23 | May 18 | High |
| Ribera | Europe | Energy Efficiency | Co-investment | 32 | Jul 18 | Low |
| Invenergy | North America | Conventional Power Generation | Co-investment | 32 | Aug 18 | Low |
| VTG | Europe | Asset-Backed | Co-investment | 64 | Sep 18 | Medium |
| Inti | Europe | Renewable Power Generation | Secondary | 22 | Dec 18 | Low |
| Megabyte | North America | Digital Infrastructure | Secondary | 75 | Dec 18 | Low |
| Hivory | Europe | Digital Infrastructure | Co-investment | 34 | Dec 18 | Low |
| Fairway | Global | Diversified | Secondary | 57 | Dec 18 | Low |
| Proxiserve | Europe | Energy Efficiency | Co-investment | 32 | Mar 19 | Medium |
| Asterion Industrial Fund I | Europe | Diversified Infrastructure | Strategic Primary | 16 | Mar 19 | Medium |
| Springbank | North America | Transportation | Secondary | 60 | May 19 | High |
| ORYX Midstream | North America | Energy Infrastructure | Co-investment | 65 | May 19 | Medium |
| Gemini | Europe | Transportation | Secondary | 65 | Jun 19 | High |
| Kookaburra | APAC | Diversified Infrastructure | Secondary | 58 | Jul 19 | High |
| Sullivan | Global | Diversified Infrastructure | Secondary | 120 | Jul 19 | High |
| Whitehelm European Fund II | Europe | Diversified Infrastructure | Strategic Primary | 15 | Sep 19 | Low |
| Nitrogen | Europe | Telecommunications | Secondary | 68 | Dec 19 | Low |
| McLaren | Global | Diversified Infrastructure | Secondary | 49 | Jan 20 | High |
| IFT (Violin) | Europe | Telecommunications | Co-investment | 53 | Jan 20 | Low |
| Zayo | North America | Telecommunications | Co-investment | 67 | Mar 20 | Low |
| Energy Asset Group | Europe | Energy Infrastructure | Co-investment | 34 | Apr 20 | Tbc |
| Viridor | Europe | Energy Infrastructure | Co-investment | 42 | Pending | Tbc |
| Telxius | Europe | Telecommunications | Co-investment | 25 | Pending | Tbc |
| Teemo | Europe | Telecommunications | Co-investment | 66 | Pending | Tbc |

# Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

## Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

| Manager | Asset Class | Long Term Strategic Benchmark Allocation | Benchmark | Outperformance Target | Inception Date |
|---|---|---|---|---|---|
| LGIM | Global Equity | 45.0 | FTSE World GBP Hedged | Passive | 01/11/12 |
| Baillie Gifford | Global Equity | 20.0 | MSCI AC World Index | +2.0 p.a. (net of fees) | 18/03/14 |
| Longview | Global Equity | 0.0 | MSCI World (GBP) Index | To outperform the benchmark over a market cycle | 15/01/15 |
| Insight | Buy and Maintain | 13.5 | Insight Custom Benchmark | n/a | 12/04/18 |
| CQS | Multi Asset Credit | 6.5 | 3 Month Libor | + 4% p.a. (net of fees) | 30/10/18 |
| Hermes | Property | 5.0 | IPD UK PPFI Balanced PUT Index | +0.5 p.a. (net of fees) | 26/10/10 |
| Aberdeen Standard Investments | Property | 5.0 | FTSE Gilts All Stocks Index +2% p.a. | +0.5 p.a. (net of fees) | 14/06/13 |
| Pantheon | Global Infrastructure | 5.0 | 3 month Libor | + 8% p.a. (net of fees) | 15/04/19 |
| | Total | 100.0 | | | |

# Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

# Appendix 3 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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# City of Westminster Pension Fund

## Funding update report as at 30 June 2020

**Barnett Waddingham LLP**

27 August 2020

# Contents

# Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund), has asked that we carry out a quarterly monitoring assessment of the Fund as at 30 June 2020. The purpose of this assessment is to provide an update on the funding position.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

We have taken account of current LGPS Regulations (as amended) as at the date of this report. An allowance consistent with the approach at the 2019 valuation has been made for current uncertainties in LGPS benefits (in relation to the effects of the McCloud/Sargeant judgement and cost cap). At the time of producing this report the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

The information in this report is addressed to and is provided for use by Westminster City Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

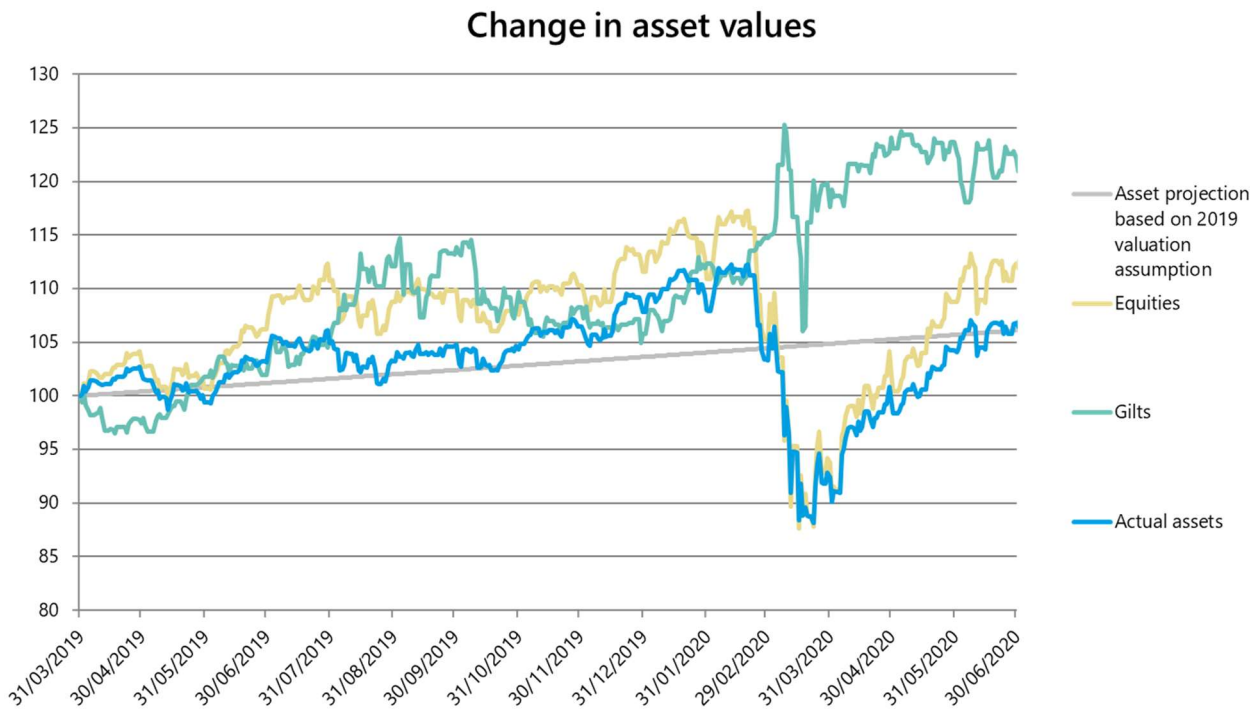
# Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2020, based on data received from Westminster City Council, is as follows:

| Assets (market value) | 30 June 2020 | | 31 March 2020 | | 31 March 2019 | |
|---|---|---|---|---|---|---|
| | £000s | % | £000s | % | £000s | % |
| Equities | 1,126,029 | 74% | 933,739 | 71% | 1,064,368 | 75% |
| Other bonds | 236,918 | 16% | 216,088 | 16% | 198,690 | 14% |
| Property | 152,659 | 10% | 150,708 | 11% | 144,358 | 10% |
| Cash | 11,643 | 1% | 19,205 | 1% | 10,916 | 1% |
| **Total assets** | **1,527,249** | **100%** | **1,319,740** | **100%** | **1,418,332** | **100%** |

The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2020 is estimated to be 15.6%. The return achieved since the previous valuation is estimated to be 6.8% (which is equivalent to 5.4% p.a).

The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:




As we can see the asset value as at 30 June 2020 in market value terms is slightly more than where it was projected to be at the previous valuation.

For funding purposes, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the six month period around 30 June 2020. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

# Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect

market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

The following table show how the main financial assumptions have changed since the last triennial valuation:

| | 30 June 2020 | | 31 March 2020 | | 31 March 2019 | |
|---|---|---|---|---|---|---|
| Assumptions (smoothed) | Nominal | Real | Nominal | Real | Nominal | Real |
| | % p.a. | | % p.a. | | % p.a. | |
| Pension increases (CPI) | 2.18% | - | 2.20% | - | 2.65% | - |
| Salary increases | 3.18% | 1.00% | 3.20% | 1.00% | 3.65% | 1.00% |
| Discount rate | 4.26% | 2.08% | 4.36% | 2.16% | 4.84% | 2.19% |

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 0.7%.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see, the real discount rate is broadly similar as at the 31 March 2019 valuation, maintaining the value of liabilities used for funding purposes.

# Results

The funding position for each month has been rolled forward from the formal valuation and is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 June 2020 is 97.7% and the average required employer contribution would be 20.1% of payroll assuming the deficit is to be paid by 31 March 2039.
- This compares with the reported (smoothed) funding level of 98.6% and average required employer contribution of 18.8% of payroll at the 31 March 2019 funding valuation.

The discount rate underlying the smoothed funding level as at 30 June 2020 is 4.3% p.a. The investment return required to restore the funding level to 100% by 31 March 2039, without the employers paying deficit contributions, would be 4.4% p.a.

Since the formal valuation, the funding level has decreased slightly mainly due to a reduction of the discount rate relative to the long term pension increase assumptions. This also resulted in an increase in the total required contribution rate.

BARNETT WADDINGHAM
beyond the expected

## Westminster City Council

We have also estimated the funding position of Westminster City Council. The development since 31 March 2019 can be found in the table below.

| Smoothed results | Assets | Liabilities | Surplus / (Deficit) | Funding level | CARE ongoing cost |
|---|---|---|---|---|---|
| Valuation date | £000s | £000s | £000s | % | % of pay |
| 31 Mar 2019 | 952,247 | 1,104,595 | (152,348) | 86% | 16.8% |
| 30 Apr 2019 | 967,125 | 1,117,039 | (149,914) | 87% | 17.1% |
| 31 May 2019 | 978,573 | 1,126,775 | (148,202) | 87% | 17.3% |
| 30 Jun 2019 | 990,090 | 1,134,713 | (144,623) | 87% | 17.5% |
| 31 Jul 2019 | 995,425 | 1,139,250 | (143,825) | 87% | 17.5% |
| 31 Aug 2019 | 1,002,471 | 1,144,578 | (142,107) | 88% | 17.6% |
| 30 Sep 2019 | 1,005,329 | 1,148,818 | (143,489) | 88% | 17.6% |
| 31 Oct 2019 | 1,007,432 | 1,154,176 | (146,744) | 87% | 17.7% |
| 30 Nov 2019 | 1,009,145 | 1,159,693 | (150,548) | 87% | 17.8% |
| 31 Dec 2019 | 991,682 | 1,146,605 | (154,923) | 86% | 17.3% |
| 31 Jan 2020 | 979,867 | 1,139,276 | (159,409) | 86% | 17.0% |
| 29 Feb 2020 | 1,008,599 | 1,137,337 | (128,738) | 89% | 16.9% |
| 31 Mar 2020 | 986,513 | 1,141,440 | (154,927) | 86% | 17.0% |
| 30 Apr 2020 | 992,299 | 1,146,594 | (154,295) | 87% | 17.0% |
| 31 May 2020 | 992,517 | 1,149,517 | (157,000) | 86% | 17.1% |
| 30 Jun 2020 | 1,008,499 | 1,165,804 | (157,305) | 87% | 17.5% |

## Update to funding assumptions

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. The funding model assumes that current dividend levels will increase by 1.5% more than CPI in the longer term.

Dividend futures markets can provide an indication of future dividend expectations and although quite volatile are currently suggesting potentially a 20% reduction.

If global dividends were to reduce by 20% without any additional long term growth to compensate then the funding level of both the Fund and Westminster City Council would reduce by around 6%.

Once we understand the longer term effects of the current crisis on the investment markets, we suggest we review that the valuation assumptions remain appropriate for the purposes of these funding updates.

# Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk, financial risks (including inflation and investment risk) and regulatory risks. There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2019 actuarial valuation report.

Note that the funding position at a future date will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

We would be pleased to answer any questions arising from this report.

**Barry McKay FFA**
**Partner**
**Barnett Waddingham LLP**

# Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 9%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 9%.

| Smoothed results | Assets | Liabilities | Surplus / (Deficit) | Funding level | CARE ongoing cost | Past service ctbn | Total ctbn | Discount rate | Return required to restore funding level |
|---|---|---|---|---|---|---|---|---|---|
| Valuation date | £000s | £000s | £000s | % | % of pay | % of pay | % of pay | % p.a. | % p.a. |
| 31 Mar 2019 | 1,410,581 | 1,430,547 | (19,966) | 99% | 17.9% | 0.9% | 18.8% | 4.8% | 4.9% |
| 30 Apr 2019 | 1,447,503 | 1,447,420 | 83 | 100% | 18.2% | 0.0% | 18.2% | 4.8% | 4.8% |
| 31 May 2019 | 1,454,375 | 1,460,533 | (6,158) | 100% | 18.4% | 0.3% | 18.7% | 4.7% | 4.8% |
| 30 Jun 2019 | 1,483,529 | 1,471,765 | 11,764 | 101% | 18.6% | 0.0% | 18.6% | 4.7% | 4.7% |
| 31 Jul 2019 | 1,494,312 | 1,478,072 | 16,240 | 101% | 18.7% | 0.0% | 18.7% | 4.6% | 4.6% |
| 31 Aug 2019 | 1,490,620 | 1,485,419 | 5,201 | 100% | 18.7% | 0.0% | 18.7% | 4.6% | 4.6% |
| 30 Sep 2019 | 1,497,782 | 1,491,329 | 6,453 | 100% | 18.8% | 0.0% | 18.8% | 4.5% | 4.5% |
| 31 Oct 2019 | 1,509,343 | 1,498,720 | 10,623 | 101% | 18.9% | 0.0% | 18.9% | 4.5% | 4.4% |
| 30 Nov 2019 | 1,522,534 | 1,506,309 | 16,225 | 101% | 19.0% | 0.0% | 19.0% | 4.4% | 4.4% |
| 31 Dec 2019 | 1,507,589 | 1,489,490 | 18,099 | 101% | 18.5% | 0.0% | 18.5% | 4.4% | 4.4% |
| 31 Jan 2020 | 1,478,239 | 1,480,233 | (1,994) | 100% | 18.1% | 0.1% | 18.2% | 4.4% | 4.4% |
| 29 Feb 2020 | 1,481,306 | 1,478,878 | 2,428 | 100% | 18.0% | (0.1%) | 17.9% | 4.4% | 4.4% |
| 31 Mar 2020 | 1,447,859 | 1,484,922 | (37,063) | 98% | 18.1% | 1.6% | 19.7% | 4.4% | 4.5% |
| 30 Apr 2020 | 1,450,763 | 1,492,138 | (41,375) | 97% | 18.2% | 1.8% | 20.0% | 4.3% | 4.5% |
| 31 May 2020 | 1,455,147 | 1,496,437 | (41,290) | 97% | 18.2% | 1.8% | 20.0% | 4.3% | 4.5% |
| 30 Jun 2020 | 1,483,171 | 1,518,304 | (35,133) | 98% | 18.6% | 1.5% | 20.1% | 4.3% | 4.4% |

# Appendix 2 Data, method and assumptions

## Data

In completing our calculations we have used the following items of data, which we received from Westminster City Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 30 June 2020; and
- Estimated Fund returns based on Fund asset statements provided to 30 June 2020, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. We have made no allowance for discretionary benefits.

## Method

To assess the value of the Fund's liabilities as at 30 June 2020, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2019 using the financial assumptions below and estimated cashflows paid to and from the Fund.

It is not possible to assess the accuracy of the estimated value of the liabilities as at 30 June 2020 without completing a full valuation. However, we are satisifed that the approach of rolling forward the previous valuation data to 30 June 2020 should not introduce any material assumptions in the results provided that the actual experience of the Fund is broadly in line with the underlying assumptions and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

We have been provided with the Fund assets at various dates but for dates that these are not available, we calculate the Fund assets by rolling forward the previous assets provided allowing for investment returns (estimated where necessary), and estimated cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 30 June 2020.

## Assumptions

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2019 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.

The main demographic assumptions are:

- The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 105% for females.;
- The dependant post retirement mortality tables adopted are the S3DA tables with a multiplier of 70% for males and 85% for females.

These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.

The other key demographic assumptions are:

- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

City of Westminster

# Committee Report

| | |
|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Local Government Pension Scheme McCloud Consultation – Amendments to the Statutory Underpin** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There will be no immediate financial implications from this report. However, the amendments to statue will require additional administration resources, result in additional cost and increase the Fund's liabilities.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 The Ministry of Housing, Communities and Local Government (MHCLG) has issued a consultation on proposals to remove age discrimination from the Local Government Pension Scheme (LGPS). This was caused by the transitional protections introduced at the time of LGPS Scheme reform (from final salary to career average revalued earnings) on 1 April 2014, which are now considered unlawful.

1.2 The proposals extend the protection to cover further members and amend how the protection works, requiring the benefits of those previously covered to be reviewed. Applying the remedy will be a significant administrative exercise.

1.3 In order to rectify the matter, additional administration resources will be required, resulting in additional cost and an increase in the Fund's liabilities.

1.4 The consultation will close on 8 October 2020. It is currently anticipated that revised Regulations will not be in place before 2022/2023. The consultation is attached as Appendix 1 sets out the proposals for addressing the issue in the LGPS.

## 2 Recommendation

2.1 The Committee is requested to note the report and the anticipation that further staff resources will be required in due course, with progress updates brought to future meetings.

