Governance Policy and Compliance Statement
(June 2015)
Northamptonshire Pension Fund
Northamptonshire Local Government Pension Scheme (LGPS)

Governance Policy and Compliance Statement

Introduction

This Policy and Compliance Statement details the governance arrangements for the Northamptonshire Pension Fund, which is maintained by Northamptonshire County Council, as required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

Under Regulation 55 of that provision all LGPS Funds are required to produce a Governance Compliance Statement which must be published and revised upon any material change in delegation arrangements.

The statement must set out -

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority:

(b) if the authority does so –

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights.

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under Regulation 53(4)

Each administering authority must –

(a) keep the statement under review and make such revisions as are appropriate, following a material change,

(b) in preparing and reviewing the statement, consult such persons as it considers appropriate,

(c) publish its statement and any revised statement.
Governance Structure

The Northamptonshire Pension Fund governance structure is shown below.

- **Northamptonshire County Council**
- **(Local) Pension Board**
- **Pension Committee**
- **Investment Sub-Committee**
- **Director of Finance (S151 Officer)**
- **Head of Pensions**
Scheme of Delegations for the Northamptonshire Pension Fund

Northamptonshire County Council has delegated its functions in relation to the maintenance of the Northamptonshire Pension Fund to its Committees and Local Pension Board as follows:

Pension Committee

Authority to set the Pension Fund’s objectives and determine and maintain appropriate strategies, policies and procedures with ongoing monitoring in the following areas:

- **Funding Strategy** – ongoing monitoring and management of the liabilities including ensuring appropriate funding plans are in place for all employers in the Fund. Overseeing the triennial valuation and interim valuations and working with the actuary in determining the appropriate level of employer contributions for each employer.

- **Investment Strategy** – to determine the Fund’s investment objectives and to set and review the long term high level investment strategy to ensure these are aligned with the Fund’s specific liability profile and risk appetite.

- **Administration Strategy** – the administration of the Fund including collecting payments due, calculating and paying benefits, gathering from and providing information to scheme members and employers.

- **Communications Strategy** – determining the methods of communications with the various stakeholders including scheme members and employers.

- **Discretions** – determining how the various administering authority discretions are operated for the Fund.

- **Governance** – the key governance arrangements for the Fund, including representation.

- **Risk Management Strategy** – to include regular monitoring of the Fund’s key risks and agreeing how they are managed and/or mitigated.

Authority to approve and apply the policy on, and to take decisions relating to, employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.

Authority to agree the terms and payment of bulk transfers into and out of the Fund in consultation with the Section 151 Officer.

Authority to consider and agree business plans at least annually and monitor progress against them and to monitor compliance with the Myners Principles on an annual basis.

Authority to develop and maintain a training policy for all Pension Committee, Investment Sub-Committee and Pension Fund Board members and for all officers of the Fund,
including:

- Determining the Fund’s knowledge and skills framework;
- Identifying training requirements;
- developing training plans;
- and monitoring attendance at training events.

Authority to select, appoint, monitor and where necessary terminate advisers to the Fund not solely relating to investment matters.

Authority to agree the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

Authority to consider and determine where necessary, alternative investment strategies for participating employers.

Authority to oversee the work of the Investment Sub-Committee and consider any matters put to them by the Investment Sub-Committee.

Authority to set up sub-committees and task and finish groups including jointly with other LGPS Administering Authorities.

Authority to review and amend the Statement of Investment Principles on an annual basis, in consultation with the Section 151 Officer.

Authority to manage any other strategic or key matters pertaining to the Fund not specifically listed above.

**Investment Sub-Committee**

Authority to implement the Fund’s investment strategy.

Authority to review and maintain the detailed asset allocation of the Fund within parameters agreed with the Pension Committee.

Authority to appoint and terminate investment managers to the Fund and to monitor the performance of investment managers leading to review and decisions on termination where necessary.

Authority to appoint and monitor and where necessary terminate external advisors and service providers solely relating to investment matters, for example, the Fund Custodian, independent investment advisers, investment consultants and investment managers.

Authority to set benchmarks and targets for the Fund’s investment managers.

Authority to monitor the risks inherent in the Fund’s investment strategy in relation to the Fund’s funding level.

Authority to determine operational matters such as rebalancing and the most appropriate
methodology for asset transitions within parameters agreed by the Pension Committee. Authority to monitor and review:

- Legislative, financial and economic changes relating to investments and their potential impact on the Fund;
- The investment management fees paid by the Fund and to implement any actions deemed necessary;
- The transactions costs incurred by the Fund across its investment mandates and raise relevant issues and concerns with the investment managers as necessary;
- The investment managers’ adoption of socially responsible investment considerations, on an annual basis, including corporate governance matters and a review of compliance; and
- with the UK Stewardship Code.

Authority to receive reports on Interim Manager meetings and other operational meetings.

Authority to undertake any task as delegated by the Pension Committee.

Authority to refer any matter to the Pension Committee as they consider appropriate.

Authority to provide minutes and such other information to the Pension Committee as they may request from time to time.

**Local Pension Board**

Responsibility for assisting the Administering Authority to secure compliance with:

- the Regulations;
- other legislation relating to the governance and administration of the LGPS; and
- the requirements imposed by the Pensions Regulator in relation to the LGPS

To ensure the effective and efficient governance and administration of the LGPS (including funding and investments).

**Director of Finance**

Responsibility for maintaining the Local Government Pension Scheme Regulations and any subsequent amending regulations, including the exercise of the Administering Authority’s discretions and to make arrangements for the monitoring of the Pension Fund investments.
The Pension Committee

The Pension Committee is composed as follows:

<table>
<thead>
<tr>
<th>Representing</th>
<th>No.</th>
<th>Term of Office</th>
<th>Method of appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northamptonshire County Council</td>
<td>7</td>
<td>4 years from County Council elections</td>
<td>Determined by Northamptonshire County Council Full Council.</td>
</tr>
<tr>
<td>All other Local Authorities and Police</td>
<td>2</td>
<td>4 years</td>
<td>Nominations determined by a leaders/chief executives group. Selection will be linked to the election cycle. Details of the process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>All other employers</td>
<td>2</td>
<td>4 years</td>
<td>Nominations to be determined by eligible employers. Details of the process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>Active Scheme Members</td>
<td>1</td>
<td>4 years</td>
<td>Determined by Unison. Where Unison fails to nominate a representative for any period of 6 months or more, nominations will be requested from all eligible active members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>Deferred and Pensioner Scheme Members</td>
<td>1</td>
<td>4 years</td>
<td>Determined by Unison. Where Unison fails to nominate a representative for any period of 6 months or more, nominations will be requested from all eligible deferred and pensioner members and a representative will be picked following interviews. Details of process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Chairman/woman of the Pension Fund Committee is elected by Full Council. The Vice Chairman/woman shall be elected by the Pension Committee.

Full Council may appoint substitute members to the Pension Committee in accordance with the scheme of substitution. Similarly, substitutes for the representatives of all other employers and of Scheme members may be appointed by eligible employers and Unison respectively.

All members and representatives have equal voting rights.

The Pension Committee is supported in the execution of its responsibilities by staff from LGSS Pensions (a shared service formed from the joint partnership of Cambridgeshire County Council and Northamptonshire County Council). The Committee is also supported by professional advisers such e.g. the Fund Actuary.
The Board meets four times a year with an additional Annual General Meeting in July. Additional Task and Finish Groups can meet as necessary to consider and report on matters that require further consideration.

**The Investment Sub-Committee**

The Investment Sub-Committee is composed as follows:

<table>
<thead>
<tr>
<th>Representing</th>
<th>No.</th>
<th>Term of Office</th>
<th>Method of appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northamptonshire County Council</td>
<td>4</td>
<td>4 years from County Council elections</td>
<td>Determined by Northamptonshire County Council Full Council. Details of process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>All other employers</td>
<td>2</td>
<td>Up to term of office ceasing in accordance with Board membership or six years, whichever is later</td>
<td>Determined by non-Northamptonshire County Council employer representatives on the Committee. Details of process to be agreed by the Chairman/woman.</td>
</tr>
<tr>
<td>Scheme members</td>
<td>1</td>
<td>Up to term of office ceasing in accordance with Board membership or six years, whichever is later</td>
<td>By agreement between active and deferred pensioner representatives on the Committee. Details of the process to be agreed by the Chairman/woman.</td>
</tr>
</tbody>
</table>

Total 7

All Investment Sub-Committee members shall be drawn from the Pension Committee membership. The Chairman/woman and Vice Chairman/woman of the Investment Sub-Committee shall be the Chairman/woman and Vice Chairman/woman of the Pension Fund Committee respectively.