## 3 Background

3.1 At the time of the Lord Hutton report and public service pension scheme reform in 2014 (LGPS) and 2015 (the remaining public service schemes), transitional protections were introduced to protect those deemed to be within ten years of retirement on 1 April 2012.

3.2 Following tribunal cases brought by McCloud (Judges' Scheme) and Sargeant (Firefighters' Scheme) and subsequent court appeals, the Court of Appeal ruled that the protections within those schemes were found to be unlawful on grounds of age discrimination.

3.3 The government chose not to seek leave to appeal to the Supreme Court and, instead, undertook to address the discrimination issue across all public service schemes. This has been a long and complicated exercise.

3.4 Unlike the other public sector schemes, the LGPS had retained its active members in one scheme, providing a final salary link for service to 31 March 2014 and a career average revalued earnings (CARE) scheme for membership from 1 April 2014. Active members who were in service on 31 March 2012 and within ten years of retirement on 1 April 2012 were protected by a statutory underpin.

3.5 Assuming a retiring officer continues to meet basic criteria, this ensured that the officer, with the right to immediate payment of benefits, would receive the better of the CARE scheme benefits or the benefits they would have received had the final salary scheme continued beyond 1 April 2014. This is calculated by the pensions administration system.

3.6 The consultation now issued and attached as Appendix 1 sets out the proposals for addressing the age discrimination issue in the LGPS scheme.

## 4 Consultation Proposals

4.1 The proposed solution extends the statutory underpin to cover all members active on 1 April 2012, irrespective of years remaining to retirement, who accrue benefits in the 2014 Scheme and who do not have a disqualifying break in service.

4.2 It also amends the operation of the underpin to ensure that it works consistently and effectively for all members, extending its reach to include active members who left or leave without immediate entitlement to benefits and taking account of adjustments to benefits at retirement such as early retirement reductions.

4.3 As a result, an exercise to review the benefit calculations of all qualifying active members who have left since 1 April 2014, including those who were covered by the current underpin, will be required.

4.4 The proposed revised underpin will require up to two calculations, the first upon the earlier of leaving active membership or reaching the 2008 Scheme normal pension age, and the second upon crystallisation of the benefits into payment. Benefits will only be increased to meet the underpin, if necessary, upon payment of pension.

4.5 Detailed proposals are provided for other events such as transfers and the payment of survivor benefits.

4.6 In order to clarify the position of members who did not aggregate previous deferred membership with their current membership, a 12-month aggregation window is proposed. Following this, only aggregated service will be covered by the underpin. This will require a dedicated one-off exercise.

4.7 It is proposed that protection should apply to membership to 1 April 2022, but that members' final salary at the first underpin date be used within the underpin calculation. This will mean that the protection will continue to be a feature of calculations for decades to come.

4.8 It is expected that more members will benefit from the proposals than under the current arrangements. Protection will be automatic and members do not need to apply. Members who joined the scheme after 31 March 2012 are not covered by the proposals.

4.9 At the same time, the Government also announced the unpausing of the 2016 cost cap process and that the review of the operation of the cost cap will complete prior to the 2020 cost cap process. This will enable the cost of the proposed remedy to be taken into account within the 2016 cost cap process.

4.10 The cost cap process is carried out by the Government Actuary Department (GAD) to measure the cost of the LGPS scheme and ensure it remains within the boundary of the original cost envelope.

4.11 If the cost is deemed to be out of those bounds, changes need to be made to the scheme benefits or contributions to bring the cost back into line with the cost envelope. It is separate from this consultation but may be impacted by it.

## 5 Key Issues

5.1 Applying the remedy in practice will not be straightforward. It will add further complications to the administration of the Scheme and will require additional

specialist resources. This cannot be fully quantified until the administration system providers can confirm how much of the processes can be automated.

5.2 They, in turn, are involved in discussions with their clients and with the Local Government Association (LGA) who are providing central preparation support for the LGPS in England and Wales.

5.3 The availability of specialist resources is limited. Planning will take place to establish how the required work can best be delivered alongside day-to-day work, and suitable resources secured. Initial discussions have taken place with Barnett Waddingham, the Fund's Actuary, regarding potential support available.

5.4 Exercises will be required to:

- Communicate with members to inform them of the proposal and in due course the outcomes, to manage expectations of when their record will be reviewed and to include underpin information on annual benefit statements as proposed in the consultation.

- Communicate with participating employers to acquire final salary and service break details since 1 April 2014, and update member records. This detail is no longer required by the current CARE Scheme but is required to operate the final salary underpin calculation. It is anticipated that issues will arise in obtaining data from historic payrolls and central guidance is awaited as to how such cases should be treated.

- Inform members of the 12-month aggregation window and process the resulting transfers.

- Review all leaver records for members who ceased active membership since 1 April 2014, applying the new underpin tests and retrospectively amending benefits and paying arrears where the underpin benefits apply.

- Update processes and train staff to carry out the underpin tests for future leavers.

- Calculate and prepare communications on member pensions tax issues.

5.5 Fund liabilities are anticipated to increase, with provision for remedy being made at the 2019 Fund valuation. At Fund level, it is anticipated that the effect of the proposals will not make a further material difference. However, the effect at individual employer level will depend on membership profiles and may vary. This will be further explored with the Fund Actuary as the proposals develop.

## 6 Regulations

6.1 The consultation includes the draft LGPS Regulations to give effect to the proposals. However, Her Majesty's Treasury may require final regulations to wait for the unfunded pension schemes solution to be finalised. They may, therefore, not be effective until 2022/2023. In the intervening period, member records can be updated and preparations made.

## 7 Equality Implications

7.1 The consultation proposals are designed to address discrimination in the LGPS. The document notes that MHCLG has analysed the proposals to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in Section 149 of the Equality Act 2010. In doing so, an equalities impact report prepared by the Government's Actuary Department, has been considered.

7.2 The consultation seeks views from stakeholders and notes that the matter will be kept under review. A further equalities impact assessment will be undertaken following the consultation.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062**

**Background Papers:** None

**Appendices:**

Appendix 1: MHCLG Consultation: LGPS (England & Wales) – Amendments to the statutory underpin

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Ministry of Housing,
Communities &
Local Government

# Local Government Pension Scheme (England and Wales)

## Amendments to the statutory underpin

July 2020
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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For all our latest news and updates follow us on Twitter: https://twitter.com/mhclg

July 2020

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# Scope of the consultation

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| Topic of this consultation: | This consultation seeks views on changes to the Local Government Pension Scheme in England and Wales (LGPS). It outlines proposed changes to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements. Specifically, we propose to remove the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. In removing the discrimination, we are proposing a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members. |
| Scope of this consultation: | MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS). |
| Geographical scope: | These proposals relate to the LGPS in England and Wales only. Separate consultation exercises will be undertaken by the relevant devolved authorities relating to the issues addressed in this consultation as they affect the local government pension schemes in Scotland and in Northern Ireland. |
| Impact Assessment: | <u>Public Sector Equality Duty</u><br>The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the Department to pay due regard to the need to:<br><br>1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act<br>2) advance equality of opportunity between people who share a protected characteristic and those who do not<br>3) foster good relations between people who share a protected characteristic and those who do not.<br><br>The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the |

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| | firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts in the context of the firefighters' and judicial pension schemes.<br><br>Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the underpin would apply to members of different age groups would remain. These are set out separately below, along with our assessment of these differences.<br><br>1) **Qualification for the underpin -** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, where experience shows they have a higher withdrawal rate from scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members who joined after this date will have joined the LGPS when either it had already transitioned to the career average structure (for post-1st April 2014 joiners), or when it was well publicised that the LGPS benefits were reforming.<br><br>2) **Members who benefit from the underpin** - GAD's analysis also shows that active members between the ages of 41 and 55 as at 31st March 2019 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than their younger and older colleagues. This reflects previous experience and future expectation that:<br><br>• this group are more likely than their older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period and<br>• this group are more likely than their younger colleagues to remain in active membership until such time as they would receive the pay progression necessary for the underpin to result in an addition to their pension (e.g. through promotions and other pay increases).<br><br>These differential impacts reflect the workings of a final salary scheme, and demonstrate some of the effects that can arise under that design. The Government proposes to move all local |

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| | government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.<br><br>In relation to sex, we anticipate that, broadly, the proportion of men and women who would qualify for the revised underpin and benefit from that protection matches the profile of the scheme. This assessment is also based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019.<br><br>Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).<br><br>These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.<br><br>Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (Q1 2020) and the Annual Population Survey (2019) in considering these characteristics. We do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to individuals with the following protected characteristics: disability, ethnicity, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.<br><br>Further information regarding the equalities impacts of our proposals is contained in paragraphs 111 to 127. In this consultation, we are seeking views from stakeholders on the equalities impacts of the changes proposed. These views will be considered in determining how to proceed following the consultation exercise.<br><br>The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be |

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| | undertaken following the consultation at the appropriate juncture.<br><br>Other impacts<br>The proposals in this paper are estimated to cost LGPS employers £2.5bn in the coming decades, as protected members retire and begin to receive their benefits. This estimate is based on a number of assumptions regarding the demographics of the LGPS in the years to come. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. The £2.5bn estimate is based on an annual future long-term pay growth assumption of CPI+2.2%, which is the assumption used by GAD for the 2016 valuations of public service pension schemes. If annual future pay growth is less than this, the ultimate costs will be lower (and vice versa).<br><br>As the LGPS is a funded scheme, employer contribution rates are set through local fund valuations and take into account a number of factors. As a result of this, it is not possible to say precisely how the proposals may impact on any individual employer's contribution rate.<br><br>None of the changes contained in this consultation require a Regulatory Impact Assessment under the Small Business, Enterprise and Employment Act 2015. |

## Basic Information

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| To: | This consultation outlines details of proposed changes to the benefits of the LGPS and is particularly aimed at LGPS administering authorities, scheme members, scheme employers and their representatives.<br><br>Any change to the LGPS is likely to be of interest to other stakeholders as well, such as professional advisers and local taxpayers. We welcome views on the proposals from all interested parties. |
| Body/bodies responsible for the consultation: | Local Government Finance Stewardship, Ministry of Housing, Communities and Local Government |
| Duration: | This consultation will last for 12 weeks from 16/07/2020 to 08/10/2020 |
| Enquiries: | For any enquiries about the consultation please contact:<br><br>LGPensions@communities.gov.uk |
| How to respond: | Please respond by email to:<br><br>LGPensions@communities.gov.uk |

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| | Alternatively, please send postal responses to:<br><br>Local Government Finance Stewardship<br>Ministry of Housing, Communities and Local Government<br>2nd floor, Fry Building<br>2 Marsham Street<br>London<br>SW1P 4DF<br><br>When you are responding, please make it clear which questions you are responding to. Additionally, it would be very useful if you could confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:<br><br>- your name,<br>- your position (if applicable),<br>- the name of your organisation (if applicable),<br>- an address (including post-code),<br>- an email address, and<br>- a contact telephone number. |

# Introduction

1. This consultation contains proposals to amend the rules governing ‘transitional protection’ in the LGPS, following a successful legal challenge to transitional protection arrangements in the firefighters’ and judicial pension schemes.

2. In April 2014, a series of changes were made to the Local Government Pension Scheme in England & Wales (LGPS) to reform the scheme’s benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. In the LGPS, these changes included:

- moving benefit accrual from a final salary to a career average basis, and
- linking members’ normal pension age with their State Pension age (but at a minimum of 65).

3. Following negotiations with trade unions, transitional protection for members nearing retirement was implemented by the Government as part of the overall reform package and was designed to ensure that older workers had certainty and would not be any worse off as a result of the reforms made to the scheme. Transitional protection arrangements applied across public service pension schemes and in the LGPS were implemented through a statutory ‘underpin’.

4. Whilst all LGPS members joined the career average scheme in April 2014, members who met certain qualifying criteria (including that they had been within ten years of their final salary scheme normal pension age on 1st April 2012) gained statutory underpin protection. Underpin protection means additional checks are undertaken for protected members with the intent of ensuring that the career average pension payable under the reformed LGPS is at least at high as the member would have been due under the final salary scheme. Where it is not as high, scheme regulations provide that an addition must be applied to the member’s career average pension to make up the shortfall.

5. In the ‘McCloud’ and ‘Sargeant’ court cases (which related to the judicial and firefighters’ pension schemes respectively), the Court of Appeal found that the transitional protection arrangements in those schemes directly discriminated against younger members in those schemes and this could not be objectively justified. In July 2019, the Government confirmed its view that the ruling had implications for all the main public service pension schemes, including the LGPS, and that the discrimination would be addressed in all the relevant schemes, regardless of whether members had lodged a legal claim.

6. This consultation sets out how MHCLG propose to amend the statutory underpin to reflect the Courts’ findings in these cases. Primarily, we propose to remove the age requirements from the underpin qualification criteria. However, we are also proposing additional changes to ensure that the underpin works effectively and consistently for all qualifying members following the extension of the underpin to younger members. From April 2022, it is proposed that the period of underpin protection will cease and all active LGPS members will accrue benefits in the career average scheme, without a continuing final salary underpin.

**7. Views from respondents are sought on questions 1 to 29 as well as on the draft regulations attached as annex B.**

# Background

## Public service pension reform and transitional protection

8. In April 2014 and April 2015 the Government introduced reformed public service pension schemes. The changes followed a fundamental structural review by the Independent Public Service Pension Commission (IPSPC), chaired by Lord Hutton of Furness.

9. The Government commissioned the review because the cost of providing the schemes had increased significantly over the previous decades, with most of this increase falling to the taxpayer. At the same time, occupational pension provision in the private sector had changed significantly; employers were increasingly moving away from offering defined benefit pension schemes[1].

10. In their final report[2], the IPSPC set out a framework for comprehensive reform of public service pensions that sought to balance concerns about the cost of the schemes to taxpayers and the need to ensure decent levels of retirement income for those who have devoted their working lives in the service of the public.

11. The Government accepted Lord Hutton's recommendations as the basis for consultation with scheme employers, trade unions and other interested parties. During negotiations the Government agreed to protect those public service workers who, as of 1 April 2012, had ten years or less to their normal pension age (NPA)[3], as they had least time to prepare.

12. The reforms were implemented in the LGPS in England and Wales from 1st April 2014, and in the other main public service pension schemes from 1st April 2015. The main features of the reformed schemes include later retirement ages to reflect the fact people have been living longer, higher employee contributions to rebalance the costs of the schemes between the members and taxpayers, and pensions based on average earnings rather than on pay at the point members retire or otherwise leave the schemes.

13. The schemes were designed to ensure that members would have good pensions, which at least met the target levels identified by Lord Turner's Pension Commission on the levels of income needed in retirement. The reformed schemes should provide many low and middle earners working a full career with pension benefits at least as good as, if not better than, the benefits they would have received under the previous arrangements.

14. The reformed schemes remain among the most generous available in the UK, and an important part of the remuneration of public service workers. Public service pension

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[1] Chart Ex. 1, p8 of IPSPC interim report, October 2010, https://www.ucu.org.uk/media/4328/Independent-Public-Service-Pensions-Commission---interim-report-7-Oct-10/pdf/hutton_pensionsinterim_071010.pdf
[2] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton
[3] In the 2008 Scheme, a member's normal pension age was known as their normal retirement age. However, for consistency, in this consultation document we refer to it as their normal pension age or their NPA.

provision compares favourably with pension provision in the private sector. In 2019 34% of all employees with workplace pensions in the public sector received contributions of at least 20% from their employer. This compares with just 3% of all employees with workplace pensions in the private sector who received at least 20% from their employer[4].

## Reform in the LGPS

15. In the LGPS, the final salary scheme that existed prior to these reforms was known as **'the 2008 Scheme'**. The reform package implemented from April 2014 (**'the 2014 Scheme'**) through the Local Government Pension Scheme Regulations 2013[5] (**'the 2013 Regulations'**) consisted of the following main elements:

- fundamentally, and consistent with the approach taken across the public sector, a move to future benefit accrual based on a member's pay over their career (a 'career average' structure), from a structure where member's benefits were based on a member's pay at leaving the scheme (a 'final salary' structure). Importantly, where active members had membership of the LGPS prior to April 2014 and did not have a disqualifying break in service[6], but had aggregated their membership, they retained a 'final salary link' that meant their pay at point of leaving the scheme would still be used in calculating their 2008 Scheme benefits, even where this is after April 2014.

- a move from a NPA of 65 to a NPA linked to a member's State Pension age, subject to a minimum of 65 (currently ranging from 65 to 68), but with members still able to retire as early as 55 or as late as 75, with actuarial reductions or increases applied, respectively.

- a move from a 1/60$^{th}$ accrual rate to a 1/49$^{th}$ accrual rate. A pension scheme's accrual rate is the proportion of a member's pay that they receive for each year of membership. The change in the LGPS accrual rate in the 2014 Scheme was a 22% improvement from that which applied in the 2008 Scheme.

- revisions to employee contribution bandings. From April 2014, employees' contributions to the LGPS were banded from 5.5% of earnings (for members earning less than £13,500 per year) up to 12.5% of earnings (for members earning over £150,000 per year). Contribution rates had also been banded in the 2008 Scheme, but the range had been narrower, from 5.5% to 7.5% of earnings.

- the introduction of a 50/50 section, giving scheme members the flexibility to pay half the contributions for half the pension accrual for a period of time, whilst still retaining full life cover and ill-health cover.

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[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults#contributions-to-workplace-pensions

[5] http://www.legislation.gov.uk/uksi/2013/2356/contents, as amended

[6] Where referred to in this document, a 'disqualifying break in service' is a continuous break of more than five years in active membership of a public service pension scheme.

16. As a whole, the package was designed to achieve the Government's aims in making the LGPS more sustainable, affordable and fairer in the longer term. In particular, the combination of the move to a career average basis and the improvement to the LGPS's accrual rate should mean that many low and medium paid members will receive a pension from the 2014 Scheme at least as good as the pension they would have received from the 2008 Scheme. In addition, whilst LGPS employer contributions vary, members will benefit from significantly higher employer contributions than the average applicable in the private sector.