All members and representatives have equal voting rights.

The Pension Committee may appoint substitute members to the Investment Sub-Committee in accordance with the scheme of substitution. Similarly, substitutes for the representatives of all other employers and of Scheme members may be appointed by eligible employers and Unison respectively.

The Investment Sub-Committee is supported in the execution of its responsibilities by an institutional investment adviser and an independent investment adviser.

The Investment Sub-Committee meets four times a year.
In addition special meetings of the Investment Sub-Committee are held when required for the discharge of its functions in regard to such matters as the selection and appointment of investment managers.

**The Local Pension Board**

The Local Pension Board is composed as follows:

<table>
<thead>
<tr>
<th>Representing</th>
<th>No.</th>
<th>Term of Office</th>
<th>Method of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme Employers</td>
<td>3</td>
<td>4 years or until qualification for membership ceases</td>
<td>Two Councillor representatives determined by Northamptonshire County Council. One representative of a Scheme employer such as an admitted body or non-tax raising body that participates in the Northamptonshire Pension Fund appointed via an open selection process.</td>
</tr>
<tr>
<td>Scheme Members</td>
<td>3</td>
<td>4 years or until qualification for membership ceases</td>
<td>To be appointed via an open and transparent selection process.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Local Pension Board has no decision making ability.

There are no substitute members.

The Local Pension Board meets at least twice per year.

The Local Pension Board reports its activities at the end of each financial year to full Council.
Governance Compliance Statement

This section sets out the extent to which Northamptonshire Pension Fund governance arrangements are compliant with the latest guidance issued by the Secretary of State for Communities and Local Government;

<table>
<thead>
<tr>
<th>Principle</th>
<th>Not Compliant</th>
<th>Partially Compliant</th>
<th>Fully Compliant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Structure</strong></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(a) the Management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(b) that representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(c) that where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(d) that where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>B. Representation</strong></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(a) that all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include;</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(i) employing authorities (including non-scheme employers (e.g. admitted bodies)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) scheme members (including deferred and pensioner scheme members)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) independent professional observers</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) expert advisers</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td><strong>C. Selection and role of lay members</strong></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(a) that committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) that at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>D. Voting</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) the policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>E. Training/Facility time/Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) that in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form or secondary forum.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>F. Meetings (frequency/quorum)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) that the Administering Authority’s main committee or committees meet at least quarterly.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) that an Administering Authority’s secondary committee of panel meet at least twice a year and is synchronised with the dates when the main committee sits.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) that Administering Authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders be represented.</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>G. Access</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) that subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>H. Scope</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) that administering authorities have taken steps to bring the wider scheme issues within the scope of their governance arrangements.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I. Publicity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) that administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Contents

Funding Strategy Statement

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>Basic Funding issues</td>
<td>4</td>
</tr>
<tr>
<td>Calculating contributions for individual Employers</td>
<td>9</td>
</tr>
<tr>
<td>Funding strategy and links to investment strategy</td>
<td>23</td>
</tr>
<tr>
<td>Statutory reporting and comparison to other LGPS Funds</td>
<td>24</td>
</tr>
</tbody>
</table>

## Appendices

<table>
<thead>
<tr>
<th>Appendix</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix A – Regulatory framework</td>
<td>25</td>
</tr>
<tr>
<td>Appendix B – Responsibilities of key parties</td>
<td>28</td>
</tr>
<tr>
<td>Appendix C – Key risks and controls</td>
<td>31</td>
</tr>
<tr>
<td>Appendix D – The calculation of Employer contributions</td>
<td>36</td>
</tr>
<tr>
<td>Appendix E – Actuarial assumptions</td>
<td>40</td>
</tr>
<tr>
<td>Appendix F – Glossary</td>
<td>43</td>
</tr>
</tbody>
</table>
1 Introduction

1.1 What is this document?
This is the Funding Strategy Statement (FSS) of the Northamptonshire Pension Fund (“the Fund”), which is administered by Northamptonshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 29 March 2017.

1.2 What is the Northamptonshire Pension Fund?
The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Northamptonshire Fund, in effect the LGPS for the Northamptonshire area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?
Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.
There are also regulatory requirements for an FSS, as given in Appendix A. The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund’s policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund’s Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?
This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members’ retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?
The FSS sets out the objectives of the Fund’s funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund’s investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- the regulatory background, including how and when the FSS is reviewed,
- who is responsible for what,
- what issues the Fund needs to monitor, and how it manages its risks,
- some more details about the actuarial calculations required,
- the assumptions which the Fund actuary currently makes about the future,
- a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Employer Services and Systems Team Manager in the first instance at e-mail address penemployers@northamptonshire.gov.uk or on telephone number 01604 364621.
2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members’ benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer’s contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members’ own contributions and including administration expenses. This is referred to as the “Primary rate”, and is expressed as a percentage of members’ pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary rate”. In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the “time horizon”). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund’s Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers’ contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate paid will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer’s contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are
those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

**2.4 How does the measured contribution rate vary for different employers?**

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they
have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The probability of achieving the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?
An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members’ benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?
The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers’ services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund’s need for maintaining prudent funding levels, and the employers’ need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options
such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will perhaps temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.
3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund’s three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability “bars” can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund’s stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.
### 3.3 The different approaches used for different employers

<table>
<thead>
<tr>
<th>Type of employer</th>
<th>Scheduled Bodies</th>
<th>Community Admission Bodies and Designating Employers</th>
<th>Transferee Admission Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Authorities, Police and Fire</td>
<td>Colleges</td>
<td>Individual, open to new entrants</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Academies</td>
<td>Individual, closed to new entrants</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pooled</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(all)</td>
</tr>
<tr>
<td><strong>Funding Target Basis used</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing, assumes long-term Fund</td>
<td></td>
<td>Ongoing, but may move to “gilts basis” – see</td>
<td></td>
</tr>
<tr>
<td>participation (see Appendix E)</td>
<td></td>
<td>Note (a)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Primary rate approach</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(see Appendix D – D.2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stabilised contribution rate?</strong></td>
<td>Yes – see Note (b)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Maximum time horizon – Note (c)</strong></td>
<td>20 years</td>
<td>20 years</td>
<td>15 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Outstanding contract term (or average expected future working lifetime if less)</td>
</tr>
<tr>
<td><strong>Secondary rate – Note (d)</strong></td>
<td>Monetary amount</td>
<td>Monetary amount % of payroll</td>
<td>Monetary amount % of payroll</td>
</tr>
<tr>
<td><strong>Treatment of surplus</strong></td>
<td>Covered by stabilisation arrangement</td>
<td>Reduce contributions by spreading the surplus over 20 years</td>
<td>Covered by stabilisation arrangement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority</td>
<td>Reduce contributions by spreading the surplus over the remaining contract term</td>
</tr>
<tr>
<td><strong>Probability of achieving target – Note (e)</strong></td>
<td>66%</td>
<td>66%</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Phasing of contribution changes</strong></td>
<td>Covered by stabilisation arrangement</td>
<td>3 years</td>
<td>Covered by stabilisation arrangement</td>
</tr>
<tr>
<td><strong>Review of rates – Note (f)</strong></td>
<td>n/a</td>
<td>Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations</td>
<td>Reviewed annually by request in last 3 years of contract</td>
</tr>
<tr>
<td><strong>New employer</strong></td>
<td>n/a</td>
<td>Note (g)</td>
<td>Note (h)</td>
</tr>
<tr>
<td><strong>Cessation of participation: cessation debt payable</strong></td>
<td>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (i).</td>
<td>Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j)</td>
<td>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</td>
</tr>
</tbody>
</table>

As indicated in section 3.1, the Administering Authority may, if it considers the circumstances appropriate, direct the actuary to take alternative approaches for assessing contributions for specific employers.
Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers’ rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.
On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

<table>
<thead>
<tr>
<th>Type of employer</th>
<th>Council, Police</th>
<th>Academy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base cont rate</strong></td>
<td>Actual 2016-17 rate</td>
<td>24.6%</td>
</tr>
<tr>
<td><strong>2017-18 rate</strong></td>
<td>Same as 2016-17*</td>
<td>Reduction of 1% of pay (if calculated rate below base)***</td>
</tr>
<tr>
<td><strong>2018-19 &amp; 2019-20</strong></td>
<td>Increases each year of between nil and 1.0% of pay**</td>
<td>Further reductions each year of 1% of pay (if calculated rate below base)***</td>
</tr>
<tr>
<td><strong>Thereafter:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Max cont increase</td>
<td>1% of pay</td>
<td>1% of pay</td>
</tr>
<tr>
<td>Max cont decrease</td>
<td>1% of pay</td>
<td>1% of pay</td>
</tr>
</tbody>
</table>

*The split in total contribution rate between Primary and Secondary elements may change from 1 April 2017, compared to the split between percentage and monetary amounts in 2016-17, in accordance with new LGPS Regulatory requirements. On the basis of the pensionable payroll in 2015/16, the total contribution would be unaffected.

**The modelling carried out in 2016 has determined whether each given employer requires nil, 0.5% or 1.0% increases, and this has been discussed with the employers.

***In line with the stabilisation previously enjoyed by academies (where contribution rate increases were limited to 1% of pay each year), any reduction in contribution from 2017 is similarly limited to 1% of pay each year. Any reduction in contribution is limited such that the contribution paid is no lower than the calculated rate. However, if the academy’s calculated rate exceeds the base contribution rate of 24.6%, the academy will pay 24.6%, 25.6% and 26.6% of pay in each of the years 2017/18, 2018/19 and 2019/20 respectively, subject to a maximum of the calculated rate being paid in each of these years.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

The Administering Authority has a policy of aiming to secure the stabilised rates for two years (as opposed to one year) after each future valuation date, to provide sufficient advance notice to such employers regarding possible changes in their contribution rates. This is subject to market conditions not making it unsafe to do so.

**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect
the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

**Note (d) (Secondary rate)**

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a monetary sum as opposed to a percentage of salaries. However, where a percentage of salaries approach is adopted, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

**Note (e) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer’s current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in **Appendix D**.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

**Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer’s business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.
The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

**Note (g) (New Academy conversions)**

At the time of writing, the Fund’s policies on academies’ funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy’s figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy’s past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council’s assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members’ funding level, having first allocated assets in the council’s share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy’s active Fund membership on the day prior to conversion;

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

v. As an alternative to (iv), the academy will have the option to elect to pay the base contribution rate outlined in **Note (b)** above. This has been calculated to be broadly in line with the ceding Local Authority. However, this election will not alter the academy’s asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund’s policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

**Note (h) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:
the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
allowance for the risk of asset underperformance;
allowance for the risk of a fall in gilt yields;
allowance for the possible non-payment of employer and member contributions to the Fund; and/or
the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, or a Central Government department, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)
A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:
i) **Pooling**

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) **Letting employer retains pre-contract risks**

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) **Fixed contribution rate agreed**

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

**Note (j) (Admission Bodies Ceasing)**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E:

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.
As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.
3.4 **Pooled contributions**

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Town and Parish Councils (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service).
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 **Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer’s deficit;
- the amount and quality of the security offered;
- the employer’s financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 **Non ill health early retirement costs**

It is assumed that members’ benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer’s consent to retire). **(NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014).**
Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health.

Payment of non-ill health strain costs will be payable immediately; however, in exceptional circumstances, with the agreement of the Administering Authority the payment may be spread as follows:

- Major Employing bodies: up to 3 years
- Community Admission Bodies and Designating Employers: up to 3 years
- Academies: up to 3 years
- Transferee Admission Bodies: payable immediately.

### 3.7 Ill health early retirement costs

In the event of a member’s early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by a single lump sum, equal to the strain, paid by an external insurance policy (see 3.8 below).

### 3.8 External Ill health insurance

The Administering Authority has arranged a current external insurance policy covering ill health early retirement strains, for all employers in the Fund on a mandatory basis. The employer’s contribution to the Fund each year includes its share of that year’s insurance premium.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer’s asset share runs out before all its ex-employees’ benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer’s asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund’s actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer’s obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.
3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer’s Fund contributions to increase between valuations.
4 Funding strategy and links to investment strategy

4.1 What is the Fund’s investment strategy?
The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund’s liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?
The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund’s investment strategy?
In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a “prudent longer-term view” of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers’ contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?
The Actuary has developed four key measures which capture the essence of the Fund’s strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund’s actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority’s aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through Employers Forums.
5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose
Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency
For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency
The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.
Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and

4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.
Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

“to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;

to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

to take a prudent longer-term view of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was published on the website at http://pensions.northamptonshire.gov.uk in December 2016 for comment and employers were notified of its publication;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 29 November 2016 at which questions regarding the FSS could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at http://pensions.northamptonshire.gov.uk
A4 How often is the FSS reviewed?
The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?
The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://pensions.northamptonshire.gov.uk.
Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-
1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund’s Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund’s actuary;
10. provide data and information as required by the Government Actuary’s Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund’s actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund’s performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-
1. deduct contributions from employees’ pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.
B3 The Fund Actuary should:-
1. prepare valuations, including the setting of employers’ contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer’s solvency appropriately;
2. provide data and information as required by the Government Actuary’s Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers’ participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-
1. investment advisers (either internal or external) should ensure the Fund’s SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund’s operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority’s own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary’s Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.
Appendix C – Key risks and controls

C1 Types of risk
The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.</td>
<td>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</td>
</tr>
<tr>
<td></td>
<td>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</td>
</tr>
<tr>
<td></td>
<td>Analyse progress at three yearly valuations for all employers.</td>
</tr>
<tr>
<td></td>
<td>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</td>
</tr>
<tr>
<td>Inappropriate long-term investment strategy.</td>
<td>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</td>
</tr>
<tr>
<td></td>
<td>Chosen option considered to provide the best balance.</td>
</tr>
<tr>
<td>Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.</td>
<td>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</td>
</tr>
<tr>
<td></td>
<td>Inter-valuation monitoring, as above.</td>
</tr>
<tr>
<td></td>
<td>Some investment in bonds helps to mitigate this risk.</td>
</tr>
<tr>
<td>Active investment manager under-performance relative to benchmark.</td>
<td>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</td>
</tr>
</tbody>
</table>
### Risk Summary of Control Mechanisms

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay and price inflation significantly more than anticipated.</td>
<td>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</td>
</tr>
<tr>
<td>Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies</td>
<td>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</td>
</tr>
<tr>
<td>Orphaned employers give rise to added costs for the Fund</td>
<td>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</td>
</tr>
</tbody>
</table>

### C3 Demographic risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioners living longer, thus increasing cost to Fund.</td>
<td>Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</td>
</tr>
<tr>
<td>Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.</td>
<td>Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.</td>
</tr>
<tr>
<td>Risk</td>
<td>Summary of Control Mechanisms</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Deteriorating patterns of early retirements</strong></td>
<td>Employers are charged the extra cost of non ill-health retirements following each individual decision.</td>
</tr>
<tr>
<td></td>
<td>Employer ill health retirement experience is monitored, and insurance is an option.</td>
</tr>
<tr>
<td><strong>Reductions in payroll causing insufficient deficit recovery payments</strong></td>
<td>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</td>
</tr>
<tr>
<td></td>
<td>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</td>
</tr>
<tr>
<td></td>
<td>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</td>
</tr>
</tbody>
</table>

**C4** **Regulatory risks**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Summary of Control Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</strong></td>
<td>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</td>
</tr>
<tr>
<td></td>
<td>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</td>
</tr>
<tr>
<td><strong>Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).</strong></td>
<td>Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.</td>
</tr>
</tbody>
</table>
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.

The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.

Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

<table>
<thead>
<tr>
<th>C5  Governance risks</th>
<th><strong>Summary of Control Mechanisms</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk</strong></td>
<td><strong>Summary of Control Mechanisms</strong></td>
</tr>
<tr>
<td>Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</td>
<td>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer’s contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.</td>
</tr>
<tr>
<td>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</td>
<td>The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.</td>
</tr>
<tr>
<td>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</td>
<td>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies’ memberships are monitored and, if active membership decreases, steps will be taken.</td>
</tr>
<tr>
<td>An employer ceasing to exist with insufficient funding or adequacy of a bond.</td>
<td>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</td>
</tr>
<tr>
<td>Risk</td>
<td>Summary of Control Mechanisms</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3).</td>
<td></td>
</tr>
<tr>
<td>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</td>
<td></td>
</tr>
<tr>
<td>Vetting prospective employers before admission.</td>
<td></td>
</tr>
<tr>
<td>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</td>
<td></td>
</tr>
<tr>
<td>Requiring new Community Admission Bodies to have a guarantor.</td>
<td></td>
</tr>
<tr>
<td>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</td>
<td></td>
</tr>
<tr>
<td>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</td>
<td></td>
</tr>
</tbody>
</table>
Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D):

1. The funding target is based on a set of assumptions about the future, e.g., investment returns, inflation, pensioners’ life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The time horizon required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required probability of achieving the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the “Primary contribution rate” (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary contribution rate” (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer’s funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ future service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.
The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years’ accrual of benefits\(^*\), excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund’s strategy for the category of employer (see 3.3 Note (e) for further details).