## The statutory underpin

17. The LGPS provided transitional protection to its older workers via a statutory underpin (hereafter referred to as 'the underpin'). All members moved into the 2014 Scheme on the reform date of 1st April 2014, but 'protected members' (being the older group of members who met certain qualifying criteria and originally had underpin protection) were given an underpin that provides their retirement pension cannot be less than it would have been in the 2008 Scheme. In some public service pension schemes, tapered protections were provided to members who were between 10 and 14 years from their NPA on 1st April 2012, and so were not eligible for full protection (which was reserved for those within ten years of their NPA on 1st April 2012) However, in the LGPS, there were no tapered protections.

18. Underpin protection differs from the approach used in other main public service pension schemes[7] where older workers who met the criteria for transitional protection stayed in their final salary schemes after separate, new career average schemes were introduced in April 2015. In those schemes, different rules may therefore apply to protected and unprotected members in relation to areas of scheme design including contribution rates, survivor benefits and ill health retirement.

19. By contrast, the existing underpin only has application in relation to the value of a protected member's pension at their 'underpin date' (see paragraph 20 for further details). All members have participated in the reformed career average scheme from April 2014 and the same rules in relation to contributions and benefits apply to all members in the same way.

20. Underpin protection in the LGPS was implemented through regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014[8] (**'the 2014 Regulations'**). At a high level, underpin protection under regulation 4 works in the following way:

- Underpin protection is granted to those who were active members in the LGPS on 31st March 2012 and who on 1st April 2012 were 10 years or less from the NPA

[7] With the exception of the local government pension schemes in Scotland and Northern Ireland who took a similar approach to the LGPS in England and Wales.
[8] http://www.legislation.gov.uk/uksi/2014/525/contents/made, as amended

applicable to the member under the 2008 Scheme (usually 65[9])[10] (regulation 4(1)(a)).

- Those who meet the basic criteria for underpin protection retain this so long as they are:
  - in active membership in the 2014 Scheme the day before their 'underpin date' (see below),
  - do not have a disqualifying break in service after 31st March 2012, and
  - have not drawn benefits from the 2014 Scheme before their underpin date (regulation 4(1)(b) to (d) and (3)).
- The underpin test is carried out on an individual's 'underpin date' which is the earlier of:
  - the date the protected member reaches their NPA under the 2008 Scheme (usually 65), or
  - the date the protected member ceased to be an active member of the scheme with an immediate entitlement to a benefit (regulation 4(2)).
- The underpin test is carried out by comparing the 'assumed benefits' (i.e. the career average benefits the protected member has accrued) against the 'underpin amount' (i.e. the final salary benefits the protected member would have accrued if the scheme had not been reformed) (regulations 4(5) and (6)). These paragraphs contain detailed provisions which enable administrators to take into account a variety of factors in the comparison of benefits. For example, where the protected member is due to receive an enhancement to their 2014 Scheme benefits as a result of retiring on ill-health grounds, the difference between that enhancement and the enhancement they would have received under the 2008 Scheme would be considered.
- If the underpin amount is calculated to be higher than the assumed benefits on the underpin date, the protected member's pension account is to be increased by the difference (regulation 4(4)).

# The McCloud and Sargeant cases

21. Soon after the reformed scheme benefit structures were introduced in other public service pension schemes in April 2015, legal challenges were brought against the transitional protection arrangements in the judicial and firefighters' pension schemes ('McCloud' and 'Sargeant', respectively) on various grounds including that the transitional protections offered to older members constituted unjustified direct age discrimination. In those cases, younger firefighters and judges argued that younger members were treated less favourably than older members who were given transitional protection. The Court of

[9] By virtue of regulation 24(4) of the 2014 Regulations, some groups had a protected 2008 Scheme NPA of 60 in relation to their 2008 Scheme benefits.

[10] By virtue of regulation 9(1) of the 2014 Regulations, members who were not active in the LGPS on 31st March 2012, but who were active in another public service pension scheme on that date and who meet certain qualifying criteria may also have underpin protection

Appeal ruled in December 2018[11] that transitional protection in the judicial and firefighters' pension schemes gave rise to unlawful age discrimination.

22. The Government sought permission to appeal to the Supreme Court. This application was refused on 27 June 2019. In a written ministerial statement on 15 July 2019[12], the Government explained that it accepted that the Court of Appeal's judgment had implications for all schemes established under the Public Service Pensions Act 2013, as all schemes had provided transitional protection arrangements for older members. The Government confirmed that it would take steps to address the difference in treatment across all schemes and for all members with relevant service, regardless of whether they had lodged a claim. The matter has been remitted to the Employment Tribunals to determine a remedy for claimants[13]. Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations, and in February 2020 held technical discussions with the Scheme Advisory Board on these proposals.

[11] https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf
[12] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/
[13] The LGPS in England and Wales does not have any ongoing court cases relating to its underpin protection.

# Addressing the discrimination

## Our approach

23. In the McCloud and Sargeant cases, the Courts identified unjustified age discrimination in transitional protection arrangements in the Judicial and Firefighters' Pension Schemes. In relation to the LGPS, this difference in treatment exists between two groups of LGPS members:

- those who were in service on 31st March 2012 and were within ten years of NPA on 1st April 2012, therefore benefiting from underpin protection and 'better off' than the second group; and,

- those who were in service on 31st March 2012 and were more than ten years from NPA, were not eligible for underpin protection and therefore 'worse off' than the protected members (as they were not guaranteed a pension of at least the level they would have received in the final salary scheme).

24. At a high-level, our proposal for removing the difference in treatment from the LGPS is to extend underpin protection to the second group of members listed above – i.e. those who were not old enough to receive underpin protection when it was originally introduced. This should ensure that the two groups listed are treated equally for benefits accrued from April 2014 onwards. This proposal is described in more detail in the next section ('Detailed proposals'). The updated underpin is referred to here as 'the revised underpin'. The members who would be in scope of the revised underpin, both the group originally protected and those who would newly gain underpin protection under our proposals, are collectively referred to as 'qualifying members' in this document.

25. Consultees may be aware that Government has separately recently launched a consultation[14] seeking views on this matter as it applies to most of the other main public service pension schemes[15]. As noted already, transitional protection arrangements were different in other public service pension schemes and therefore different issues arise in considering an appropriate remedy for the discrimination found in McCloud and Sargeant. That other Government consultation seeks views on two options for removing the discrimination in those schemes, both involving an element of member choice between the reformed career average schemes and the legacy final salary schemes.

26. Member choice is being considered in relation to other public service pension schemes because, in those schemes, the two groups of members have participated in different pension schemes since April 2015 with different benefits between reformed and legacy schemes and, potentially, different employee contribution rates. This is not the case in the LGPS because underpin protection is designed to ensure that a qualifying member is better off without needing to make a choice.

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[14] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

[15] The LGPS is out of scope for the other Government consultation.

27. As set out in paragraphs 17 to 20, the underpin is principally an administrative test undertaken at the earlier of the date a qualifying member leaves active service and the date they reach their 2008 Scheme normal pension age. It is designed to guarantee that a qualifying member's pension calculation gives them the better of a) the pension they have built up in the career average 2014 Scheme and b) the pension they would have built up in the final salary 2008 Scheme, over the same time period.

**Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?**

28. To achieve the full benefits of the career average reforms made in April 2014, it is the Government's view that the underpin period should end for all qualifying members at a specified point in time.

29. Under the rules governing the existing underpin, no further underpin dates will arise beyond 31st March 2022, as this is the last date a protected member can reach their 2008 Scheme NPA. In considering how to equalise treatment between the unprotected and protected groups, we propose that both groups will be given underpin protection from 1st April 2014 to 31st March 2022 (or to the members' underpin date, where this is earlier). We consider that this approach will mean there is a consistent period of protection for all qualifying members – i.e. those who were members of the scheme on 31st March 2012 and who went to on to have 2014 Scheme membership without a disqualifying break in service (and who aggregated their membership), regardless of their age.

30. From 1st April 2022 it is our intention that all service in the LGPS will be on a career average basis, with no underpin. As set out in the Background section, we believe that the move from a final salary to a career average pension scheme design in April 2014 created a fairer structure for LGPS members. Under the 2014 Scheme, those public servants who see considerable increases in earnings over their career – and particularly towards the end of their career – are no longer likely to be relatively favoured compared with their colleagues who did not. Phasing out underpin protection is an important step to achieving the full benefits of a career average scheme design.

**Question 2 – Do you agree that the underpin period should end in March 2022?**

31. We are keen to ensure that the group of younger members who, under our proposals, would gain underpin protection have an equivalent level of protection to their older colleagues. It is therefore proposed that the underpin comparison would not, for most qualifying members, take place upon the underpin period ending in March 2022. Instead, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date (generally, the earlier of the member's date of leaving and age 65), even if this is after March 2022 – i.e. qualifying members will retain an ongoing 'final salary link', consistent with their pre-2014 pension accrual. For those who are currently at an earlier stage of their career, and who may have promotions and other salary increases later in their career, this ensures a fairer comparison of the two schemes' benefits. The final pay calculation would be based on a member's pay over their last 365

days of active membership, and would take into account the existing 'lookback' provisions where members have had a reduction in pay[16].

32. As part of this project we have considered how the existing underpin regulations work and the following section contains details of changes we are proposing. Collectively, the changes mean that the revised underpin regulations will differ in a number of respects from the existing underpin provisions contained in regulation 4 of the 2014 Regulations. We consider that these amendments are essential to ensure that the underpin regulations are clear and consistent and provide a framework of protection that works more effectively for all stakeholders and which, at the same time, provides in essence the same level of protection to scheme members.

33. Nonetheless, to avoid creating new differences in treatment in the LGPS, we propose that the amended regulations will apply retrospectively from 1st April 2014, ensuring that all qualifying members are subject to the same detailed provisions. We believe this is the best approach and one which will allow us to be confident we are addressing the findings of the Courts, and removing differences in treatment between older and younger workers. We do not plan that members' accrued rights would be detrimentally affected as a result of this approach, but we welcome comments from stakeholders if there are specific concerns about potential accrued rights issues.

34. In proposing these changes, we have considered the legal principle of 'minimum interference'. The courts have found this principle generally applies to pensions changes following an equal pay issue. Whilst it has not been recognised outside the context of equal pay, it could be considered in other contexts too. 'Minimum interference' means that the scheme is obliged to make the minimum necessary interference to ensure the scheme operates lawfully. Whilst some of the changes outlined in this consultation paper are not a direct consequence of the Courts' findings in the McCloud and Sargeant cases, we believe that they are necessary for the effective and consistent application of underpin protection to members of the LGPS.

35. Retrospective application of the proposed regulations means that certain cases will need to be revisited by scheme administrators. Below are examples of such cases:

- Cases where a member had underpin protection originally and the revised underpin may have applied differently to them. In practice, this may be all cases where a member already has underpin protection and has since had their underpin date.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since retired or left the LGPS with a deferred benefit.
- Cases where a member does not currently have underpin protection, but would have under the revised underpin, and has since transferred out of the LGPS or trivially commuted their benefits.

36. There will also be more difficult cases, for example, where members who may have benefitted from the proposals outlined in this consultation have died. In such cases, it is

[16] Under the 2008 Scheme, members with pay reductions or restrictions in their last ten years of continuous employment may have the option to have their final pay calculated as the average of any 3 consecutive years' pay in their last 13 years.

our view that administrators should take all steps to ensure that any retrospective increase in a member's pension arising from the underpin is taken into account in respect of relevant survivor benefits that became payable at the time of the member's death.

37. We are aware that retrospective application of the proposed draft regulations will lead to significant administrative complexity. We do not anticipate any recalculations would result in members' benefits being detrimentally affected. Further consideration of the complexities arising from retrospection are considered in the Implementation and Impacts section.

**Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?**

38. This consultation sets out proposals which are principally about removing unlawful discrimination from the LGPS. Achieving this key aim, and minimising the risk of further issues arising, has therefore been our primary concern in coming forward with these proposals. However, in doing so, we have been conscious of the additional administrative burden these changes would create and have sought to minimise the impacts wherever possible. We consider that the proposed approach is the simplest way we can effectively ensure that the revised underpin works effectively and fairly for all. Further consideration of the potential administrative impacts of the proposals is outlined in paragraphs 134 to 136.

# Detailed proposals

39. This section contains our detailed proposals on the proposed amendments to the underpin. Draft regulations have been prepared (**annex B**) and we would welcome general comments on those draft regulations, as well as specific comments on the below questions.

**Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?**

**Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?**

**Question 6 – Do you have other comments on technical matters related to the draft regulations?**

## The revised underpin – basic elements

40. The approach we have taken to the revised underpin consists of a number of basic elements, as described here.

### Qualification criteria

41. Fundamentally, under the revised underpin, members would no longer need to have been within ten years of their 2008 Scheme NPA to qualify for underpin protection. Members who were active in the 2008 Scheme on 31st March 2012 and who have accrued benefits under the 2014 Scheme without a disqualifying break in service (five or more years) would have underpin protection, subject to aggregation requirements.

42. An aspect of the existing underpin regulations that we are seeking to change is the requirement that a member must leave active service with an immediate entitlement to a pension for underpin protection to apply to them (regulation 4(1)(b) of the 2014 Regulations). We anticipate that when underpin protection is extended to younger workers, it is much more likely that members will leave the scheme before having an immediate entitlement to benefits, meaning they would not, as things stand, benefit from underpin protection. Under the revised underpin, we propose that underpin protection would apply where a member leaves with either a deferred or an immediate entitlement to a pension. This approach is also more likely to ensure that LGPS regulations are compliant with preservation requirements under the Pension Schemes Act 1993, which broadly require[17] that schemes do not contain rules which mean that leavers prior to normal pension age are treated less favourably than leavers at normal pension age. The retrospective application of this change would also aim to ensure that any members protected under the

[17] Section 72 of the Pension Schemes Act 1993

existing underpin who have suffered detriment due to the current wording would regain their underpin protection[18].

43. As per existing requirements, members who leave the LGPS without an immediate or deferred entitled to a pension[19] would not have underpin protection, as they would only be eligible for a refund of their contributions, aggregation with another LGPS record or a transfer to another scheme

**Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?**

**Question 8 – Are there any other comments regarding the proposed underpin qualifiying criteria you would like to make?**

## Aggregation

44. In reviewing the operation of the existing underpin, it has become clear that the current regulations do not implement our policy intent as clearly as we would like in one important respect, and the existing regulations could cause substantial new issues to arise. Whilst the LGPS is one pension scheme, with rules defined at the national level through scheme regulations, it is a locally administered scheme, with 87 administering authorities throughout England and Wales. It is an important principle for the effective and efficient administration of the scheme that administrators are generally able to calculate pension benefits independently and do not need to obtain data from other LGPS administrators to be able to undertake basic pension calculations. Such an approach also ensures that the scheme is run in accordance with the principle of 'data minimisation', where personal data is not shared between data controllers any more than is necessary for the effective administration of a member's pension.

45. To prevent such complications, the LGPS has aggregation provisions which mean that separate pension records can be joined together[20]. This means that, in most cases, members can choose whether to have LGPS records aggregated (or 'joined up') or kept separate from one another. Since 1st April 2014, aggregation is usually automatic[21] - where a member leaves an employment with a deferred benefit and then rejoins the LGPS

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[18] For example, members who, under regulation 24(1) of the 2014 Regulations, had a protected NPA of 60 in the 2008 Scheme. Some of these protected members would have been younger than 55 in April 2014 and may not have had an immediate entitlement to benefits at their underpin date.

[19] This applies where members do not have a qualifying service for a period of two years (regulation 3(7) of the 2013 Regulations). Special provisions apply where members joined before 1st April 2014.

[20] This does also require data sharing between administering authorities. However, the transfer of a record from one authority to another following a structured aggregation process is likely to be simpler and less prone to error than ad hoc sharing necessary to undertake pension calculations from time-to-time over a member's career.

[21] Where a member only has a deferred refund entitlement (i.e. has left with a refund entitlement which has not yet been paid) from a ceased period of LGPS membership, this must be aggregated with their subsequent LGPS membership and there is no choice (regulation 22(5) and (6) of the 2013 Regulations.

in another employment (potentially in another pension fund), they have 12 months to elect to their administrator for aggregation not to apply[22].

46. Where a member takes a decision which means their LGPS benefits are unaggregated, these are generally administered as separate entitlements. Where a member takes a decision which means their LGPS benefits are aggregated, their combined record is generally administered as one period of membership. For example, where a member with 2008 Scheme membership has not had a disqualifying break in service and aggregates that record with another LGPS membership, they would retain their final salary link on the combined record. By contrast, if the same member decides not to aggregate their membership they would lose their final salary link[23] on the unaggregated record. These rules preserve the approach described above, through which local administrators are generally able to calculate separate benefits independently.

47. However, regulation 4 of the 2014 Regulation does not appear to include an aggregation requirement for underpin protection to apply. A strict interpretation of regulation 4(1)(a) therefore appears to suggest that where, for example, a member was:

a) active in the LGPS on 31st March 2012,

b) subsequently active in the 2014 Scheme in a separate employment without a disqualifying break in service, and

c) the two records were not aggregated,

underpin protection would still apply. In our view, this would be extremely difficult for scheme administrators to effectively administer in the coming decades. It is also inconsistent with the general approach MHCLG has adopted in relation to the administration of the LGPS, as described in paragraph 45, and as has been applied in relation to the final salary link.

48. Where there is no requirement to aggregate benefits, administrative difficulties would not only arise in determining who has underpin protection (as a previous record may be held in another fund), but also in actually undertaking the underpin comparison. One scenario that may be likely to occur more frequently, as a result of the significant expansion of the underpin proposed in this document, would be situations like the following:

- A member has two, unaggregated LGPS records in separate funds:
  - Membership one – active from 2011 to 2016, and
  - Membership two – active from 2017 to 2022.
- As the member was in active service on 31st March 2012 and had 2014 Scheme membership, without a disqualifying break in service, they have underpin protection.
- Upon leaving membership one, the member would have an underpin date (calculated in the normal way).