\(^*\) The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

**D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer’s funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund’s strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.
D4  What affects a given employer’s valuation results?
The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5  How is each employer’s asset share calculated?
The Administering Authority does not account for each employer’s assets separately. Instead, the Fund’s actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as “analysis of surplus”.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.
The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.
Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?
The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?
a) Investment return / discount rate
The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than the 1.6% used at the 2013 valuation, i.e. produces a lower funding target all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.
b) Salary growth
Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. Increases in line with the retail prices index (RPI) each year thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases
Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a difference between RPI and CPI of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy
The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.
e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.
Appendix F – Glossary

**Actuarial assumptions/basis**
The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the **funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

**Administering Authority**
The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.

**Admission Bodies**
Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).

**Covenant**
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

**Designating Employer**
Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

**Discount rate**
The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

**Employer**
An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.

**Funding target**
The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

**Gilt**
A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as
assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

Letting employer
An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity
A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate
The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for further details.

Profile
The profile of an employer’s membership or liability reflects various measurements of that employer’s members, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal *valuation*. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| **Secondary contribution rate** | The difference between the employer’s actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| **Valuation** | An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also. |
Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Northamptonshire County Council Pension Fund (“the Fund”), which is administered by Northamptonshire County Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”) and supersedes all previously published Statement of Investment Principles.

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Pension Committee on 24 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement which can be found at http://pensions.northamptonshire.gov.uk.

Objectives of the Fund

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. Pensions and benefits will be met by contributions, asset returns and income.

The Pension Committee works to endeavour that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. The Fund is subject to an actuarial review every three years, in preparation for which the Fund, in conjunction with the Fund’s Actuary and taking investment advice, prepares a Funding Strategy Statement (FSS) that sets out the strategy to ensure the long-term solvency of the Fund whilst recognising the need for a minimum (where possible and subject to a level of prudence) and, stable level of employer contributions.
Investment Beliefs

The strategy adopted by the Fund is based upon the following investment beliefs:

1. The strategic asset allocation is the key factor in determining the risk and return profile of the Fund’s investments and recognises that the Fund is a long-term, open scheme that has an obligation to pay benefits that are linked to inflation. The Committee also takes into account the covenant associated with the Fund’s employers in deciding how much risk is appropriate.

2. Asset allocation and specifically the headline amounts invested in equities, fixed income and alternatives, will drive risk and return levels.

3. Investing over the long-term provides opportunities to improve returns.
   a. Asset classes that return over a reasonably long duration are suitable for this Fund.
   b. The Fund has a policy of holding managers over the longer-term to reduce the impact of transitions and believes in the benefits of compounded returns.

4. Equities are expected to generate returns above the growth of liabilities over the long-term and have an indirect link to inflation.
   a. The Fund predominately holds equities due to the belief that they will provide returns above liabilities over the long-term and this helps to ensure that contributions remain affordable.

5. Inflation linked UK Government bonds provide a high degree of liability matching and a direct link to inflation.
   a. Investments in government bonds are not held for return purposes but are held in order to mitigate the risk that contribution rates need to increase significantly should yields fall.

6. Non-Government bonds are expected to provide a return above governments bonds and can provide some interest rate protection relative to the liabilities.

7. Alternative assets are expected to generate returns above liabilities over the long-term, can have an inflation link, as well as providing diversification benefits.

8. Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.

9. The Committee favours active management, where there are opportunities for active managers to add value, increasing overall expected return net of fees.

10. Passive strategies provide low cost access to market returns

11. Responsible Investment including Environmental, Social and Governance are important factors for the sustainability of longer term investment returns.
12. Value for money is defined as recognising net return over absolute cost.

Selecting a suitable strategy

The Pensions Committee is responsible for the Fund’s asset allocation which is determined via a triennial strategy review as part of the valuation process, but is kept under regular review; noting that strategic changes are an evolutionary process.

The triennial review looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and deficit
- An analysis of the magnitude of the various risks facing the Fund is established in order that a priority for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security

The Committee utilises a wide range of professional support such as an investment consultant, an independent advisor and the Fund’s Actuary.

As noted above, the Fund’s objective is to pay benefits as they fall due and this requires the build-up of sufficient reserves in advance. The Fund is currently assessed to have a deficit in terms of the reserves needed and so the asset strategy is focused on achieving returns in excess of inflation, without taking undue risk. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund’s current investment strategy is set out below. It should be noted that the Fund is currently undergoing an investment strategy review and although an agreement in principle has been made to increase the allocation to illiquid alternatives, the review has not yet been completed. Set out below therefore is the current position that will likely evolve as part of the forthcoming review.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Target allocation %</th>
<th>Tolerances%</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK equities</td>
<td>23.0%</td>
<td></td>
</tr>
<tr>
<td>Overseas equities</td>
<td>41.0%</td>
<td></td>
</tr>
<tr>
<td>Equities</td>
<td>64.0%</td>
<td>59.0% - 69.0%</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>Non-Government Bonds</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20.0%</td>
<td>15.0% - 25.0%</td>
</tr>
<tr>
<td>Property</td>
<td>8.0%</td>
<td></td>
</tr>
<tr>
<td>Diversified Growth Fund</td>
<td>8.0%</td>
<td></td>
</tr>
<tr>
<td>Other Alternative</td>
<td>10.0%*</td>
<td></td>
</tr>
<tr>
<td>Alternatives</td>
<td>16.0%</td>
<td>11.0% - 21.0%</td>
</tr>
</tbody>
</table>
Total target Allocation | 100%

* Allocation to be funded from other asset classes as commitments made.

The tolerance ranges allow for the long-term natural deviation from the strategic percentage allocation due to differential relative performance of each investment type. Exceeded tolerances will be reported in the quarterly performance report to the Investment Sub Committee.

At 31 March 2016, the expected return of this portfolio was 4% per annum. Further details on the Fund’s risks, including the approach to mitigating risks, is provided in the following section.

**Risks**

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

**Investment Risks**

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Fund is facing. The chart below shows the VaR (Value at Risk, essentially the losses that would occur in a 1-in-20 event) facing the Fund, split into major risk categories.

![Value-at-Risk (1 Year, 95%)](chart)

As an additional illustration of risk, the table below shows how a range of events could impact the Fund:

<table>
<thead>
<tr>
<th>Event</th>
<th>Event movement</th>
<th>Impact on Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall in equity markets</td>
<td>20% fall in equities</td>
<td>£296m</td>
</tr>
<tr>
<td>Active Manager underperformance</td>
<td>3% underperformance from all active managers</td>
<td>£45m</td>
</tr>
</tbody>
</table>

As shown in both the Value-at-Risk attribution chart and the table above, the most significant risk that the Fund is running is in relation to interest rates and inflation. It is important to stress that whilst not immaterial, the risks being run by the use of active management is far smaller.
Liabilities (interest rate and inflation) – The largest risk that the Fund faces is in relation to interest rates and inflation. The investment strategy recognises this and looks to increase the allocation to assets that provide protection against falling rates and rising inflation expectations when affordable to do so, which is considered appropriate in the context of the Fund’s position as a long-term investor.

Equities – Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Fund holds equities in order to provide the necessary returns to ensure that the Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives.

Alternatives – The Fund has a significant amount of assets allocated to a range of alternatives, with allocations to property and private equity, amongst others. The risks that these investments bring at an individual level is not insignificant however the Committee believe that over the long-term alternatives will provide returns that compensate for the risks being run. Additionally the level of diversification the assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property and private equity are also a valuable source of income.

The Fund’s portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Fund by investing in a range of different investments can minimise the level of risk run to a degree.

Passive Manager Risk – This is the simplest style of investment which places monies purely to track indices with the associated risks of following the full effects of both positive and negative market movements benefiting from the most economic of fee rates. This contrasts to active management which is applied to smooth volatility and improve market returns albeit at higher fee rates, the assumption being that the net return after fees is greater than pure passive management.

Active Manager Risk – Active Investment Managers are appointed to manage the Fund’s investments on its behalf in the expectation that they will outperform the market but also recognising that their mandates may underperform passive managers. This risk is small relative to other risks; however the Fund still addresses this risk. Extensive due diligence takes place before managers are appointed. The investment managers are also monitored regularly by the Investment Sub Committee, Officers and by the Fund’s Advisors. There is a risk is that net performance underperforms a passive arrangement over the long-term.

Liquidity risk – It is recognised that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential for accessing higher returns. The majority of the Fund’s assets are realisable at short notice.

Exchange rate risk – This risk arises from unhedged investment overseas. The Committee believes that a long-term investor can tolerate short term fluctuations in currency movements but this policy will be reviewed at the next investment strategy review; particularly with reference to the Fund’s equity portfolio.
Demographic Risks
The Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that investments would need to be realised in order to pay benefits. The Fund is not in that situation at present as cash inflows from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Cashflow Management Risks
The Fund is gradually becoming more mature and although it is cashflow positive after taking investment income, managing cashflow will become an increasingly important consideration in setting the investment strategy.

Governance Risks
The Fund believes that there is a benefit to the Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance can lead to opportunities and risks to be missed, and have a detrimental effect on the funding level and deficit.

Details of the Fund’s governance structure can be found in the Governance Compliance Statement.

ESG Risks
The Fund recognises that effective management of ESG issues can enhance long-term financial performance of investments, and therefore ESG factors should be a feature of investment analysis and management. This aligns with the best interests of the Fund’s beneficiaries and is consistent with fiduciary duty.

The Committee believes that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Fund’s policies can be found later in this statement.

Investment of money in a wide variety of investments
The Fund will invest in a range of investments, diversified by type, class, geographical location and market exposure.

Asset classes
The Fund may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities,
- Fixed interest and index linked bonds,
- Cash,
- Property and commodities, either directly or through pooled funds,
- Private Equity
- Infrastructure,
- Debt,
- Insurance Instruments,
- Contracts for differences and other derivatives either directly or in pooled funds.

The Fund’s target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007”.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Allocation</th>
<th>Inflation linkage</th>
<th>Interest rate sensitivity</th>
<th>Growth</th>
<th>Diversifier (from equities)</th>
<th>Liquidity</th>
<th>Liability Matching</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role</td>
<td>%</td>
<td>liability management</td>
<td>Liability management</td>
<td>Deficit reduction &amp; affordability</td>
<td>Risk mitigation</td>
<td>Cash flow management</td>
<td>Liability management</td>
</tr>
<tr>
<td>UK equities</td>
<td>23.0</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Global Equities</td>
<td>41.0</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Index Linked Gov't bonds</td>
<td>10.0</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Non-Gov't Bonds</td>
<td>10.0</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Diversified Growth</td>
<td>8.0</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Property</td>
<td></td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Private Equity</td>
<td></td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illiquidity Budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Sensitivity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Asset Pooling
Northamptonshire is a member of the ACCESS pool along with the following 10 other pension funds:

- Cambridgeshire
- East Sussex
- Essex
- Hampshire
- Hertfordshire
- Isle of Wight
- Kent
- Norfolk
- Suffolk
- West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership (will be updated for IAA). ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool’s structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS’s website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that, over time, all investments will be pooled apart from a minority of investments where there is a no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Investment pooling is intended to provide the scale that will enable LGPS funds to access lower investment Manager fees and to deliver cost savings. In the pooled investment structure individual funds will remain responsible for their own investment strategy and asset allocation decisions. The pool will be responsible for selecting a suitable number of Investment Managers in order to meet the requirements of all of the funds’ investment strategies.

Northamptonshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

Environmental, Social and Governance policy
The Committee considers the financial impact arising from Environmental, Social and Governance (“ESG”) risks to be a fiduciary responsibility and an integral part of the risk assessment of any investment. The Committee recognises that effective management of ESG issues can enhance long-term financial performance of investments and seeks to promote this through two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on the long-term prospects of investments.
• **Stewardship and governance** – Good governance can enhance the long-term performance of companies, and this is encouraged by the Fund through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee has directed investment managers to consider the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund.

The Fund recognizes the benefits of working in collaboration with other investors to achieve its aims. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which is an initiative that enables the Fund to work with other investors to understand the impacts of ESG considerations on financial performance.

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

**Voting rights**

The Fund believes that good stewardship can enhance long-term portfolio performance, and is in the best interests of the Fund’s beneficiaries and aligned with fiduciary duty. The Fund supports the principles of the UK Stewardship Code (the “Code”).

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. Accordingly, the Fund’s investment managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process.

For and on behalf of Northamptonshire County Council Pension Fund Committee
CAMBRIDGESHIRE PENSION FUND & NORTHAMPTONSHIRE PENSION FUND

JOINT ADMINISTRATION STRATEGY & JOINT COMMUNICATION STRATEGY

January 2015
## Contents

<table>
<thead>
<tr>
<th>1. Introduction</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Administration Strategy</td>
<td>2</td>
</tr>
<tr>
<td>3. Further information</td>
<td>10</td>
</tr>
<tr>
<td>4. Appendices</td>
<td>11</td>
</tr>
<tr>
<td>Appendix A – Key performance standards</td>
<td>11</td>
</tr>
<tr>
<td>Appendix B – Whole Fund administration performance standards</td>
<td>13</td>
</tr>
<tr>
<td>Appendix C – Scheme employer performance standards</td>
<td>14</td>
</tr>
<tr>
<td>Appendix D – LGSS Pensions Service performance standards</td>
<td>16</td>
</tr>
<tr>
<td>Appendix E – Communications Strategy</td>
<td>2</td>
</tr>
</tbody>
</table>
1. Introduction

This document incorporates the joint Administration and Communication Strategies of Cambridgeshire Local Government Pension Fund and Northamptonshire Local Government Pension Fund, managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by LGSS, the shared service partnership between Cambridgeshire County Council and Northamptonshire County Council.

Together the two Funds have around 400 scheme employers with contributing members and a total membership of over 119,000 scheme members.

2. Administration Strategy

The Local Government Pension Scheme (LGPS) represents a significant benefit to scheme members. Much of the success in promoting the scheme amongst scheme members and ensuring a high quality service delivery depends upon the relationship between the administering authority and scheme employers in the day to day administration of the scheme. Good quality administration can also help in the overall promotion of the scheme and remind or alert employees to the value of the LGPS, thereby helping with recruitment, retention and motivation of employees.

Development of an administration strategy, as allowed for by the regulations governing the LGPS, is seen as one of the tools which can help in delivering a high quality administration service to the scheme member and other interested parties. Delivery of a high quality administration service is not the responsibility of one person or organisation, but is rather the joint working of a number of different parties.

This Administration Strategy has been developed following consultation with scheme employers in the Cambridgeshire and Northamptonshire Pension Funds.

The aim of this strategy statement is to set out the quality and performance standards expected of Cambridgeshire County Council and Northamptonshire County Council in their roles of administering authority and scheme employer, as well as all other scheme employers within the Funds. It seeks to promote good working relationships, improve efficiency and enforce quality amongst the scheme employers and the administering authority.

The efficient delivery of the benefits of the LGPS is dependent on sound administrative procedures being in place between a number of interested parties, including the administering authorities and scheme employers. This Strategy Statement sets out the expected levels of performance of the administering authorities and their scheme employers, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

This Administration Strategy is effective from the 1st April 2015. It will be reviewed annually to ensure the strategic objectives remain relevant.

A separate Business Plan including actions in relation to administration matters is published and reviewed annually. This outlines how the Funds intend to deliver this strategy, including how the Funds achieve their objectives, the measurements in place to monitor success and a timetable of events.
Regulatory framework

This document has been produced in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013. The Regulations provide that administering authorities may prepare, maintain and publish a written statement setting out their policy concerning administration matters, and the administering authority and its scheme employers must then have regard to that strategy when carrying out their functions.

The Regulations state that the strategy may include some of these areas:

- procedures for liaison and communication with its scheme employers;
- levels of performance which the administering authority and its scheme employers are expected to achieve in carrying out their Scheme functions such as:
  - the setting of performance targets;
  - the making of agreements about levels of performance and associated matters;
  - the use of such other means as the administering authority considers appropriate;
- procedures which aim to secure that the administering authority and its scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- procedures for improving the communication by the administering authority and its scheme employers to each other of information relating to those functions;
- the circumstances in which the administering authority may consider giving written notice to any of its scheme employers with regard to recovering additional costs on account of that scheme employer's unsatisfactory performance in carrying out its Scheme functions;
- the publication by the administering authority of annual reports dealing with:
  - the extent to which that authority and its scheme employers have achieved the levels of performance;
  - such other matters arising from its pension administration strategy as it considers appropriate; and
- such other matters as appear to the administering authority, after consulting its scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

The Regulations also require that the administering authority should consult with its scheme employers (and any other persons it considers appropriate) in preparing or reviewing its administration strategy.