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[22] By virtue of regulation 22(8) of the 2013 Regulations.
[23] By virtue of regulation 3(8) of the 2014 Regulations.

- The member would also have an underpin date upon leaving membership two for their active membership in the scheme over the underpin period (for this member, 2014 to 2016 and 2017 to 2022). This would require the second fund to undertake an underpin comparison for the whole period using data they hold and data they need to obtain from the other fund (in relation to membership one).
- In this situation, it may also need to be considered whether any underpin addition arising should be split between the two funds and the two employers, so as to ensure liabilities are appropriately held.

49. This would clearly be extremely administratively complex and potentially lead to an increased likelihood of errors being made. It is likely that other similar scenarios would also arise, and that the administrative complexities would continue for many years (as some members' underpin date may not take place for 30 or 40 years).

50. In light of this, we are proposing that regulation 4 of the 2014 Regulations is amended to make clear that members must meet the qualifying criteria in a single membership (a 'relevant Scheme membership' as defined in the proposed regulations) for underpin protection to apply. So, where a member has had a break in service, or a period of concurrent employment, their benefits must be aggregated for underpin protection to apply. The introduction of the concept of 'relevant scheme membership' has allowed us to define more clearly in the regulations the benefits administrators should be assessing when undertaking underpin calculations.

51. As our intention is for the revised underpin regulations to apply retrospectively, it is possible these changes will mean that some members of the LGPS who have underpin protection at the moment (across separate LGPS memberships) would lose this. To ensure that no member is worse off as a result of our proposed amendments, we are proposing that active and deferred members are given an additional 12 months to elect to aggregate previous periods of LGPS membership, where such a decision would mean they have 'relevant Scheme membership' and therefore would have underpin protection. It is not proposed that this decision would be required for pensioner members, whose existing pensions would be unaffected by the aggregation changes outlined here. Circumstances where current pensioner members have underpin protection which is based on unaggregated membership and they have received an addition to their pension as a result of their underpin protection are expected to be rare[24].

52. The additional 12 months would apply from the date the regulations come into force. This additional election period would not apply in respect of other periods of membership members may wish to aggregate, only to periods where a failure to aggregate would mean the member would not obtain underpin protection[25]. Good communications with members

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[24] Such situations are expected to be rare due to a combination of factors. Generally, we expect that most protected LGPS members currently retiring are better off under the career average scheme, due in part to its substantially better accrual rate. Moreover, LGPS administrators are unlikely to be aware that a member has underpin protection if a member has not aggregated their previous LGPS membership. We expect that situations where a member has been awarded an underpin on unaggregated membership by their administrator and that subsequent underpin calculation has shown the final salary pension to be better than the member's career average pension would be rare.

[25] However, it should be noted that LGPS employers generally have the ability to allow aggregation beyond the statutory limits set out in scheme regulations.

in this situation will be crucial so that they understand whether this election period applies to them and the implications of the decision they are being asked to consider. As set out in paragraphs 131 and 133, we would plan to work closely with the Scheme Advisory Board on member communications to support the changes proposed in this paper.

53. The Public Service Pensions Act 2013 applies certain requirements where a responsible authority[26] proposes to make scheme regulations containing retrospective provisions which appear to the authority to have 'significant adverse effects in relation to the pension payable to or in respect of members of the scheme' (section 23(1))[27]. Specifically, where this is the case, the following applies:

- The authority must obtain the consent of persons (or representatives of the persons) who appear to the responsible authority to be likely to be affected by the provisions (sections 23(1) and (3)).
- The authority must lay a report before Parliament (section 23(4)).
- The regulations become subject to the affirmative procedure, meaning they have to be approved by a resolution of each House of Parliament (sections 24(1)(b) and 38).

54. We welome stakeholders' views on whether the changes we describe in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect affected members. Whilst the changes would have retrospective application, the additional 12 month election period we are proposing would ensure that members have the opportunity to aggregate their pension records and obtain underpin protection if they wish. Members who wish to keep their records separate (perhaps as they have re-joined the LGPS in a lower paid post and do not want a final salary link) would also be able to retain this position by doing nothing.

**Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?**

**Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?**

**Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have 'significant adverse effects' in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?**

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[26] Under section 2 and schedule 2 of the Public Service Pensions Act 2013, the Secretary of State is the responsible authority for the LGPS in England and Wales.

[27] Certain requirements also apply under section 23(2) of the Public Service Pensions Act 2013 where the responsible authority proposes to make scheme regulations that are retrospective in nature, but which have significant adverse effects in other ways (for example, in relation to injury or compensation benefits). We are content that these provisions would not apply in respect of these proposed changes.

## Achieving a fair and consistent underpin

55. Alongside the changes necessary to remedy the discrimination found by the Courts, and the aggregation proposal above, we are also proposing some changes to underpin provisions to ensure that the underpin works effectively and consistently for all members.

56. **Breaks in service of less than five years** – the 2014 Regulations do not currently make clear whether it is permitted for the underpin to be re-calculated if a protected member leaves active service and returns without a disqualifying break in service (i.e. within five years). We propose that where a qualifying member leaves active service, rejoins within five years and aggregates their benefits, a further underpin comparison would be undertaken when they next reach their underpin date (i.e. leave active service or reach their 2008 Scheme NPA), using their final salary at the most recent date of leaving (and the results of the previous comparison disregarded). Taking this approach means that promotional pay increases that may apply where a qualifying member progresses in their career are taken into account in their underpin calculations. It also ensures younger members of the scheme have equivalent protection to their older colleagues (whose final salary benefit is based on their pay at the end of their career, after relevant promotions and pay rises). It may also benefit those qualifying members who are more likely to have a break in employment, such as women[28] or those who have a disability. However, it is proposed that qualifying members who re-join the LGPS after their 2008 Scheme NPA would not have a further underpin date, even if they aggregate their previous pension rights. This is consistent with our general approach that underpin protection only provides protection until a member's 2008 Scheme NPA.

57. **Early/late retirement factors** - When a protected member leaves the scheme, the current underpin calculation does not take into account the impact of early/late retirement factors, which may mean the calculation does not correctly identify the scheme in which the member would receive the higher benefits. This situation arises because of differences in NPAs in the 2008 and 2014 Schemes, which may mean early and late retirement factors apply at different rates. We therefore propose that the revised underpin should include a 'check' to ensure that, at the point a qualifying member takes their benefits from the scheme, they are still due to receive at least the pension they would have received under the 2008 Scheme, after the application of any early/late retirement factors. Further detail on how this will work is outlined in the next section regarding the two-stage process we intend to adopt.

58. **Death in service** – the existing definition of the underpin date set out in regulation 4(2) of the 2014 Regulation do not make clear what should happen where a member who has underpin protection dies in active service. On a strict interpretation, the 2014 Regulations would therefore appear to mean that there is no underpin comparison for such a member (which could reduce any survivor benefit that may be payable). We do not believe that was or should be the policy intent. In relation to the revised underpin, we therefore propose that there would be a clear requirement for an underpin comparison to be undertaken where a qualifying member dies in service.

59. **Survivor benefits** – it is not always clear how the survivor benefits provisions in the 2013 Regulations apply in relation to the underpin, and whether increases in benefits

[28] http://www.parliament.uk/briefing-papers/sn06838.pdf

arising from the underpin should be included in the calculation of survivor benefits following the death of a protected member (from any status). We intend that the amended regulations will make clearer how the underpin applies in relation to survivor benefits. In general terms, it is our policy that where a qualifying member has an addition to their pension arising from the underpin, this should be taken into account in determining the value of relevant survivor benefits, where such benefits are based on the value of the qualifying member's pension. The next section of this paper outlines our policy on the underpin and survivor benefits in more detail.

60. Together and individually, the changes we describe in paragraphs 56 to 59 are intended to be beneficial for scheme members, and are intended to ensure that the revised underpin works for all members with underpin protection in a consistent and effective way. As outlined in paragraph 34, we have considered the principle of minimum interference but believe that these changes are both appropriate and necessary.

**Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?**

## A two-stage process

61. Under current provisions, the underpin calculation takes place at a single point in time – a member's underpin date, being the earlier of the date a member leaves active service with an immediate entitlement to a pension, and the date they reach their 2008 Scheme NPA. This has its advantages, such as in respect of administration. However, in the round, we now consider a two-stage underpin process would provide a more robust form of protection and the draft regulations attached propose such an approach. Under this, all qualifying members would have an 'underpin date' and an 'underpin crystallisation date':

- the purpose of the underpin date would be to provide for a provisional assessment of the underpin, broadly comparing the qualifying member's 2014 Scheme benefits in a relevant scheme membership against the 2008 Scheme benefits they would have accrued over the same period, in respect of the same membership. The underpin date would take place at the earliest of the date the qualifying member:
    - leaves active service in a relevant scheme membership,
    - reaches their 2008 Scheme NPA, or
    - dies.

  Regardless of the outcome of this provisional comparison, there would be no adjustment to a member's pension at their underpin date. The purpose of the comparison at a member's underpin date would primarily be so that the member has early information on how the underpin may apply to them. This recognises that there may be many years between a qualifying member's underpin date and their underpin crystallisation date, when the final comparison is due to take place.

- The purpose of the underpin crystallisation date would be to provide for a final check at the point the qualifying member's benefits from the scheme are 'crystallised' (where the member takes their pension from the scheme). The check would be designed to ensure that qualifying members always receive at least the

higher of the pension they would have been due from the 2014 Scheme and the 2008 Scheme, taking into account the impact of factors like early/ late retirement adjustments.

62. We consider that the use of a two-stage process will achieve the following:

- Fundamentally, it should give qualifying members greater confidence that the underpin process has given them the benefit that is better for their own personal situation, even if they take their benefits many years after they leave the scheme.

- By undertaking an initial comparison at a member's underpin date, it would give qualifying members information about how the underpin may apply to them at the earliest possible date, even if such calculations would only be provisional.

- It is more compatible with the revised underpin where members can re-join, aggregate their membership and have a further underpin date at a subsequent point in time. Until the final underpin check at a member's underpin crystallisation date, there will be no change to a member's active or deferred pension arising from the underpin.

- It reflects the fact that for most members retiring on age grounds, early and/or late retirement factors will apply in calculating their 2008 and/or 2014 Scheme benefits. As these will not apply in the same way to a member's 2008 and 2014 Scheme entitlements (unless their 2008 Scheme NPA is the same as their State Pension age), a final check at the point benefits are paid is necessary to ensure the member is getting the higher benefit.

63. Further detail on the proposed two-stage process is contained in **annex C** and illustrative examples of a variety of scenarios are included in **annex D**.

**Question 13 – Do you agree with the two-stage underpin process proposed?**

## Underpin period and final salary link

64. As discussed earlier in the consultation (paragraphs 28 to 31), we propose that:

- the revised underpin be extended to provide underpin protection to all qualifying members for service from 1st April 2014 up to and including 31st March 2022, except where a member's underpin date is sooner.

- from 1st April 2022, all LGPS membership accrues on a career average basis, with no underpin,

- but to ensure that there is an equivalent level of protection between older and younger members, the comparison of 2008 Scheme and 2014 Scheme benefits would take place at a qualifying member's underpin date, even if the underpin period ends sooner.

# The revised underpin – application

65. This section describes how the revised underpin is intended to apply to qualifying members at different stages of their membership of the scheme, and at different life events.

## Whilst in active membership

66. Whilst a qualifying member is in active service below their 2008 Scheme NPA, they will remain a member of the 2014 Scheme. For the period up to 31st March 2022, active qualifying members will accrue underpin protection. From 1st April 2022, accrual will be on a career average basis alone, but active qualifying members will retain a final salary link in relation to their underpin protection. Each year, a qualifying member's annual benefit statement will include an estimate of how the underpin would have applied to them if they had left the scheme at the end of the scheme year (i.e. as if their underpin date had been 31st March in that year). In these estimates, no account would be taken of actuarial adjustments relating to a member's age.

67. If a qualifying member remains in active service at their 2008 Scheme NPA (normally 65), their underpin date will be triggered in relation to their relevant scheme membership, meaning a comparison of their 2008 Scheme and 2014 Scheme pension (relating to the period from 1st April 2014 up to 31st March 2022, or their 2008 Scheme NPA if earlier) would be undertaken. This calculation would be based on the member's final pay as at their 2008 Scheme NPA (taking into account appropriate lookback provisions where appropriate). The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit. Final salary increases or reductions beyond the member's 2008 Scheme NPA would not impact on the member's underpin protection.

## Concurrent employments

68. Underpin protection may apply to qualifying members who hold two or more active memberships of the scheme at the same time ('concurrent employments'). Under our proposals, underpin protection would be linked to specific scheme memberships, with members who have 'relevant scheme membership' having underpin protection on that membership. Relevant scheme membership applies where:

- a member was an active member on 31st March 2012,
- a member has been an active member of the 2014 Scheme, and
- they did not have a disqualifying break in service.

69. Relevant scheme membership would apply in the normal way where a qualifying member has concurrent employments – for example, if a member has two posts and meets the criteria in one but not the other, they would have underpin protection in the former post, but not the latter. Where a qualifying member leaves a concurrent post in which they had relevant scheme membership before reaching their 2008 Scheme NPA their underpin date would apply in relation to that employment. If they were to then aggregate that membership with their ongoing post, the member would have a further

underpin date at the earlier of the date they leave that post or the date they reach their 2008 Scheme NPA.[29]

### At date of leaving (without taking scheme benefits)

70. Where an active qualifting member leaves the LGPS before their 2008 Scheme NPA with a deferred entitlement to benefits, their underpin date would apply at their date of leaving. A provisional underpin comparison would be undertaken for the period up to 31st March 2022, or to the member's date of leaving if earlier. The member would be informed of the results of this comparison, but also informed that a check at their underpin crystallisation date would be undertaken at the point they take their benefits to ensure they are getting the higher benefit.

### Whilst a deferred member

71. For qualifying members who have had an underpin date after leaving active membership of the scheme with a deferred benefit, annual benefit statements sent to the member would include details of the provisional calculations undertaken at their underpin date. The results of these calculations would be adjusted to reflect cost of living changes between the member's underpin date and the date of their annual benefit statement.

### Re-joiners

72. Where a qualifying member who has had an underpin date in respect of a relevant scheme membership re-joins the scheme without a disqualifying break in service and aggregates their previous scheme membership with their active pension account[30], they will retain continuing underpin protection for any service up to 31st March 2022. For service from April 2022 onwards, the member will retain a continuing final salary link in relation to their underpin protection (as well as in respect of their pre-2014 final salary membership). A further underpin date will occur at the date the member leaves active service or the date they reach their 2008 Scheme NPA.

### Age retirement

73. When a qualifying member takes voluntary payment[31] of their benefits in a relevant scheme membership at any age between 55 and 75, their underpin crystallisation date will apply. This means that the final comparison of their benefits will be undertaken to determine whether the 2014 Scheme or 2008 Scheme benefits would be better. For qualifying members who retire from active status and do so before their 2008 Scheme NPA, the member's underpin date will take place as at their date of leaving[32]. The underpin crystallisation date will take place upon their pension coming into payment.

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[29] Under regulations 22(6) or (7) of the 2013 Regulations
[30] Under regulation 22 of the 2013 Regulations, all scheme members must have a pension account. Unless aggregated, members have multiple pension accounts for multiple periods of scheme membership.
[31] Non-voluntary payment of benefits following redundancy and business efficiency are covered in paragraph 100.
[32] As described in paragraph 67, where a qualifying member is in active service at their 2008 Scheme NPA, this would be their underpin date.

74. In the underpin crystallisation date calculation, the scheme administrator will take the provisional calculations from a qualifying member's underpin date and update these to take into account the effects of cost of living changes since the member's underpin date, as well as the impact of early/ late retirement factors. Where the final values show that the member would have been better off under the 2008 Scheme, an addition will be made to the member's 2014 pension account. The member's total pension in that relevant scheme membership for the period from 1st April 2014 to 31st March 2022 would also be payable without any further actuarial adjustment relating to the member's age.

## Ill-health retirement

75. For most qualifying members retiring on ill-health grounds, their date of leaving will be their underpin date[33]. As applies under the existing underpin provisions, the underpin calculation at a qualifying member's underpin date will take into account any enhancements that they may be due where they are receiving 'tier 1'[34] or 'tier 2'[35] benefits under regulation 39 of the 2013 Regulations, and compare these against the relevant enhancements that would have applied under the 2008 Scheme. This comparison of enhancements would apply up to the earlier of a qualifying member's 2008 Scheme NPA and 31st March 2022.

76. A qualifying member's ill-health retirement date will be their underpin crystallisation date, in all cases. This calculation will take into account cost of living adjustments between the member's underpin date and their underpin crystallisation date for members retiring from deferred or deferred pensioner status. No account will be taken of actuarial reductions relating to their age as these do not apply in relation to ill-health retirements, but where the qualifying member is over their 2008 Scheme or 2014 Scheme NPA, the impact of actuarial increases will be considered.

77. Whilst in most cases a member can only have one underpin crystallisation date, an exception applies in relation to members who have retired with 'tier 3'[36] benefits. As tier 3 pensions are temporary, a qualifying member would typically have an underpin crystallisation date at the point they begin receipt of their temporary pension and a subsequent one at the point they receive payment of their suspended pension from the scheme or the underpin otherwise crystallises (from deferred pensioner status). Whilst the

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[33] With the exception of deferred or deferred pensioner members taking ill-health retirement under regulation 38 of the 2013 Regulations, and members who have previously reached their 2008 Scheme normal retirement age. Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.

[34] Subject to other criteria that apply, tier 1 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment before their NPA (regulation 35(5)). Members receiving tier 1 benefits receive an adjustment to their pension equalling the full benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[35] Subject to other criteria that apply, tier 2 benefits apply to members retiring on ill-health grounds who are unlikely to be able to undertake gainful employment within three years of leaving the employment, but who are likely to be able to undertake gainful employment before reaching their NPA (regulation 35(6)). Members receiving tier 2 benefits receive an adjustment to their pension equalling 25% of the benefits they would have accrued between date of leaving and their 2014 Scheme NPA.

[36] Subject to other criteria that apply, tier 3 benefits apply to members who are likely to be capable of undertaking gainful employment within three years of their date of leaving (regulation 35(7)). Members receiving tier 3 benefits receive an unadjusted pension for a maximum of three years.

former calculation would not take into account actuarial reductions that may apply, the latter calculation would.

## Death benefits

78. As noted earlier, under existing scheme regulations, it is sometimes unclear how scheme death benefits interact with the underpin. Our policy intent is set out in this section, and we have aimed to make these points clearer in the draft regulations. These clarifications are essential to ensuring that the underpin works effectively and consistently.

79. **Deaths in service** - For a qualifying member in active service, their date of death will be both their underpin date and their underpin crystallisation date. It is proposed that the underpin comparison would take into account the enhancements that apply under the 2008 and 2014 Scheme regulations in relation to deaths in service. This comparison of enhancements would apply up to the earlier of the qualifying member's 2008 Scheme NPA and 31st March 2022. This would be a new addition to the underpin regulations, and would be consistent with the approach taken in relation to ill-health retirements (outlined above in paragraph 75).

80. No adjustment relating to the underpin would apply to a qualifying member's death grant, as death grants for active members are based on a member's pay, not their pension.

81. Where survivor benefits are payable following a death in service of a qualifying member, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

82. **Deaths from deferred status** - Where a qualifying member dies from deferred status, their underpin date will have already taken place (on the date the member left active service, or on their 2008 Scheme NPA, if earlier). The day of the member's death would be their underpin crystallisation date.

83. Where survivor benefits are payable following a death from deferred status, the underpin comparison would be based on the provisional calculations and would not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition would apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

84. Any addition arising from the provisional calculations undertaken at a member's underpin date will also apply in the calculation of the death grant. For deferred members, a death grant applies at 5 times the annual rate of pension, without actuarial adjustment relating to the age of the member.

85. **Deaths from pensioner status** – Where a qualifying member dies from pensioner status, the underpin date and the underpin crystallisation date will already have taken place.

86. Where survivor benefits are payable following the death of a pensioner, the underpin comparison will be based on the provisional calculations undertaken at a qualifying member's underpin date and will not take into account the impact of early or late retirement factors which do not apply in relation to survivor benefits. Where there is an addition (i.e. the 2008 Scheme benefit is higher based on the unadjusted values), this addition will apply in the calculation of the survivor's benefit, at the appropriate accrual rate for each type of survivor.

87. Any addition arising from the provisional underpin calculation will also apply in the calculation of the death grant, where applicable. For pensioner members, a death grant applies at 10 times the annual rate of pension, reduced by the actual amount of pension the member received prior to their death and by any lump sum commutation.

## Public Sector Transfer Club transfers

88. The LGPS is a member of the Public Sector Transfer Club[37]. The Club is an arrangement that facilitates the mobility of employment within the public sector by, for example, enabling employees to avoid the reduction in the value of their accrued pension that could otherwise occur as a result of changing employment. Final salary pension transferees are awarded a service credit that maintains the member's final salary link for the pension accrued in their previous scheme. CARE transferees are awarded a pension credit that continues the rate of in-service revaluation that was provided in the member's previous scheme. The intention of the Club is that a member should not lose out as a result of changing employment within the public sector. Equally, the member should not receive benefits that are higher in value than if they had not changed employment.

89. Separately, the Government is consulting[38] on proposals to remove the unlawful discrimination from the other main public service pension schemes. That consultation includes a section seeking views on how transfers under the Public Sector Transfer Club may work in relation to the remedy proposals outlined in that consultation. It sets out that one option would be for a member to make a choice between career average and final salary benefits at the date of transfer, so that only one set of scheme benefits for the remedy period needs to be considered for the transferred service.

90. The consultation also notes that considerations in the LGPS may be different, given the different nature of transitional protection in the LGPS and that we would consult on more detailed proposals in relation to Club transfers between the LGPS and the other public service pension schemes.

91. One approach, which would be consistent with the option outlined in the wider consultation, would be for the same principle to apply. This would mean the following:

- **For Club transfers of protected service (accrued between April 2015 and March 2022) into the LGPS** - the receiving LGPS fund would give the member the option of deciding whether they wanted to use the transfer to buy final salary

[37] https://www.civilservicepensionscheme.org.uk/members/public-sector-transfer-club/
[38] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

membership or career average pension in relation to the transferred service. Quotations would be provided to help members make an informed choice.

- **For Club transfers of protected service (accrued between April 2014 and March 2022) out of the LGPS** – the receiving scheme administrator would give the member the option of deciding whether they wanted to use the transfer to buy final salary membership or career average pension in relation to the transferred service (which in the LGPS would have provided them with underpin protection). Quotations would be provided to help members make an informed choice.

92. It should be noted that, in certain situations, a transferring member might be at an advantage if the transitional protection could continue in their new scheme (for example, if members transferring into the LGPS were to obtain underpin protection for protected service they transfer in, or LGPS members transferring out were to obtain a choice in their new schemes). However, such an approach would likely lead to significant administrative complexity across the public sector.

93. We propose that, consistent with existing LGPS regulations[39] that, where a member with final salary membership in another public service pension scheme transfers that membership into the LGPS, and they would have met the qualifying criteria for underpin protection in the LGPS had they been a member of the scheme, they would be granted underpin protection for their LGPS membership up to 31st March 2022. This would apply even if the initial transfer into the LGPS was not a Club transfer.

94. We welcome views from respondents on the options set out here. The final approach in relation to transfers within the Public Sector Transfer Club will be considered across Government, taking into account the responses to this consultation along with those to the wider consultation.

## Non-Club transfers

95. Where a qualifying member transfers relevant scheme membership and the transfer is not a 'Club' transfer[40], a different approach is proposed. The date of transfer would be their underpin crystallisation date. In the draft regulations we propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate Cash Equivalent Transfer Values (CETVs) of the following:

a) the member's accrued rights,

b) the member's 'provisional assumed benefits' (see **annex C**), and

c) the member's 'provisional underpin amount' (see **annex C**).

[39] Regulation 9(1) and (2) of the 2014 Regulations
[40] Either because it is not a transfer to a pension scheme in the Public Sector Transfer Club, or because it does not qualify as a Club transfer.

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total CETV.

3) Where c) is not greater than b), just pay the CETV based on the member's accrued rights (i.e. the CETV calculated at a)).

96. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome.

97. Where a member with underpin protection has transferred in pension rights from another scheme that is not a public service pension scheme, the value of the transfer would not be taken into account for the purposes of the member's underpin calculations. This is the same as applies in relation to transfers under the existing underpin regulations.

## Other ways of taking benefits

98. **Flexible retirement** – Where a qualifying member makes an election to reduce their working hours or grade in an employment, with their employer's consent, that would be their underpin date, even though they remain in active employment after this date. As applies under the existing underpin provisions, no further underpin protection would apply after a qualifying member's date of flexible retirement. The underpin crystallisation date calculation, also undertaken at the point of a member's flexible retirement, would take into account the impacts of early and late retirement factors to determine which scheme benefit is better for the individual.

99. Where a qualifying member takes 'partial' flexible retirement, i.e. they do not take all the benefits they accrued prior to their flexible retirement date straight away, there is a question about the appropriate treatment of the underpin. We propose that, in partial flexible retirement situations, where there is an addition to the member's pension arising from the underpin (i.e. because the 2008 Scheme benefit is higher), the amount of the addition given to the member at that point in time should be proportionate to the amount of the 2014 Scheme pension they are choosing to receive. For example, if a member is only receiving 20% of their 2014 Scheme pension upon flexibly retiring, they would only receive 20% of the underpin addition. The remainder would be payable at the point the member takes the rest of their benefits.

100. **Redundancy**[41] – Redundancy below a qualifying member's 2008 Scheme NPA would trigger their underpin date. For members aged 55 or over, who have an immediate entitlement to their pension at point of redundancy, the date their redundancy pension commences would also be their underpin crystallisation date. As actuarial reductions do not apply in this situation, no account should be taken of these in the final underpin comparison. However, actuarial increases, where the member is made redundant after their 2008 Scheme or 2014 Scheme NPA, should be considered in the usual way.

101. **Trivial commutation**[42] – Under regulation 34 of the 2013 Regulations, members with small total pension rights can extinguish their future right to a pension from the scheme

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[41] This paragraph also covers members leaving active membership of the LGPS on grounds of business efficiency.

[42] This paragraph also covers members taking benefits via any of the other means referred to in regulation 34 of the 2013 Regulations. These payments are made at the discretion of administering authorities.

and receive a lump sum instead ('trivial commutation'). Under our proposals, qualifying members trivially commuting their pension will already have had their underpin date, as at their date of leaving the LGPS or reaching their 2008 Scheme NPA. If a qualifying member has not yet taken their pension, the date they trivially commute their benefits would be their underpin crystallisation date and the draft regulations propose the detailed requirements in relation to such cases will be contained in actuarial guidance issued by the Secretary of State. This is consistent with the general approach set out in the 2013 Regulations[43]. We propose that the actuarial guidance we issue will require the following approach:

1) Calculate the trivial commutation sum due of the following:

a) the member's total accrued rights,

b) the member's 'provisional assumed benefits' (see **annex C**), and

c) the member's 'provisional underpin amount' (see **annex C**).

2) Where c) is greater than b), add the difference between the two amounts to a) and that is the total sum due.

3) Where c) is not greater than b), just pay the trivial commutation sum based on the member's accrued rights (i.e. the sum calculated at a)).

102. This approach would be consistent with the general approach taken to calculating pension benefits under the underpin, and should achieve a similar outcome. Where a qualifying member who trivially commutes their benefits has already taken their pension from the LGPS (and had an underpin crystallisation date in doing so), there would be no further underpin calculations due at the point of the trivial commutation.

**Question 14 – Do you have any comments regarding the proposed approaches outlined above?**

**Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?**

# Supplementary matters

## Annual benefit statements

103. Pension schemes are vitally important workplace benefits. For many people contributing to a pension scheme, the annual benefit statement (ABS) is the main way that they receive updates on the value of their pension and when they will be able to receive it. Whilst it is true that information presented on an ABS about the underpin cannot provide certainty to a qualifying member on their underpin protection (in most cases, there will not be certainty until a member's underpin crystallisation date), we believe it is important that estimates are provided on member ABSs if scheme regulations are amended in the

[43] Regulation 34(2) of the 2013 Regulations requires that payments of the description contained in regulation 34(1) are to be calculated in accordance with actuarial guidance issued by the Secretary of State.

manner outlined in this paper. Appropriate wording would need to be considered so that members have the information needed to understand how the underpin works and that the figures included in their statement are provisional, and may change. We would plan to ask the Scheme Advisory Board to lead on agreeing standardised wording that LGPS funds thoughout England and Wales can include in ABSs regarding underpin protection.

104. Our draft regulations propose the following approach for members who meet the underpin qualifying criteria and have relevant scheme membership:

- That where a member is in active service below their 2008 Scheme NPA, their ABS should estimate the value of the underpin to the individual as if the end of the Scheme year[44] was their underpin date – including the provisional assumed benefits, the provisional underpin amount and any provisional guarantee amount.

- That where a member remains in active service beyond their 2008 Scheme NPA, their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

- For deferred and deferred pensioner members[45], their ABS should include the provisional estimates from the member's underpin date, as updated to reflect cost of living changes to the end of the Scheme year.

**Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?**

**Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?**

## Annual allowance

105. The annual allowance is the maximum amount of tax-relieved pension savings that can be accrued by an individual in a year. The standard annual allowance is currently £40,000, but for those on the highest incomes, it tapers down to a minimum level of £10,000 (from April 2016 to March 2020) and to £4,000 (from April 2020). For defined benefit pension schemes like the LGPS, liability for tax charges above the annual allowance is calculated using the value of pension accrued in a particular year. Where an individual's pension accrual in a single year exceeds the annual allowance, then a tax charge may be due on the amount accrued above the member's annual allowance[46] to claw back the excess tax relief.

106. Whilst we would not expect a significant number of qualifying members to experience any change to their tax liability as a result of the proposals in this consultation document, it

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[44] Under Schedule 1 of the 2013 Regulations, a period of one year beginning with 1st April and ending with 31st March.
[45] Deferred pensioner members are members who were previously in receipt of a temporary tier 3 ill-health pension which has since ceased, and the member has not yet taken their main scheme benefits.
[46] However, 'carry forward' provisions allow members to carry forward unused annual allowance for the previous three years.

is important that underpin protection is considered for the purposes of determining a qualifying member's annual allowance.

107. LGPS regulations do not contain detailed provisions regarding the application of pensions tax to scheme benefits. Scheme administrators must follow the pensions tax framework as set out in the Finance Act 2004 and secondary legislation, and as explained in HMRC's Pensions Tax Manual[47]. Consistent with our approach generally, we do not plan to include in scheme regulations specific details regarding the tax treatment of the revised underpin.

108. We understand that, in accordance with guidance provided by the Local Government Association (LGA)[48], LGPS administrators have generally been taking the following approach in relation to the current underpin and the annual allowance:

- Whilst a protected member is in active service and their underpin date has not yet occurred, no account has been taken of a member's underpin protection for the purposes of determining a member's pension input amount in a given pension input period. This reflects that, under existing scheme regulations, a member may only receive an addition to their pension at the point of their underpin date.

- In the year of a protected member's underpin date, any addition in the member's pension arising from the comparison undertaken at the member's underpin date would be considered for the purposes of determining a member's pension input amount in that pension input period.

109. Whilst interpretation and application of the requirements of the Finance Act 2004 is a matter for individual administrators to consider, we believe that this approach is correct and would remain so if our proposals were to be implemented in scheme regulations. However, a change will be needed to reflect that, under our proposals, the point where an addition may arise from the underpin would be different. As described in paragraphs 61 and 62, our proposal is that the underpin moves to a 'two stage process'. Under this, a member's underpin protection can only result in a change to their pension entitlement at their 'underpin crystallisation date' and under our proposals it would be in this pension input period that the underpin should first be given consideration for the purposes of the annual allowance. As there would be no change to a member's pension entitlement at the point of a member's underpin date, the underpin should not be given consideration for annual allowance purposes in that pension input period[49].

110. However, we recognise that there may be circumstances where this approach means that a qualifying member has a higher pension input amount in the year of their underpin crystallisation date than an approach where the potential value of the underpin is considered on a year-by-year basis whilst a qualifying member remains in active membership. This may particularly be the case for qualifying members who have a relatively low career average pension for the years from 1st April 2014 to 31st March 2022, but a relatively high final salary pension over the same period. This may occur where a

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[47] https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual
[48] 'The Underpin' technical guide, latest version v1.8 (dated 18/07/2018), http://lgpsregs.org/resources/guidesetc.php
[49] Except where the member's underpin crystallisation date occurs in the same pension input period.

qualifying member is at an early stage of their career now, but goes on to be a high-earner in the future. We would appreciate views from stakeholders on the potential likelihood of this issue arising, the scale of the issue and how any impacts might be mitigated, if appropriate.

**Question 18 – Do you have any comments on the potential issue identified in paragraph 110?**

# Public sector equality duty

111. The Ministry of Housing, Communities and Local Government has analysed the proposals set out in this consultation document (MHCLG) to fulfil the requirements of the Public Sector Equality Duty (PSED) as set out in section 149 of the Equality Act 2010. This requires the department to pay due regard to the need to:

1) eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
2) advance equality of opportunity between people who share a protected characteristic and those who do not
3) foster good relations between people who share a protected characteristic and those who do not.

## Data

112. In undertaking our assessment of the equalities impacts of our proposals, we have drawn upon analysis provided to us by GAD. The analysis particularly looks at the protected characteristics of age and sex and is based on membership data supplied to GAD by LGPS administrators as at 31st March 2019. The following points should be borne in mind when considering the analysis:

- GAD's analysis has principally considered those who would benefit from the proposals outlined in this consultation. Members who already have underpin protection under existing provisions (being those aged 62 and older on 31st March 2019, who were aged at least 55 on 1st April 2012) have not been considered directly.

- GAD's analysis is based on active membership records totalling 1.68mn. The analysis has been conducted on a per-member basis, meaning additional records where members have more than one active employment have been removed.

- The proportion of the qualifying membership which is eventually likely to be better off as a result of underpin protection is heavily influenced by the rate of future pay growth in the LGPS. Consistent with the assumption used for the 2016 valuations of public service pension schemes, the long-term annual future pay growth assumption used is CPI + 2.2%.

- The analysis is based on the LGPS's active membership as at 31st March 2019. Under our proposals, the proposed changes to the underpin would be backdated to 1st April 2014. We would therefore expect that a number of additional members not

included in the analysis would benefit from our proposals. However, we do not anticipate this limitation would significantly change the results of the analysis.

- The analysis is based on an "average" member at each particular age. Allowing for variations in individual members' future service or salary progression could produce different figures.

113. Limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the Labour Force Survey (LFS) (Q1 2020)[50] and the Annual Population Survey (APS) (2019)[51] in looking at the potential impacts of the following characteristics.

## Age

114. The proposals outlined here are intended to remove age discrimination, which had been found to be unlawful in the firefighters' and judicial pension schemes, from the LGPS rules governing the underpin. We consider that the changes proposed will significantly reduce differential impacts in how the underpin applies based on a member's age, by removing the age-related qualifying criteria found to be unlawful by the Courts.

115. Based on analysis undertaken by GAD on active membership data for the LGPS as at 31st March 2019, we anticipate that some differences in how the revised underpin would apply to members of different age groups would remain. These are described below, along with our assessment of these differences.