In addition, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows an administering authority to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the
additional costs, together with the basis on which the amount has been calculated and the provisions of the Administration Strategy relevant to the decision.

Therefore, this Administration Strategy of the Cambridgeshire Pension Fund and Northamptonshire Pension Fund sets out the information as required by the Regulations mentioned above.

Current trends
This Administration Strategy is produced during a considerable period of change. Key issues currently around are:

- major changes impacting the LGPS and other public sector schemes which provide significant communication challenges;
- ongoing conversion of schools to academies which requires a considerable amount of employer liaison;
- increased governance and regulatory requirements to ensure the LGPS offers value for money;
- scheme employers outsourcing activity in a variety of ways which requires a considerable amount of employer liaison and also impacts the number of people eligible to be members of the LGPS;
- changes to scheme membership which will accelerate the maturity point of the LGPS (the point where annual expenditure exceeds annual income); and
- increasing awareness of the value of the LGPS among the membership and the consequent demands for relevant information.

Key objectives
The administration of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- provide a high quality, friendly and informative administration service to the Funds’ stakeholders;
- administer the Funds in a cost effective and efficient manner utilising technology;
- ensure the Funds and their stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds;
- put in place standards for the Funds and their scheme employers and ensure these standards are monitored and developed as necessary;
- ensure the Funds and their stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment;
- ensure benefits are paid to, and income collected from, the right people at the right time in the right amount;
• maintain accurate records and ensure data is protected and has authorised use only; and

• understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.

Measurements are in place to determine if these objectives are being met which are published in the Administration Section of the Funds’ Business Plans.

*References to the Funds refer to the staff employed by the Administering Authority to carry out the administration of the Funds.

Delivering the objectives

Method of delivery

There are a number of options to administering the Funds, including in-house administration, and third party administration.

The Funds’ administration benefits from the efficiencies of joint delivery whilst retaining control within the two administering authorities in order to meet the objectives outlined above, e.g. in relation to a quality service and accurate record keeping. The Funds will be proactive in setting strategies to which the LGSS services should adhere, including this Administration Strategy.

At the time of writing, LGSS provides administration services to the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund, though it is envisaged further LGPS Funds will join LGSS in the future, which will benefit the Funds through increased efficiencies, particularly sharing of development costs between greater numbers of Funds. At that point LGSS will encourage those Funds to adopt this Administration Strategy so as to maximise the efficiency opportunities.

Procedures for liaison and communication with employers and other stakeholders

The delivery of a high quality administration service is not the responsibility of just the administering authority, but depends on the joint working of the administering authority with a number of individuals in different organisations to ensure scheme members, and other interested parties, receive the level of service in line with the Funds’ objectives as well as ensuring that statutory requirements are met.

Agreements will be made with the Funds’ key stakeholders so that service standards are explicit. Key stakeholders are:

• Scheme employers and their payroll and other providers;

• AVC providers;

• Fund Actuaries; and

• Approved Independent Registered Medical Practitioners

In particular, each administering authority relies on its scheme employers in providing them with the appropriate information to maintain accurate records and pay accurate benefits. The Funds acknowledge that this is a partnership arrangement:

• Each Fund is committed to providing a service in line with the objectives outlined above. This will include:
o providing a named contact (and deputy) at the Fund for all employer communications and queries;

o providing clear instructions and forms/interfaces to allow seamless transfer of information by employers;

o aim to provide information and services within the performance standards outlined in this Strategy;

o ensure all information provided is correct by having appropriate quality review in place; and

o be helpful and courteous when dealing with all employers.

• In return, the employers within each Fund are expected to:

  o provide a named contact (and deputy) at the employer for all Fund communications and queries. Where multiple contacts are provided (for different duties) name one person who is ultimately responsible for ensuring the employer carries out their roles and responsibilities;

  o provide information to the Fund as outlined in instructions using the Fund’s approved forms and/or interfaces;

  o aim to provide information within the performance standards outlined in this Strategy;

  o ensure all information provided is correct by having appropriate quality review in place;

  o be helpful and courteous when dealing with the Fund; and

  o provide feedback to the Fund on an ad-hoc basis, at performance review meetings or as part of consultations, e.g. around how services are delivered or about changes to the funding strategy.

Full details of the procedures for liaison and communication between the Funds and their stakeholders are included within the Funds’ Communication Strategy – see Appendix E.

Performance standards
The LGPS prescribes that certain decisions be taken by either the administering authority or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet the Funds’ administration objectives as outlined above, and also to comply with overriding disclosure requirements, the Funds must ensure that appropriate standards are in place and being measured. These standards fall into two distinct areas; quality and timeliness.

Quality
The Funds will ensure that all functions/tasks are carried out to agreed quality standards. In this respect the standards to be met are:

• compliance with relevant regulations including the Local Government Pension Scheme Regulations, Pensions Acts, etc;
• aiming to achieve the Funds’ agreed objectives and compliance with all Fund agreed strategies, policies and procedural guides;
• ensuring appropriate checking of work by an appropriately qualified member of staff, in particular calculations of benefits; and
• all payments information provided to be authorised by an agreed signatory and other designated duties to be carried out in line with internal Schemes of Delegation.

*Timeliness*
Overriding legislation dictates minimum timescales that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. The scheme itself sets out a number of requirements for the administering authority or scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. Locally agreed performance standards have been agreed which cover all aspects of the administration of the scheme, where appropriate going beyond the overriding legislative requirements. Standards for the Funds are set out in Appendix B. Headline standards for scheme employers are set out in Appendix C.

**Procedures for ensuring compliance with statutory requirements and measuring levels of performance**
Various means will be employed, as determined from time to time, to assist in monitoring compliance with this Administration Strategy. More detailed methods may be included in the individual employer SLA.

Methods may include:

*Audit*
The Funds will be subject to regular audits of their processes and internal controls. Fund auditors may require employer auditors to carry out relevant checks e.g. of employee contribution collection.

*Performance monitoring*
The Funds will monitor their timeliness performance against specific tasks as outlined in Appendix D. In addition, they may monitor employers against the employer requirements outlined in Appendix C and Service Level Agreements.

The Funds will monitor performance regularly by benchmarking with other administering authorities by using the CIPFA Pensions Benchmarking Club.

The Funds may also put in place other measurements to determine how, or if, they are achieving the objectives of this Administration Strategy.

*Employer liaison*
Employer liaison will take place as follows:
• key performance information will be shared annually with each scheme employer;

• the opportunity for a biennial review meeting between a representative of the administering authority and the scheme employer to monitor and review performance against targets, the quality of information exchange and ensure compliance with statutory obligations and review the SLA for the period until the next review meeting;

• where an employer is not delivering in accordance with an SLA a performance improvement plan will be agreed with appropriate liaison arrangements. This may be initiated outside of the biennial reviews where necessary;

• the administering authority will run seminars and training sessions;

• Employer Pension Forums will be held, at least on an annual basis; and

• the administering authority will ensure an employer liaison helpdesk is available from 9 am to 5 pm during normal working days to answer one-off queries by telephone or email. The helpdesk may be available outside these hours.

Improving administration

Using the means mentioned above, the Funds will monitor progress against this Administration Strategy. This information will from time to time be reported to the respective Funds’ Pension Fund Board where any ongoing action will be agreed. In addition, key performance indicators relating to the Funds’ performance will be reported in their respective Annual Report and Accounts.

Circumstances where the administering authority may levy costs associated with the scheme employer’s poor performance

Regulation 70 of the Local Government Pension Scheme Regulations 2013 provides that an administering authority may recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where an administering authority wishes to recover any such additional costs they must give written notice stating:-

• the reasons in their opinion that the scheme employer’s poor performance contributed to the additional cost;

• the amount of the additional cost incurred;

• the basis on how the additional cost was calculated; and

• the provisions of the pension administration strategy relevant to the decision to give notice.

In instances where the performance of the scheme employer results in fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, these costs will be recoverable immediately.
Circumstances where costs might be recovered

It is not the policy of either Cambridgeshire Pension Fund or Northamptonshire Pension Fund to move immediately to recovering additional costs incurred in the administration of the LGPS as a direct result of the poor performance of the administering authority, any scheme employer or third party service provider. Instead, the Funds will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance, provide the necessary training and development and put in place an improvement plan to improve the level of service delivery into the future.