116. **Qualification for the underpin –** GAD's analysis shows that older active members on 31st March 2019 would be more likely to qualify for the revised underpin than younger active members. This is principally because of our proposal that the 31st March 2012 qualifying date for underpin protection is retained. The proportion of members active in the scheme as at 31st March 2019 who had been members of the scheme on 31st March 2012 is lower for younger members, as experience shows they have a higher withdrawal rate from active scheme membership. We consider that members joining the LGPS after 31st March 2012 do not need to be provided with underpin protection. Members joining the LGPS after 31st March 2012 fall into two groups:

a) members who joined after 1st April 2014 when the LGPS had already reformed to a career average structure, and

b) members who joined between 1st April 2012 and 31st March 2014, who joined the LGPS when it was still a final salary scheme, but when a well-publicised reform process was already underway.

117. In relation to both groups, it is the Government's view that providing them underpin protection would not be appropriate. Transitional protection, as applied across public

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50 https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

51 https://www.nomisweb.co.uk/articles/1167.aspx#:~:text=The%20Annual%20Population%20Survey%20(APS,regional%20(local%20authority)%20areas.

service pension schemes, was always designed to help members with the transition from the old scheme designs to the new (in the LGPS, mainly in relation to the move from a final salary to a career average structure). Members who joined after 31st March 2012 will have joined the LGPS when either it had already transitioned to the career average structure, or when it was well publicised that the LGPS benefits were reforming.

118. **Members who benefit from the underpin** – GAD's analysis shows that active members between the ages of 41 and 55 would be more likely to benefit from the revised underpin (i.e. where the calculated final salary benefit is higher than the calculated career average benefit) than both their younger and older colleagues. This reflects previous experience and future expectation that:

- this group are more likely than older colleagues to experience the pay progression that would make the final salary benefit higher over the underpin period (bearing in mind that the career average accrual rate (1/49ths) is better than the final salary accrual rate (1/60ths) so above inflation pay increases are needed for the underpin to lead to an increase in pension), and

- this group are more likely than younger colleagues to remain in active membership until they receive the pay progression necessary for the underpin to result in an addition to their pension. Younger members are estimated to have a higher voluntary withdrawal rate than older members, and so would be less likely to remain in the LGPS until such time as they have the pay increases for the final salary benefit to be higher.

119. These differential impacts reflect the fact that final salary schemes typically benefit members with particular career paths (for example, they usually favour high-earners with long service). The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

## Sex

120. In relation to sex, GAD's analysis shows that broadly the proportion of men and women who would qualify for the revised underpin protection and benefit from that protection matches the profile of the scheme. As at 31st March 2019:

- 74% of scheme members were female, and 26% male

- 73% of the scheme members who were estimated to qualify for the revised underpin protection were female, and 27% male

- 73% of the scheme members who were estimated to benefit from the revised underpin were female, and 27% male

121. Proportionally, GAD's assessment is that men would be marginally more likely to qualify for the revised underpin and to benefit to a greater extent from underpin protection than women. This reflects the fact that, in line with previous scheme experience, the average male LGPS member would be expected to have higher salary progression than the average woman and that women are generally expected to have higher voluntary withdrawal rates than men. Members with longer scheme membership and with higher

salary progression would be more likely to receive an addition to their pension through the underpin (i.e. where the final salary benefit is higher).

122. These small differential impacts also demonstrate some of the effects that can arise under a final salary design. The Government proposes to move all local government pensions accrual to a career average basis, without underpin protection, from April 2022 to apply a fairer system to all future service.

## Other protected characteristics

123. As noted in paragraph 113, limited data specific to the LGPS in England and Wales is available in relation to other protected characteristics. However, we have considered wider data from the LFS (Q1 2020) and the APS (2019) in looking at these characteristics. The LFS breaks down results to public sector level, which we have used as a proxy for LGPS membership for ethnicity, disability and marital status. For religion, the APS has been used as a proxy for the public service pension schemes as it also incudes a public sector breakdown.

124. Whilst these data sets show some differences in the demographic make-up of the UK population generally and the public sector workforfce, we do not consider that the changes to underpin protection proposed in the consultation will result in any differential impact to LGPS members with the following protected characteristics: disability, ethnicity, religion or belief, pregnancy and maternity, sexual orientation and marriage/civil partnership.

125. Data on sexual orientation, gender reassignment, pregnancy and maternity is not available. However, we expect there to be no differential impacts in relation to these groups as they won't be explicitly affected by any changes to transitional arrangements.

## Next steps

126. Whilst we have detailed data on the protected characteristics of age and sex in relation to the LGPS membership, we are aware that our analysis of the impacts on other protected characteristics may be limited as it has not been based on local government specific data. We welcome suggestions from stakeholders of other data sets that may be available that may help us better understand the impacts on the LGPS membership more specifically.

127. We welcome views from stakeholders on our analysis, which is set out in more detail in the equalities impact assessment published alongside this consultation. These views will be considered in determining how to proceed following the consultation exercise. The potential equalities impacts of our proposals will be kept under review. A further equalities impact assessment will be undertaken following the consultation at the appropriate juncture.

**Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?**

**Question 20 – Do you agree with our equalities impact assessment?**

**Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?**

**Question 22 – Are there other comments or observations on equalities impacts you would wish to make?**

# Implementation and impacts

128. Following the closure of the consultation, we will consider the consultation responses received in detail to determine the best approach for removing the unlawful age discrimination from LGPS regulations.

129. The draft regulations at **annex B** have been prepared based on existing powers under the Public Service Pensions Act 2013. However, as noted in the wider Government consultation[52] on removing the unlawful age discrimination from public service pension schemes, the Government intends to bring forward new primary legislation regarding public service pensions. When proposals for removing the unlawful discrimination are finalised, further consideration will be given to the appropriate powers for the changes, based on the legislation in force at the time.

130. We recognise that in the period between now and scheme regulations being amended, some members of the scheme who would be due to benefit from the changes outlined in this paper will crystallise scheme benefits. This will include voluntary age retirements, as well as ill-health retirements, redundancies and transfers. There will also be dependants of those qualifying members who sadly die before changes are implemented. In respect of all such cases, we would expect the retrospective application of our proposed amending regulations to ensure that, overall, members and their dependents would get the full benefit of the revised underpin.

## Communications

131. As noted in paragraphs 103 and 104, member communications in relation to the proposals outlined here will be vitally important to ensure members understand what underpin protection is and how it may or may not apply to them. This is particularly important due to the complexities of the underpin. The two-stage process we describe in paragraphs 61 and 62 is designed to protect members and to provide clarity, but it is important its purpose is well explained, so that qualifying members understand that they may have an addition to their pension arising from the underpin, even if there was not an addition at their underpin date. Equally, qualifying members should be aware that the benefits payable from the 2014 Scheme are very good, and, for many, underpin protection will not result in an increase to their pension entitlement.

132. Communications aimed at scheme employers will also be important so that they understand the proposed changes, particularly bearing in mind the number and variety of LGPS employers (just over 18,000 in 2018/19). The changes outlined in this paper would lead to an upward pressure on scheme liabilities and, potentially, to future increases in employer contributions. It is vital that employers understand the potential changes and

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[52] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes

how they may impact their funding position. More generally, employers would have a practical role in providing the data necessary for scheme administrators to deliver the changes outlined in this document, and should understand how these changes may impact upon them.

133. Achieving good communications, and deciding on the appropriate medium for those communications, will require input from stakeholders across the LGPS, including administering authorities, employers and trade unions. We are aware that the Scheme Advisory Board has already commenced discussions with the sector on communications and we are strongly supportive of this continuing. We will continue working with the Scheme Advisory Board on this in the coming months.

**Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?**

## Administration impacts

134. We are conscious that the proposals outlined in this consultation paper would require significant changes to administration practices and systems. Amongst other matters, local administrators would need to consider the appropriate prioritisation of cases after amendments to regulations are made. Recognising that the LGPS is a single scheme, albeit locally administered, we are supportive of there being consistency across the scheme in respect of prioritisation and hope to work with the sector and the Scheme Advisory Board to agree a standard approach.

135. Priorisation decisions will be influenced by the fact that the revised underpin would have retrospective effect to April 2014, meaning that some members would already be in receipt of pensions that would need to be re-calculated, and retrospectively applied, in line with the new regulations.

136. A major challenge of implementing the changes proposed would apply in respect of obtaining additional data from employers for members who are newly benefitting from underpin protection – estimated to be around 1.2 million individuals. Under the 2014 Scheme, certain member data which was required for administering the 2008 Scheme (such as details of members' working hours and breaks in service) are not required for calculating member benefits. To administer the revised underpin, administrators would need to obtain this data for qualifying members for the period back to April 2014. This would be a highly significant exercise for the scheme's 87 administering authorities and its 18,000 employers. Particular challenges are likely to arise where employers have changed their payroll provider, and the data isn't stored in current systems.

**Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?**

**Question 25 – What principles should be adopted in determining how to prioritise cases?**

**Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?**

137. We are grateful to the Scheme Advisory Board for their work on this project so far, in particular for their input on the remedy proposals outlined in this paper and for their establishment of working groups to consider some of the complex issues associated with this project.

138. We will continue working closely with the Scheme Advisory Board after the closure of the consultation as the sector prepares for the potential changes to scheme regulations. In particular, we intend to ask that the Scheme Advisory Board consider what guidance may be necessary to help administrators implement the proposed changes, and we are grateful for respondents' views on this.

139. Guidance would help support a consistent approach across the LGPS which would be desirable, in particular on matters like prioritisation. It would also potentially help on the complex issues connected with the fact that scheme employers would need to provide administrators with membership data going back to April 2014.

**Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?**

**Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?**

# Costs

140. The LGPS is a locally administered, funded scheme with three-yearly funding valuations to determine employer contribution rates. The next funding valuation is due on 31st March 2022[53]. Employer contribution rates are, in most cases, determined on an individual employer basis, and take into account a number of factors, some related to the individual employer (such as membership demographics) and some related to the fund more broadly (such as the peformance of fund investments since the previous valuation).

141. As a result of this backdrop, it is not possible to say how these changes would impact employer contribution rates at future valuations. However, the proposals in this paper can only lead to improvements in scheme benefits for qualifying members and, by necessity, there will be an upward pressureon liabilities. Because a variety of factors influence LGPS employer contribution rates, this upward pressure does not necessarily mean any particular employer's contributions will go up as a result of these changes, and administering authorities are required to smooth employer contributions as far as possible over the long term. Where any fund or employer would like to understand how these proposals may affect their own position, they should speak to their fund actuary. As scheme liabilities predominantly sit with local authorities and other public bodies, which are

[53] Under regulation 64 of the 2013 Regulations. In 2019, we consulted on potential changes to the funding valuation cycle - https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk. The Government has not yet responded to the proposal on the LGPS valuation cycle.

largely taxpayer funded, any employer contribution increases that do arise would need to be met, for the most part, by the taxpayer.

142. At a scheme level, costing estimates have been provided by the scheme actuary[54], the Government Actuary's Department, based on data provided by LGPS funds for the 2016 valuation. Assuming future member experience replicates the 2016 scheme valuation assumptions[55] the future cost to LGPS employers could be around £2.5bn in the coming decades. This is between 4% and 5% of the expected cost of benefits earned over the proposed underpin period, April 2014 to March 2022. However, if, for example, long-term real earnings growth were around a third lower than assumed for the 2016 valuation, we estimate the cost would roughly halve.

143. The costs are sensitive to both individual member experience and future pay. Predicting whether the underpin becomes valuable in the future depends heavily on assumptions on long-term future pay growth trends. In this estimate, we have used the 2016 valuation assumption that annual long-term pay growth is CPI + 2.2%. However, if long-term pay growth in the LGPS is lower than this, the costs may be lower (and vice versa).

144. The Government cost control mechanism was paused in February 2019 given the uncertainty arising from the McCloud judgment. The Government has made a separate announcement on the cost control mechanism[56]. In addition to the main Government cost control mechanism for the LGPS, the LGPS has a separate cost control process run by the Scheme Advisory Board[57] which was also paused as a result of the uncertainty arising. We expect the Scheme Advisory Board will also take the decision to unpause their process following the Government's announcement.

**Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?**

[54] As appointed under regulation 114 of the 2013 Regulations
[55] Based on directions issued by HM Treasury and LGPS experience
[56] https://www.gov.uk/government/consultations/public-service-pension-schemes-consultation-changes-to-the-transitional-arrangements-to-the-2015-schemes
[57] Regulation 116 of the 2013 Regulations

# About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

# Annex A

**Personal data**

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

**2. Why we are collecting your personal data**
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

**3. Our legal basis for processing your personal data**
Section 21(1) of the Public Service Pension Act 2013 states:

*'Before making scheme regulations the responsible authority must consult such persons (or representatives of such persons) as appear to the authority likely to be affected by them'.*

MHCLG will process personal data only as necessary for the effective performance of this duty. In this case, the Secretary of State is the responsible authority for the LGPS in England and Wales.

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

**3. With whom we will be sharing your personal data**
We do not anticipate sharing personal data with any third party.

**4. For how long we will keep your personal data, or criteria used to determine the retention period.**
Your personal data will be held for two years from the closure of the consultation.

**5. Your rights, e.g. access, rectification, erasure**
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected
d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

**6. Your personal data will not be sent overseas**

**7. Your personal data will not be used for any automated decision making.**

**8. Your personal data will be stored in a secure government IT system.**

# Annex B – Draft regulations

STATUTORY INSTRUMENTS

**2020 No.**

**PUBLIC SERVICE PENSIONS, ENGLAND AND WALES**

The Local Government Pension Scheme (Amendment) Regulations 2020

| | |
|---|---|
| *Made - - - -* | *** |
| *Laid before Parliament* | *** |
| *Coming into force - -* | *** |

The Secretary of State makes the following Regulations:

**Citation, commencement and extent**

**1.**—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2020.

(2) These Regulations come into force on [XXXXXX] but regulations 2, 4, 5 and 6 have effect from 1st April 2014.

(3) These Regulations extend to England and Wales.

**Amendment of the Local Government Pension Scheme Regulations 2013**

**2.** The Local Government Pension Scheme Regulations 2013([58]) are amended in accordance with regulations 3 and 4.

**3.** In regulation 89 (annual benefit statement) after paragraph (4) insert—

"(5) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had not reached their 2008 Scheme normal retirement age at the end of the scheme year to which it relates—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

which would apply if the member's underpin date was the closing date of the Scheme year to which the statement relates.

([58]) S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57, S.I. 2015/755, S.I. 2018/493,S.I.2019/1449.

(6) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for deferred and deferred pensioner members—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date and adjusted by the appropriate index rate adjustment to the end of the Scheme year to which the statement relates.

(7) Where regulation 4 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 applies the statement in respect of a relevant scheme membership must include the following additional information for active members who had reached their 2008 Scheme normal retirement age at the end of the relevant Scheme year—

(a) the provisional guarantee amount;

(b) the provisional assumed benefits; and

(c) the provisional underpin amount

calculated as at their underpin date revalued to the end of the Scheme year to which the statement relates.

(8) The provisional guarantee amount is calculated in accordance with regulation 4(4) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(9) The provisional assumed benefits are calculated in accordance with regulation 4(5) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

(10) The provisional underpin amount is calculated in accordance with regulation 4(6) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

**4.**—(1) In Schedule 1 (interpretation) after the definition of "registered pension scheme" insert—

"relevant scheme membership" has the meaning given by regulation 4(1A) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;"

**Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014**

**5.** The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014([59]) are amended in accordance with regulation 6.

**6.** In regulation 4 (statutory underpin)—

(a) in paragraph (1)(a) omit the words from "and who on 1st April 2012" to the end;

(b) for paragraph (1)(b) substitute—

"(b) is or has been an active member of the 2014 Scheme; and"

(c) in paragraph (1)(c) substitute "; and" with ".";

(d) omit paragraph (1)(d);

(e) at the end insert—

"(1A) For the purpose of this regulation a member's relevant scheme membership is a single Scheme membership which meets the requirements of paragraph (1)(a), (1)(b) and (1)(c).

(1B) Where a member has had periods of concurrent employment, or a break in service that is not a disqualifying break in service, a member only has a relevant scheme membership if the member's scheme membership including the period referred to in paragraph (1)(a) has been aggregated with their 2014 Scheme pension account, following a decision taken under—

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([59]) S.I. 2014/525.

(a) regulations 16 or 17 of the Administration Regulations, where the member has subsequently joined the 2014 Scheme by virtue of regulation 5(1),

(b) regulations 10(5) or (6) of these Regulations, or

(c) regulations 22(5), 22(6), 22(7) or (8) of the 2013 Regulations.

(1C) Paragraph (1D) applies where;

(a) an active or deferred member would otherwise have relevant Scheme membership;

(b) but prior to [XXXXXXXX] previous Scheme membership including the period referred to in paragraph (1)(a) had not been aggregated with the member's 2014 Scheme pension account under paragraphs (1B)(a), (1B)(b) or (1B)(c).

(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership.

(f) in paragraph (2) for "The underpin date" substitute "Subject to paragraphs (2A) and (2B) a member's underpin date in a relevant Scheme membership";

(g) for paragraph (2)(b) substitute—

"(b) the date the member ceased to be an active member of the 2014 Scheme in an employment with a deferred or immediate entitlement to a pension; or";

(h) after paragraph 2(b) insert—

"(c) the date a member elects with their Scheme employer's consent to receive immediate payment under regulation 30(6) of the 2013 Regulations."

(i) after paragraph 2 insert—

"(2A) A member's date of death shall be their underpin date in a relevant Scheme membership where that date is earlier than the date provided for by paragraphs (2)(a) or (2)(b).

(2B) A member to whom paragraph (2)(b) has applied may have further underpin dates under paragraphs (2) or (2A) where they have either—

(a) become an active member of the 2014 Scheme again before reaching their 2008 Scheme normal retirement age without a disqualifying break in service and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(8) of the 2013 Regulations, or

(b) continued in active membership of the 2014 Scheme in an employment which had been concurrent with the employment through which they had an underpin date under paragraph (2)(b) and aggregated their previous relevant scheme membership with their active member's pension account under regulation 22(7) of the 2013 Regulations."