Where persistent failure occurs and the improvement plan is not followed by a scheme employer additional administration costs will be recovered. In particular, this will only be pursued where the Fund has carried out the following steps:

- written to the scheme employer, setting out area(s) of poor performance;
- met with the scheme employer to discuss area(s) of poor performance, and how these can be addressed, and agreed an improvement plan, but no or little improvement has been demonstrated; and
- the appropriate Pension Fund Board has agreed to reclaim administration costs following a report to them on the circumstances. Before making a decision the Pension Fund Board shall offer the employer the opportunity to make representations in person to the Board, or in writing if the employer so chooses, and to facilitate this will provide 21 days before the meeting a copy of the report to be considered by the Board.

The circumstances where this might be necessary are:

- persistent failure to provide relevant information to the administering authority, scheme member or other interested party in accordance with specified performance targets (either as a result of timeliness of delivery or quality of information);
- failure to pass relevant information to the scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets;
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales;

Where the respective Pension Fund Board agrees costs should be reclaimed, the following sets out the steps the Fund will take in dealing with poor performance by a scheme employer:

- issue formal written notice, where no improvement is demonstrated by the scheme employer/failure to take agreed action by the scheme employer, setting out the area(s) of poor performance that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed;
- clearly set out the calculations of any loss resulting to the Fund or administering authority, or additional cost, taking account of time and resources in resolving the specific area of poor performance, including any fines levied against the administering authority by the Pension Regulator, Pensions Ombudsman or other regulatory body resulting from the employer’s poor performance; and
- make a claim against the scheme employer, setting out reasons for doing so, in accordance with the Regulations.
3. Further information
If you would like more information about the Scheme please contact us at the address below.

LGSS Pensions Service
PO Box 202
John Dryden House
8-10 The Lakes
Northampton
NN4 7YD

01604 366537

pensions@northamptonshire.gov.uk

http://pensions.northamptonshire.gov.uk
http://pensions.cambridgeshire.gov.uk
4. Appendices
Appendix A – Key performance standards

The following are the key performance indicators which will be published annually by LGSS Pensions. These key indicators also appear in the relevant Appendix B, C or D below, depending on whether they represent the performance of the whole Fund, the scheme employer only or the administering authority only.

<table>
<thead>
<tr>
<th>Function / Task</th>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notify leavers of deferred benefit entitlements</td>
<td>Deferred award letter sent within 40 working days of last day of employment.</td>
<td>90%</td>
</tr>
<tr>
<td>Payment of retirement benefits from active employment</td>
<td>Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.</td>
<td>95%</td>
</tr>
<tr>
<td>Award dependant benefits</td>
<td>Issue award within 5 working days of receiving all necessary information.</td>
<td>95%</td>
</tr>
<tr>
<td>Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority</td>
<td>Number of months in the year where contributions were in the Pension Fund by the 19th calendar day of month after deduction and statement/schedule was received by the same date as payment</td>
<td>100%</td>
</tr>
<tr>
<td>Provide LGSS Pension Service with accurate year end information in prescribed format</td>
<td>Accurate year end information to be provided for all Scheme members by 30 April following contribution year end</td>
<td>100%</td>
</tr>
<tr>
<td>Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority</td>
<td>Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply</td>
<td>95%</td>
</tr>
<tr>
<td>Function / Task</td>
<td>Indicator</td>
<td>Target</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Notify the employer and scheme members of changes to the scheme rules</td>
<td>Within one month of the LGSS Pensions Services being informed of the change</td>
<td>95%</td>
</tr>
<tr>
<td>Issue annual benefit statements to active members as at 31 March each year</td>
<td>By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)</td>
<td>100%</td>
</tr>
<tr>
<td>Provide a maximum of one estimate of benefits to active members per year on request</td>
<td>Estimate in agreed format provided within 10 working days from receipt of all information</td>
<td>90%</td>
</tr>
<tr>
<td>Provide transfer-in quote to scheme member</td>
<td>Letter issued within 10 working days of receipt of all appropriate information</td>
<td>95%</td>
</tr>
</tbody>
</table>
Appendix B – Whole Fund administration performance standards

The following are key indicators where the target can only be achieved by the administering authority and scheme employers both delivering high levels of administration.

<table>
<thead>
<tr>
<th>Function / Task</th>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notify leavers of deferred benefit entitlements</td>
<td>Deferred award letter sent within 40 working days of last day of employment.</td>
<td>90%</td>
</tr>
<tr>
<td>Payment of retirement benefits from active employment</td>
<td>Payment of lump sum within 5 working days of payable date or date of receiving all necessary information if later. First pension paid in the month of leaving or in month of receiving all necessary information if later.</td>
<td>95%</td>
</tr>
</tbody>
</table>
## Appendix C – Scheme employer performance standards

The following are the performance targets that the scheme employer will be expected to meet.

<table>
<thead>
<tr>
<th>Function/Task</th>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirm nominated representatives</td>
<td>Representative confirmed within 30 working days of employer joining and or change to nominated representative</td>
<td>100%</td>
</tr>
<tr>
<td>Arrange for the correct deduction of employee and employer contributions and pay contributions to Pension Fund in a timely manner, providing an associated monthly statement/schedule in a format acceptable to the Administering Authority</td>
<td>Number of months in the year where contributions were in the Pension Fund by the 19th calendar day of month after deduction and statement/schedule was received by the same date as payment</td>
<td>100%</td>
</tr>
<tr>
<td>Upon receipt of a notification from an Additional Voluntary Contribution (AVC) provider of an employee’s election to pay, vary the amount or cease AVCs (or Shared Cost AVCs where applicable), to apply the notification accordingly and where applicable deduct from a member’s pay the contributions as instructed by the AVC provider</td>
<td>Within 1 month of receipt of notification from the AVC provider</td>
<td>100%</td>
</tr>
<tr>
<td>Pay over to the specified AVC provider contributions deducted from a member’s pay</td>
<td>Within 7 days of deduction from pay</td>
<td>100%</td>
</tr>
<tr>
<td>Upon receipt of a notification from the LGSS Pensions Service of an employee’s election to pay Additional Pension Contributions (to buy additional pension), to apply the notification accordingly and where applicable deduct from a member’s pay and pay over to the LGSS Pensions Service, the contributions as instructed by LGSS Pensions Service</td>
<td>Within 1 month of notification from LGSS Pensions Service</td>
<td>100%</td>
</tr>
<tr>
<td>Provide LGSS Pension Service with accurate year end information in prescribed format</td>
<td>Accurate year end information to be provided for all Scheme members by 30 April following</td>
<td>100%</td>
</tr>
<tr>
<td>Function/Task</td>
<td>Indicator</td>
<td>Target</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Respond to enquiries from LGSS Pensions Service in respect of retirements, estimates or any other query identified as urgent</td>
<td>Response received within 5 working days from receipt of enquiry.</td>
<td>100%</td>
</tr>
<tr>
<td>Respond to enquiries from the LGSS Pensions Service in respect of those queries deemed as non urgent</td>
<td>Response received within 10 working days from receipt of enquiry.</td>
<td>95%</td>
</tr>
<tr>
<td>Provide new employees with scheme information</td>
<td>Within the automatic enrolment joining window.</td>
<td>100%</td>
</tr>
<tr>
<td>Determine appropriate rate of employee contributions for new scheme members in the LGPS</td>
<td>Decisions made by time of first salary payment.</td>
<td>100%</td>
</tr>
<tr>
<td>Provide LGSS Pensions Service with all necessary information regarding new starters and hours/weeks per year variations in a format acceptable to Administering Authority</td>
<td>Accurate information provided within 10 working days of the relevant calendar month end or within 30 days of commencement/change if earlier where employer automatic enrolment duties apply</td>
<td>95%</td>
</tr>
<tr>
<td>Determine reason for leaving and Final/Cumulative Pensionable Pay, issue leavers certificate to LGSS Pensions Services for leavers NOT entitled to immediate payment of pension</td>
<td>Certificate received within 15 working days of date of leaving</td>
<td>95%</td>
</tr>
<tr>
<td>Determine reason for leaving and Final/Cumulative Pensionable Pay, issue retirement pack to member and leavers certificate to LGSS Pensions Service for retirees entitled to immediate payment of pension</td>
<td>Certificate received at least 10 working days before date of leaving.</td>
<td>95%</td>
</tr>
<tr>
<td>Must have published Employer Discretions, accessible by all employees and copy provided to LGSS Pensions Service</td>
<td>Discretions published and provided to LGSS Pensions Service within 30 days of approval</td>
<td>100%</td>
</tr>
<tr>
<td>Discretions must be reviewed and amended as necessary</td>
<td>Any amendments to discretion must be confirmed in writing within 30 days from change</td>
<td>100%</td>
</tr>
</tbody>
</table>
## Appendix D – LGSS Pensions Service performance standards

The following are the headline performance targets that LGSS Pensions Service will be expected to meet.