(j) for paragraph (3) substitute—

"(3) For the purpose of this regulation a disqualifying break in service is a continuous break after 31st March 2012 of more than 5 years in active membership of a public service pension scheme."

(k) for paragraph (4) substitute—

"(4) A member's provisional guarantee amount in a relevant scheme membership is the amount by which a member's provisional underpin amount exceeds the provisional assumed benefits on their underpin date."

(l) after paragraph (4) insert—

"(4A) Where paragraph (2B) applies, the value of the member's provisional assumed benefits, provisional underpin amount and provisional guarantee amount as calculated at their latest underpin date must be used for the purpose of this regulation."

(m) for paragraph (5) substitute—

"(5) The provisional assumed benefits are calculated by assessing the benefits the member would have been entitled to under the 2014 Scheme in a relevant Scheme membership if—";

(n) in paragraph (5)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(o) in paragraph (5)(b) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(p) after paragraph (5) insert—

"(5A) Where the member's pension has come into payment under regulation 35 of the 2013 Regulations, the provisional assumed benefits calculated in accordance with paragraph (5) must include any adjustment under regulation 39 of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022.

(5B) Where a member's underpin date has arisen under paragraph (2A), the provisional assumed benefits calculated in accordance with paragraph (5) must include the amount calculated under regulation 41(4)(b) of the 2013 Regulations for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

(q) for paragraph (6) substitute—

"(6) The provisional underpin amount is calculated by assessing the benefits the member would have had an immediate entitlement to payment of under the 2008 Scheme in a relevant Scheme membership if–"

(r) in paragraph (6)(a) substitute "the underpin date" with "31st March 2022 or the member's underpin date, whichever date is the earlier";

(s) in paragraph (6)(b)(iii)—

(i) substitute "the member's assumed benefits" with "the member's provisional assumed benefits";

(ii) at the end add "but limited to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022"

(t) after paragraph (6) insert—

"(6A) Where a member's underpin date has arisen under paragraph (2A), the provisional underpin amount calculated in accordance with paragraph (6) must include an amount equivalent to the enhancement that would apply under regulation 24(2) of the Benefits Regulations, for the period up to the earlier of the member's 2008 Scheme normal retirement age and 31st March 2022."

"(7) Subject to paragraph (8) a member's underpin crystallisation date in a relevant Scheme membership is the earliest of the following dates—

(a) the date from which the member elects to receive payment of a retirement pension under regulations 30(1), 30(5) or 30(6) of the 2013 Regulations;

(b) the date from which the member becomes entitled to receive payment of a retirement pension under regulation 30(7) of the 2013 Regulations;

(c) the date from which the member becomes entitled to an ill-health retirement pension under regulation 35(1) or regulation 38(1) of the 2013 Regulations;

(d) the date the member receives payment under regulation 34 of the 2013 Regulations;

(e) the date the member transfers their benefits out of the 2013 Regulations following;

(i) an application made under regulation 96 of the 2013 Regulations; or

(ii) by virtue of regulation 98 of the 2013 Regulations.

(f) the date a member dies.

(8) A deferred pensioner member who has had an underpin crystallisation date in a relevant Scheme membership pursuant to paragraph (7) following receipt of Tier 3 benefits has an additional underpin crystallisation date which is the earliest of the subsequent events referred to in paragraphs (7)(a) to (f).

(9) Where paragraphs 7(a), (b) or (c) apply to a member, the member's pension account must be increased by the final guarantee amount at the underpin crystallisation date.

(10) The final guarantee amount is the amount by which the final underpin amount exceeds the final assumed benefits on the underpin crystallisation date.

(11) Where a member who elects to receive payment of a retirement pension under regulation 30(6) of the 2013 Regulations has a final guarantee amount at their underpin crystallisation date, a proportion of that final guarantee amount equal to the proportion of the member's 2014 Scheme benefits that the member has elected to take under regulation 30(6) must be transferred to the member's flexible retirement pension account.

(12) A final guarantee amount payable to a member pursuant to paragraph (7)(a) and the remainder of the member's final underpin amount are payable to the member without further actuarial adjustment relating to the age at which the benefits are taken.

(13) When paragraph (7)(a) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial adjustment which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(14) When paragraph (7)(a) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971([60]) between a member's underpin date and their underpin crystallisation date; and

(b) including any actuarial adjustment which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(15) When paragraph (7)(b) or (c) applies to a member the final assumed benefits for the member are the value of provisional assumed benefits calculated in accordance with paragraph (5) with the following adjustment—

(a) any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their underpin crystallisation date; and

(b) any actuarial increase which would have applied under the 2013 Regulations, relating to the age at which the pension was taken.

(16) When paragraph (7)(b) or (c) applies to a member the final underpin amount is the value of the provisional underpin amount calculated in accordance with paragraph (6) but—

(a) updated to the underpin crystallisation date to include increases which would have applied under the Benefits Regulations by virtue of the Pension (Increase) Act 1971 between a member's underpin date and their underpin crystallisation date; or

(b) including any actuarial increase which would have applied under the Benefits Regulations relating to the age at which the pension was taken.

(17) When paragraphs (7) (d), (e) (i) or (e)(ii) apply to a member the value of the payment due at a member's underpin crystallisation date must be calculated in accordance with actuarial guidance issued by the Secretary of State.

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([60]) 1971 c. 56.

(18) A request for a cash equivalent value of a member's pension rights under Regulation 4 of the Pension Sharing (Valuation) Regulation 2000([61]) is not to be treated as a member's underpin date or underpin crystallisation date.

(19) A request made pursuant to paragraph (18) is to be calculated in accordance with actuarial guidance issued by the Secretary of State.

(20) Following the death of a person to whom this regulation applies, any provisional guarantee amount applicable at the member's underpin date must be updated to include any revaluation adjustment or index rate adjustment that would have applied to the member's pension under the 2013 Regulations between the member's underpin date and their date of death, and shall be known as the member's adjusted provisional guarantee amount.

(21) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the rate listed in column two of the below table must be applied to the adjusted provisional guarantee amount, to determine the addition to the relevant survivor benefit.

| *2013 Regulation* | *Rate* |
|---|---|
| 41(4) | 49/160 |
| 42(4) | 49/320 |
| 42(5) | 49/160 |
| 42(9) | 49/240 |
| 42(10) | 49/120 |
| 44(4) | 49/160 |
| 45(4) | 49/320 |
| 45(5) | 49/160 |
| 45(9) | 49/240 |
| 45(10) | 49/120 |
| 47(4) | 49/160 |
| 48(4) | 49/320 |
| 48(5) | 49/160 |
| 48(9) | 49/240 |
| 48(10) | 49/120 |

(22) Where, pursuant to paragraph (20), a provisional guarantee amount applied at a deceased member's underpin date, the adjusted provisional guarantee amount must be used in determining the annual amount of pension the member would have been entitled to under regulations 43(3) and 46(3) of the 2013 Regulations.

We consent to the making of these Regulations

*Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Housing, Communities and Local Government

*Name*
Parliamentary Under Secretary of State
Ministry of Housing, Communities and Local Government

Date

([61]) S.I. 2000/1052.

## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations"). Both sets of regulations came substantively into effect on 1st April 2014 and certain provisions listed in regulation 1 take effect from that date.

Regulations 2 to 4 amend the Local Government Pension Scheme Regulations 2013.

Regulations 5 and 6 amend the Transitional Regulations in regards to the operation of the underpin.

An impact assessment has not been produced for this instrument as no impact is anticipated on the private or voluntary sectors.

# Annex C – The two-stage process

As outlined in paragraphs 61 and 62, we are proposing the introduction of a two-stage process for calculating a qualifying member's entitlement from the underpin. Under this, calculations would take place at a qualifying member's underpin date and their underpin crystallisation date. This annex contains further details on the proposals we set out in our draft regulations.

**The underpin date – proposed approach**

- A qualifying member's underpin date would be the earlier of:
    - the date they leave active service with an immediate or deferred entitlement to a pension,
    - the date they reach their 2008 Scheme NPA, or
    - the date they die.
- The underpin date would relate to a specific 'relevant scheme membership' – i.e. a single, aggregated (where appropriate), scheme membership in which the member:
    - was active in the LGPS on 31st March 2012,
    - had membership of the 2014 Scheme, and
    - did not have a disqualifying break in service.
- It is possible a qualifying member may have two (or more) relevant scheme memberships. Where this applies, they may have different underpin dates in respect of each one.
- At a qualifying member's underpin date, an initial comparison of the member's 2014 Scheme and 2008 Scheme benefits would be undertaken based on:
    - the member's 'provisional assumed benefits' in a relevant scheme membership – broadly[62], the career average benefits they have accrued in the 2014 Scheme over the underpin period[63], and
    - the member's 'provisional underpin amount' in a relevant scheme membership – broadly, the final salary benefits the member would have built up in the 2008 Scheme over the same period[64].

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[62] For members who have had a period in the 50/50 section of the 2014 Scheme, the underpin calculation assumes the member remained in the full section of the 2014 Scheme.
[63] The underpin period runs from 1st April 2014 to 31st March 2022, or to the member's underpin date where that is earlier than 31st March 2022.
[64] If the underpin date is after 31st March 2022, the member's final salary for the year up to their underpin date would be used for the purposes of calculating their provisional underpin amount.

- If the provisional underpin amount is higher than the provisional assumed benefits at a qualifying member's underpin date, the member would be awarded a 'provisional guarantee amount' in respect of that relevant scheme membership.

- A provisional guarantee amount is a provisional assessment that the 2008 Scheme benefits would have been better for the member. At a qualifying member's underpin date, there would be no change to their pension entitlement arising from the provisional guarantee amount[65]. However, annual benefit statements sent to the member after their underpin date would confirm if a provisional guarantee amount has applied.

- Qualifying members may have multiple underpin dates in respect of a relevant scheme membership. This may occur where:

    - The member has concurrent employments and ceases to be an active member in one before their 2008 Scheme NPA (in which they have relevant scheme membership). An underpin date would apply at the point the member leaves the LGPS in that post. If the member then aggregates their relevant scheme membership with their ongoing post, a further underpin date would apply at the earlier of the following:

        - the date they leave active service,

        - the date they reach their 2008 Scheme NPA, or

        - the date they die.

    - The member leaves an employment in which they have relevant scheme membership with an immediate or deferred entitlement to a pension. An underpin date would apply at their date of leaving. If the member then re-joins the LGPS and aggregates their membership (without a disqualifying break in service), a further underpin date would apply at the earlier of the following:

        - the date they leave active service,

        - the date they reach their 2008 Scheme NPA, or

        - the date they die.

- Where a qualifying member has multiple underpin dates, it would be their provisional amounts from their latest underpin date that would be used for the purposes of the calculations at their underpin crystallisation date.

[65] Unless their underpin crystallisation date immediately follows their underpin date – for example, if a member takes immediate payment of their benefits upon leaving the scheme.

**The underpin crystallisation date – proposed approach**

- As the period between a qualifying member's underpin date and the date they take their benefits from the LGPS could be as much as 30 or 40 years, we propose that all qualifying members have an underpin crystallisation date in respect of a relevant scheme membership. This would ensure the comparison can be made when there is certainty on the final actuarial adjustments that might be applied, and in respect of the member's State Pension age.

- A variety of circumstances would give rise to a qualifying member's underpin crystallisation date and, in general[66], a qualifying member can only have one underpin crystallisation date in respect of a relevant scheme membership. A qualifying member's underpin crystallisation date would be the earliest of the following in respect of a relevant scheme membership:

    - the date a member takes voluntary payment of their pension, at any age between 55 and 75,

    - the date a member takes flexible retirement,

    - the date a member aged 55 or over leaves active membership as a result of redundancy, or due to business efficiency,

    - the date a member retires on ill-health grounds,

    - the date a member transfers out or trivially commutes their benefits, or

    - the date a member dies.

- What happens at a qualifying member's underpin crystallisation date would vary, and is described in more detail for each circumstance in 'the revised underpin – application' section in the body of this document. In most cases, however, it would involve a member's provisional underpin amount and their provisional assumed benefits being updated to give a member's 'final underpin amount' and their 'final assumed benefits'. How the provisional figures are updated to become final figures would vary depending on the circumstance. The below table summarises what is proposed to apply under the draft regulations.

| **Circumstance giving rise to a member's underpin crystallisation date** | **How provisional underpin amount and provisional assumed benefits calculated at a qualifying member's underpin date are updated at a member's underpin crystallisation date** |
|---|---|

[66] An exception applies in relation to members who receive a temporary (tier 3) ill-health pension. For such members, they will have an underpin crystallisation date upon receiving their temporary ill-health pension and then a subsequent one when their underpin crystallises from 'deferred pensioner' status.

| | |
|---|---|
| Voluntary age retirement or flexible retirement | • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and<br><br>• To include any actuarial adjustments relating to the member's age, that would have applied under the 2008 or the 2014 Schemes. |
| Redundancy[67] and ill-health pension being paid (from active or deferred status) | • To include any cost of living increases that would have applied to the member's pension under the 2008 or 2014 Schemes between the member's underpin date and their underpin crystallisation date, and<br><br>• To include any actuarial increases relating to the member's age, that would have applied under the 2008 Scheme and 2014 Scheme. |

- Where a qualifying member's final underpin amount is higher than their final assumed benefits at their underpin crystallisation date, the member would be awarded a 'final guarantee amount' in respect of that relevant scheme membership. An addition would be made to their pension account in respect of that final guarantee amount.

- For certain types of underpin crystallisation, the draft regulations do not prescribe that members' provisional underpin amount and provisional assumed benefits are updated to give 'final' amounts. This applies in the following cases:

    - Transfers out – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State, and the Public Sector Transfer Club memorandum, where appropriate
    - Trivial commutations – instead, administrators would need to comply with actuarial guidance issued by the Secretary of State
    - Deaths – instead, the regulations prescribe what should apply in relation to any survivor benefits that may be payable.

[67] Including termination on grounds of business efficiency

# Annex D – Illustrative examples

This annex provides examples to illustrate how the proposed underpin would operate in different situations. These examples illustrate some (but not all) of the factors which may impact whether or not an underpin addition may apply in different situations.

The examples shown are:

1. Retirement from active service at age 65
2. Retirement from active service at State Pension age ('SPa')
3. Early retirement from active service at age 60
4. Deferred retirement with no underpin at underpin date
5. Deferred retirement with an underpin at underpin date

All the examples are based on a member aged 47 in 2012, who did not receive underpin protection originally. This member has a 2014 Scheme normal pension age equivalent to their SPa under the current timetable, 67.

The examples rely on the following assumptions:

- The pension calculated is the pension accrued over the underpin period (1st April 2014 to 31st March 2022), as payable at retirement. In practice, such members will also have pension relating to pre-2014 and post-2022 periods which is not considered here.
- Inflation reflects actual experience up to 2020, with 2% pa assumed thereafter; increases are applied on 1 April.
- Salary increases, promotions and retirements occur on 31st March in the relevant year.
- The current State Pension age timetable is followed.
- The pension amounts are in nominal terms at retirement.
- The amounts are shown rounded to the nearest £10.

Please note that these examples are for illustrative purposes only. Generally, they only consider one of the key variables which may impact how the proposed underpin would apply to a member, in practice other variables may also be significant. The comparisons are based on the pension payable at retirement.

# Example 1 (retirement at age 65)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid two years earlier than their 2014 Scheme normal pension age (age 67). No adjustment would be required in this example for the calculation of the 2008 Scheme benefit (as this would be paid without adjustment from age 65).

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 65**, their pensions over the underpin period would be as follows:

| | |
|---|---|
| 2014 Scheme (age 65):<br>£6,100 pa | 2008 Scheme (age 65):<br>£6,060 pa |

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition required.**

## Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the underpin is now more than the age-adjusted 2014 Scheme pension at age 65:

| | |
|---|---|
| 2014 Scheme (age 65):<br>£6,100 pa | 2008 Scheme (age 65):<br>£6,670 pa |

The **final guarantee amount** is the difference between these two amounts which equals £570. Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an **underpin addition** would be required**.** The 2014 Scheme benefit would be increased by the underpin addition of £570 per year.

# Example 2 (retirement at SPa)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49$^{h}$ of revalued salary each year<br>Payable unreduced from State Pension age | 1/60$^{th}$ of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be when the member reaches age 65. At the underpin date the 2014 Scheme and 2008 Scheme benefits will be compared (with no allowance for actuarial adjustment).

If the member has the same **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at Spa** (67, in this case), the comparison at the underpin date is as follows:

| 2014 Scheme (age 65): | 2008 Scheme (age 65): |
|---|---|
| £6,770 pa | £6,060 pa |

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and therefore **no 'provisional guarantee amount'** is required.

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the revalued pension amounts and correct actuarial adjustment factors are known. In both cases the provisional assumed benefits and provisional underpin amount will be revalued in line with cost of living between age 65 and retirement. No actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years late retirement factors:

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,040 pa | £6,770 pa |

For this member **no underpin addition** would be required**.**

## Alternatively

However, if the member was promoted twice, receiving **an additional 5% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the comparison at the underpin date (age 65) is now:

| 2014 Scheme (age 65): | 2008 Scheme (age 65): |
|---|---|
| £6,770 pa | £6,670 pa |

The check at the underpin date shows **no 'provisional guarantee amount'** is required.

A further check would be untaken when the member takes their pension at their underpin crystalisation date, SPa (age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **final guarantee amount** would be £400. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £400 per year.

| 2014 Scheme (SPa): £7,040 pa | 2008 Scheme (SPa): £7,440 pa |
|---|---|

# Example 3 (early retirement)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49h of revalued salary each year<br>Payable unreduced from State Pension age | 1/60th of final salary each year<br>Payable unreduced from age 65 |

In this example the member's underpin date will be the same as the underpin crystallisation date and, practically, only one check will be required.

As the member is taking their benefits immediately upon leaving, we can adjust the 2014 Scheme pension to allow for this being paid seven years earlier than the 2014 Scheme normal pension age (SPa, age 67); and the 2008 Scheme benefits are also reduced to reflect that this is being paid five years earlier.

If the member had a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation** and **retires at age 60**, their pensions over the underpin period would be as follows:

| 2014 Scheme (age 60): £4,350 pa | 2008 Scheme (age 60): £4,070 pa |
|---|---|

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

## Alternatively

If the member was promoted twice, receiving **an additional 10% salary increase** at the end of the underpin period **and an additional 5% salary increase** five years later, the 2008 Scheme benefit is now more than the 2014 Scheme pension at age 60:

| 2014 Scheme (age 60): £4,350 pa | 2008 Scheme (age 60): £4,460 pa |
|---|---|

Following high salary increases the 2008 Scheme benefit structure becomes relatively higher and hence an **underpin addition** would now be required**.** The 2014 Scheme benefit would be increased by £110 pa.

# Example 4 (retirement from deferment #1)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49$^{h}$ of revalued salary each year<br>Payable unreduced from State Pension age | 1/60$^{th}$ of final salary each year<br>Payable unreduced from age 65 |

The example shows how the underpin check would work where the member leaves service at age 58 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If they had a **salary of £30,000 in 2014**, experience future annual **salary increases of 1% above inflation** until **leaving the scheme at age 58,** the pensions over the underpin period would be as follows:

| 2014 Scheme: | 2008 Scheme: |
|---|---|
| £5,890 pa | £4,930 pa |

The check at the underpin date shows the 2014 Scheme benefits are greater than the 2008 Scheme benefits and **no 'provisional guarantee amount'** is required.

A subsequent underpin crystallisation test will be carried out when the member takes their pension at SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 58 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,040 pa | £6,320 pa |

In this example the member's 2014 Scheme benefits are higher and there would be **no underpin addition** required**.**

## Alternatively

If the member was promoted twice, receiving **an additional 5% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period, the calculations at the underpin date would show the 2014 Scheme benefits are higher:

| 2014 Scheme: £6,040 pa | 2008 Scheme: £5,670 pa |
|---|---|

A further test would be undertaken at the underpin crystallisation date; when the member retires (SPa, age 67). This check shows that once revaluation and different actuarial adjustments are allowed for the 2008 Scheme benefits are higher and the difference or **'final guarantee amount'** would be £50.

| 2014 Scheme (SPa): £7,220 pa | 2008 Scheme (SPa): £7,270 pa |
|---|---|

Following high salary increases the 2008 Scheme benefit structure becomes relatively more valuable and hence an underpin addition would now be required. The 2014 Scheme benefit would be increased by £50 pa.

# Example 5 (retirement from deferment #2)

In **2012 the member was aged 47**, and so **did not receive underpin protection originally**. However, under our proposals, an underpin check would be undertaken to ensure that their benefits in the eight year underpin period are the greater of either:

| 2014 Scheme | 2008 Scheme |
|---|---|
| 1/49$^{h}$ of revalued salary each year<br>Payable unreduced from State Pension age | 1/60$^{th}$ of final salary each year<br>Payable unreduced from age 65 |

This example shows how the underpin check would work where the member leaves service at age 63 (with a deferred pension) which they subsequently draw at age 67. Under our proposals, an initial underpin check would be undertaken at the date of leaving active service (their underpin date) which would compare the 2014 Scheme benefits with the 2008 Scheme benefits over the underpin period. This comparison would not consider the effect of actuarial adjustments for age, as these would not be known at the member's underpin date.

If the member has a **salary of £30,000 in 2014**, experiences future annual **salary increases of 1% above inflation**, **an additional 10% salary increase** halfway through the underpin period and **an additional 10% salary increase** at the end of the underpin period until **leaving the scheme at age 63,** the relative pensions over the underpin period would be as follows:

| 2014 Scheme: | 2008 Scheme: |
|---|---|
| £6,830 pa | £6,870 pa |

In this example there is a **'provisional guarantee amount'** of £40 pa**.**

A subsequent test will be carried out at the member's underpin crystallisation date, their retirement age, SPa (age 67), when the final revalued amounts and correct actuarial adjustment factors are known. In both cases the pension amounts will be revalued in line with cost of living between age 63 and retirement. No further actuarial adjustment will be required for the 2014 Scheme benefit, however the 2008 Scheme benefit is increased by two years' late retirement factors:

| 2014 Scheme (SPa): | 2008 Scheme (SPa): |
|---|---|
| £7,390 pa | £7,980 pa |

This check shows that once revaluation and different actuarial adjustments are allowed for, the 2008 Scheme benefits are higher and the difference or **final guarantee amount**

would be £490. The member's 2014 Scheme benefit would be increased by an **underpin addition** of £490pa.

This again illustrates that following high salary increases the 2008 Scheme benefit structure can become relatively more valuable than the 2014 Scheme benefit, and also how the required underpin addition can change between a member's underpin date and their underpin crystallisation date.

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City of Westminster

# Committee Report

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| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Supreme Court Decision on Local Government Pension Schemes Investment Guidance** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There will be no immediate financial implications from this report.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 The purpose of this report is to provide a briefing of the recent Supreme Court ruling on the Local Government Pension Scheme (LGPS) Investment Guidance and provide details of the potential implications for LGPS Funds.

## 2. Recommendation

2.1 The Committee is requested to note the report the content of this report.

## 3. Background

3.1 This paper provides information on the recent Supreme Court ruling on the LGPS Investment Guidance. Under statutory power, the Secretary of State for Housing, Communities and Local Government (MHCLG) issued Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) ("the guidance").

3.2 Under the LGPS (Management and Investment of Funds) Regulations 2016 ("the Regulations"), LGPS administering authorities in England and Wales are required to follow that guidance when formulating their Investment Strategy

Statement (ISS). The guidance directs how social, environmental and governance considerations should be taken into account, and included two guidance passages (below), which provoked a legal challenge led by the Palestine Solidarity Campaign (PSC):

1) "…the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government."

2) "Authorities should not pursue policies that are contrary to UK foreign policy or UK defence policy".

## 4. Supreme Court Ruling

4.1 On 29 April 2020, the Supreme Court handed down its judgment, ruling by a 3-2 majority against the Secretary of State. The Court decided that by including these two passages in the guidance, the Secretary of State had exceeded his statutory powers.

4.2 In his judgment, Lord Wilson concluded:

"Irrespective of whether the misconception to which I have referred played a part in leading the secretary of state to include in the guidance the two passages under challenge, I conclude that his inclusion of them went beyond his powers. HOW (Lord Wilson's capital letters) does not include WHAT. Power to direct HOW administrators should approach the making of investment decisions by reference to non-financial considerations does not include power to direct (in this case for entirely extraneous reasons) WHAT investments they should not make."

4.3 The ruling will likely be disappointing to the Government, albeit one which it will have to accept. The Government is expected to respond to the ruling with revised investment guidance and possible additional secondary legislation.

## 5. Potential Implications

5.1 It is believed that there will be a number of potential implications for LGPS funds:

- Increase in correspondence from campaign groups. This ruling could see a significant increase in the volume of approaches that administering authorities receive from a range of campaigners, activists and pressure groups. There is a possibility that these groups will see this ruling as giving LGPS funds a green light to pursue a range of divestment strategies and will want to ensure that their particular area is included. Funds need to prepare themselves for this increase in interest and ensure that they have the necessary governance and processes in place to manage it.

- Need to remain aware of the lawful requirements of the guidance, including those regarding ESG issues. The guidance directs that LGPS funds may take purely non-financial considerations into account (in addition to financial considerations), provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

- Consideration given to the review of ISS and Responsible Investment policies. While it is not believed that the existing guidance would have stopped any LGPS Funds from setting out their views as a responsible investor, any updated guidance from MHCLG will need to be reviewed in due course, especially as to the "whats" and the "hows". Any red lines to be drawn by government may have to be lifted out of guidance and inserted into secondary legislation.

- Role of central government in "guiding" LGPS investment strategy. Lord Wilson held that LGPS fund assets are not public monies, and the Supreme Court has now made it clear that responsibility for investment decisions rests entirely with the administering authorities.

- It remains to be seen if the MHCLG responds to this ruling, beyond deleting the unlawful passages from its guidance, given that this judgment cannot be appealed. Other matters concerning the Government at present may drive the timing of any future response.

- It is noted that the version of the statutory guidance currently published on www.gov.uk no longer includes the two passages that were ruled unlawful by the Supreme Court.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062**

**Background Papers:** None

**Appendices:** None

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City of Westminster

# Committee Report

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| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **ShareAction Healthy Markets Coalition** |
| **Wards Affected:** | **None** |
| **Policy Context:** | **Effective control over Council Activities** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1 Executive Summary

1.1 This paper provides a brief overview of work undertaken by ShareAction on their Healthy Markets Initiative, the aim of which is to make retailers and manufacturers accountable for their role and impact on people's diets.

## 2 Recommendations

2.1 The Committee is requested to:

1. Note and comment on the attached ShareAction Healthy Markets summary.
2. Delegate authority to the Tri-Borough Director of Treasury and Pensions, in consultant with the Chairman, to write a letter to the Fund's equity managers regarding the Healthy Markets Initiative.

## 3 Background

3.1 ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

3.2 Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take on accountability for their role and impact on people's diets amid growing concerns surrounding increasing levels of obesity. This can include interventions such as education, increased reporting, packing and labelling, pricing/offers and the development of nutrition strategies.

3.3 Healthy eating and obesity is an urgent issue and something that companies should be acting on, particularly during the current global pandemic. A study of NHS electronic health records has shown that the risk of dying from COVID-19 is 33% higher amongst people who are obese. Given the seriousness of this issue, it is a critical point for investors and companies to ensure they are able to manage the associated risks and opportunities.

3.4 As per the most recent Office for National Statistics (ONS) statistics on obesity, physical activity and diet published in 2020, 20% of Year 6 children were classed as obese and 67% of men and 60% of women were overweight. Statistics also show that being obese as a child greatly increases the risk of being obese as an adult, with an estimated cost to the NHS of £6.1bn and £27bn in reduced annual economic growth costs.

3.5 To date, the ShareAction initiative has focused on engaging with the top ten food retailers (see Appendix 1 for target retailers) in the UK, pushing for public commitments to improve performance. During 2020, ShareAction attended the AGMs of 15 UK based and international food and drinks companies. This was supported by members of the investor coalition, during which ShareAction put questions to the company boards and facilitated investor conversations.

3.6 During September 2020, ShareAction sent letters to the target retailers asking for commitments to sugar and calorie reduction targets, front-of-pack labelling and supporting next steps. These letters were signed by members of the Healthy Markets coalition, representing over $1 trillion in assets under management. ShareAction has advised that they have already received responses from two of the retailers.

## 4 Next Steps

4.1 ShareAction has expressed interest in working with asset owners/managers, including the Westminster Pension Fund, to assist with the engagement process as part of the Healthy Markets Initiative. Within the current Westminster Pension Fund equity mandates, there was exposure to the target retailers and manufacturers of circa 1.9% of the total fund value as at 31 March 2020.

4.2 The Committee is requested to delegate authority to the Tri-Borough Director of Treasury and Pensions, in consultant with the Chairman, to write a letter to our equity managers regarding the ShareAction Healthy Markets initiative, on behalf of the Committee.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Billie Emery bemery@westminster.gov.uk**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: ShareAction Healthy Markets Initiative

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# ShareAction
# Healthy Markets Initiative

## What is Healthy Markets?

Obesity is one of the most pressing global public health issues. Its negative effect on people's health, national health services and the economy is considerable. In the UK, two thirds of adults are overweight or obese, and the management of obesity and overweight related ill health costs the NHS £6.1 billion annually.

The severity of its impact is amplified by the current Covid-19 pandemic. It has underscored the urgent need to build a healthier and more resilient society, with a focus on preventative measures. In the UK, obesity raises the risk of death from Covid-19 by 33 per cent, and excess weight is the second biggest risk factor for complications from the virus after old age.

ShareAction's Healthy Markets initiative brings together investors to ask food and drink companies to play their part in building a healthier population. The initiative benchmarks companies in collaboration with ATNI, attends company AGMs and supports a growing coalition of investors to engage directly with companies. Through these actions, the initiative seeks to improve population health and future-proof businesses.

## What is the business case for investors?

Unhealthy food environments are one of the biggest contributors to rising obesity rates. This means unhealthy food and drink is all too often the easiest and most accessible option.

Food and drink manufacturers and retailers play a significant role in shaping people's diets. In the UK, two of every three pounds spent on food is in supermarkets, with over half of the grocery market made up of supermarkets' own brand products. This sector is also highly concentrated, with just a handful of companies responsible for the majority of sales of key product categories.

As a sector it is therefore at substantial risk if it fails to adapt to increasing public awareness and demand for healthy foods, as well as significant government interventions, such as those recently announced under the UK Government's refreshed Obesity Strategy. This is focused on curbing rising obesity levels by improving food environments through targeting in-store promotion and placement of unhealthy foods. Companies that do not already have plans and targets to address these measures will be at a significant disadvantage. Compounded by the Covid-19 pandemic, there is an urgent need for investors and companies to take responsibility on these issues.

To accurately analyse the risks and opportunities to their holdings, investors must have access to adequate data. However, there is a currently a significant lack of disclosure on what food and drink companies are doing to support the health of their customers. Investors therefore do not have access to the information they need to analyse the risk profile of companies in their holdings and make informed decisions about their investments.

## What are the goals of the initiative?

The Healthy Markets initiative seeks to make retailers and manufactures fully accountable for their role and impact on people's diets. In order to promote public health and sustainable growth, the initiative will educate companies on the interventions available to them, drive improvements in corporate performance, increase reporting and encourage the development of nutrition strategies.

The current target companies for the initiative are:

- **Retailers:** Tesco, Sainsbury's, Co-op, Morrisons, Asda (Walmart), Iceland, Aldi, Waitrose, Lidl, Marks & Spencer and Ocado
- **Manufacturers:** Nestlé, Arla Foods, PepsiCo, Unilever, Mars, Coca-Cola, Danone, Kraft Heinz, Mondelez, Associated British Foods, General Mills, Kellog's, Suntory, Post Holdings, Britvic, Premier Foods and AG Barr.

## What progress has been made so far?

To date, the initiative has focused on engaging with the top ten food retailers in the UK. Through a growing coalition of asset managers and asset owners, positive progress is evident and retailers have begun to make public commitments to improve performance.

ShareAction has supported this engagement through investor briefings and reports published in collaboration with the Access to Nutrition Initiative. The UK Product Profile and Supermarket Spotlight report were published in 2019 and 2020 respectively. The former assesses the healthiness of packaged products sold in the UK, whilst the latter is the first of its kind to collate publicly available information on the commitments the top ten UK supermarkets are making to support the health of their customers. By pulling this data together and highlighting where gaps exist, this report enables investors to begin to compare companies across the sector and see where further action is needed.

In 2020, ShareAction attended the AGMs of fifteen food and drink companies, both in the UK and internationally. Supported by members of the investor coalition, ShareAction asked questions to company boards, raising the profile of the campaign and facilitating investor led conversations.

## How can investors get involved?

Health is a key investment issue which has been thrown into the spotlight during the Covid-19 pandemic. This is a critical point for investors and businesses to ensure they are prepared to manage the potential risks and capitalise on the opportunities that this topic presents.

Asset managers and asset owners who are interested in working with ShareAction, either independently or as part of the Healthy Markets investor coalition, or have any questions about the initiative, can contact:

Louisa Hodge
Food & Health Engagement Manager
louisa.hodge@shareaction.org

City of Westminster

# Committee Report

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|---|---|
| **Decision Maker:** | **PENSION FUND COMMITTEE** |
| **Date:** | **29 October 2020** |
| **Classification:** | **General Release** |
| **Title:** | **Renewable Infrastructure** |
| **Wards Affected:** | **All** |
| **Policy Context:** | **Effective control over council activities** |
| **Financial Summary:** | **There are no direct financial implications arising from this report.** |
| **Report of:** | **Phil Triggs**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. EXECUTIVE SUMMARY

1.1 At the 25 June 2020 meeting, the Pension Fund Committee elected to transfer 5% (£75m-£80m) of the Pension Fund asset allocation from core property to renewable infrastructure.

1.2 The Pension Fund investment consultant, Deloitte, has looked at a spectrum of managers in the market to find suitable longlist of managers and have scored mangers against four main criteria:

`

- Portfolios primarily targeting brownfield assets.
- Strategies currently or will soon be raising capital.
- Preference for the fund size to be appropriate for the investment.
- Strong cash yield with even income distributions.

1.3 As a result, it is recommending that three managers be invited to the next stage of the process.

## 2. RECOMMENDATIONS

2.1 The Committee is recommended to invite the three shortlisted managers to attend an extended interview in order to select an appropriate asset manager.

## 3. PROPOSALS AND ISSUES

**Renewable Infrastructure**

3.1 The Pension Fund Committee allocated 5% to renewable infrastructure at the 25 June 2020 meeting. This was largely to be funded from the existing allocation to core property with Hermes.

3.2 Following this decision, initially officers worked with the London CIV (LCIV) working group looking to develop a renewable infrastructure product on its platform.

3.3 It quickly became apparent that this process was not moving at an acceptable pace and, with a desire to move quickly on the investment, officers instructed Deloitte to assess the market for providers currently in the renewable infrastructure investment space.

3.4 As per the attached Deloitte report (Appendix 1), fifteen managers in the market were identified and assessed against four key criteria:

- Portfolios primarily targeting brownfield assets.
- Strategies currently or will soon be raising capital.
- Preference for the fund size to be appropriate for the investment.
- Strong cash yield with even income distributions.

3.5 From this longlist, Deloitte has identified three managers who best fit the criteria.

3.6 The proposal is now to hold an extraordinary Pension Fund Committee meeting in early November 2020, where the Committee can interview the managers and select a renewable infrastructure partner going forward.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

**Matt Hopson** mhopson@westminster.gov.uk

**BACKGROUND PAPERS:**

None

**APPENDICES:**

Appendix 1: Renewable Infrastructure (EXEMPT)