<table>
<thead>
<tr>
<th>Function / Task</th>
<th>Indicator</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIAISON AND COMMUNICATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confirm nominated employer liaison officer</td>
<td>10 working days of employer joining fund or change to nominated officer</td>
<td>100%</td>
</tr>
<tr>
<td>Publish and keep under review the administration strategy</td>
<td>Within three months of decision to develop an administration strategy or one month of any changes being agreed with scheme employers</td>
<td>100%</td>
</tr>
<tr>
<td>Keep up to date the employer website, including procedural guides, scheme guide and all other documents and forms</td>
<td>20 working days from date of change/amendment</td>
<td>100%</td>
</tr>
<tr>
<td>Formulate and publish policies in relation to all areas where the Administering Authority may exercise a discretion within the scheme</td>
<td>Within 30 working days of policy being agreed by the Pension Fund Board</td>
<td>100%</td>
</tr>
<tr>
<td>Organise bespoke training sessions for Scheme employers, subject to fair use of training resource</td>
<td>Training date agreed with employer within one month of request</td>
<td>100%</td>
</tr>
<tr>
<td>Notify the employer and scheme members of changes to the scheme rules</td>
<td>Within one month of the LGSS Pensions Services being informed of the change</td>
<td>95%</td>
</tr>
<tr>
<td>Notify the employer of any issues relating to its poor performance (including arranging meeting if required)</td>
<td>Within 20 working days of performance issue becoming apparent</td>
<td>90%</td>
</tr>
<tr>
<td>Notify the employer of decisions to recover additional costs associated with their poor performance (including any interest that may be due)</td>
<td>Within 10 working days of the decision of the Pension Fund Board</td>
<td>100%</td>
</tr>
<tr>
<td>Issue annual benefit statements to active members as at 31 March each year</td>
<td>By the following 31 August (pending timely receipt of satisfactory year end data from the scheme employer)</td>
<td>100%</td>
</tr>
<tr>
<td>Function / Task</td>
<td>Indicator</td>
<td>Target</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Issue annual benefit statements to deferred benefit members as at 31 March each year for those which we have an up to date address</td>
<td>By the following 30 June</td>
<td>100%</td>
</tr>
<tr>
<td><strong>FUND ADMINISTRATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue formal valuation results (including individual employer details)</td>
<td>20 working days from receipt of results from Fund Actuary (but in any event no later than 31 March following the valuation date)</td>
<td>100%</td>
</tr>
<tr>
<td>Carry out cessation valuation exercise on cessation of admission agreements or employer ceasing participation in the Cambridgeshire Pension Fund or Northamptonshire Pension Fund</td>
<td>Initiated within 40 days with Fund Actuary plus results issued to employer within 2 months of clean data</td>
<td>100%</td>
</tr>
<tr>
<td>Publish, and keep under review, the Administering Authority’s governance policy statement</td>
<td>Within 30 working days of policy being agreed by the relevant Pension Fund Board</td>
<td>100%</td>
</tr>
<tr>
<td>Publish and keep under review the Pension Fund’s funding strategy statement</td>
<td>To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund’s Actuary. Revised statement to be issued with the final valuation report</td>
<td>100%</td>
</tr>
<tr>
<td>Publish the Pension Fund annual report and any report from the auditor</td>
<td>By 31 August following the year end</td>
<td>100%</td>
</tr>
<tr>
<td>Provide an FRS17/IAS19 report to employers for their chosen accounting date</td>
<td>Within one month of the 31 March, 31 July or 31 August accounting date, providing employer has returned required data to LGSS Pensions Service by the 1st of the month in which the accounting date falls</td>
<td>100%</td>
</tr>
<tr>
<td><strong>SCHEME ADMINISTRATION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide transfer-in quote to scheme member</td>
<td>Letter issued within 10 working days of receipt of all appropriate information</td>
<td>95%</td>
</tr>
<tr>
<td>Function / Task</td>
<td>Indicator</td>
<td>Target</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Confirm transfer-in payment and service credited to scheme member</td>
<td>Letter issued within 10 working days of receipt of transfer payment by Pension Fund (or receipt of all information needed to complete calculations if later)</td>
<td>90%</td>
</tr>
<tr>
<td>Notify the employer of scheme member’s election to pay or cease paying additional pension contributions (to buy additional pension) and other contracts, including all required information to enable deductions to commence or finish</td>
<td>Email sent within 5 working days of receipt of election from scheme member</td>
<td>95%</td>
</tr>
<tr>
<td>Calculate revised cost of additional regular/additional pension contributions, and notify scheme member</td>
<td>Letter sent within 10 working days of receipt of revised factors from DCLG</td>
<td>90%</td>
</tr>
<tr>
<td>Provide requested estimates of benefits to employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency</td>
<td>Estimate in agreed format provided within 10 working days from receipt of all information</td>
<td>90%</td>
</tr>
<tr>
<td>Provide a maximum of one estimate of benefits to employees per year on request</td>
<td>Estimate in agreed format provided within 10 working days from receipt of all information</td>
<td>90%</td>
</tr>
<tr>
<td>Provide a maximum of one cash equivalent transfer value (CETV) to employees per year on request</td>
<td>Provided within 10 working days from receipt of all information</td>
<td>90%</td>
</tr>
<tr>
<td>Provide a divorce quotation to employees on request</td>
<td>Provided within 10 working days from receipt of all information</td>
<td>90%</td>
</tr>
<tr>
<td>Notify leavers of deferred benefit entitlements or concurrent amalgamation</td>
<td>Notification issued within 15 working days of receiving all necessary information.</td>
<td>90%</td>
</tr>
<tr>
<td>Notify employees retiring from active membership of benefits award</td>
<td>Issue award within 5 working days after payable date or date of receiving all necessary information if later.</td>
<td>95%</td>
</tr>
<tr>
<td>Payment of ongoing pension (not including the first pension payment)</td>
<td>Eligible payments made on the publicised payment date.</td>
<td>100%</td>
</tr>
<tr>
<td>Function / Task</td>
<td>Indicator</td>
<td>Target</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Acknowledge death of active/deferred/pensioner member</td>
<td>Letter issued within 5 working days following notification of death</td>
<td>100%</td>
</tr>
<tr>
<td>Award dependant benefits</td>
<td>Issue award within 5 working days of receiving all necessary information.</td>
<td>95%</td>
</tr>
<tr>
<td>Provide responses to other enquiries from scheme members, scheme employers, personal representatives, dependants and other authorised persons</td>
<td>Full response within 5 working days from receipt of all information needed to respond to enquiry</td>
<td>90%</td>
</tr>
<tr>
<td>Where a full response will not be available within the published service standards send an acknowledgement and provide the expected timescale</td>
<td>Acknowledgement within 5 working days from receipt of initial enquiry</td>
<td>100%</td>
</tr>
<tr>
<td>Appoint stage 2 “adjudicator” for the purposes of the pension dispute process and notify all scheme employers of the appointment</td>
<td>Within 30 working days following the resignation of the current “adjudicator”</td>
<td>100%</td>
</tr>
<tr>
<td>Process all stage 2 pension dispute applications</td>
<td>Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.</td>
<td>100%</td>
</tr>
<tr>
<td>Publish and keep under review the Pension Fund policy on the abatement of pension on re-employment</td>
<td>Notify scheme members and scheme employers within one month of any changes or revisions to the policy</td>
<td>100%</td>
</tr>
</tbody>
</table>
Appendix E – Communications Strategy

CAMBRIDGESHIRE PENSION FUND & NORTHAMPTONSHIRE PENSION FUND

JOINT COMMUNICATION STRATEGY
<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>2</td>
</tr>
<tr>
<td>2. Communication Strategy</td>
<td>6</td>
</tr>
<tr>
<td>3. Further Information</td>
<td>17</td>
</tr>
</tbody>
</table>
1. Introduction
This is the joint Communications Strategy for the Cambridgeshire Local Government Pension Fund and the Northamptonshire Local Government Pension Fund managed by Cambridgeshire County Council and Northamptonshire County Council respectively (the Administering Authorities). The administration of these Funds is carried out by the LGSS Pensions Service, which incorporates administration for both the Cambridgeshire Pension Fund and the Northamptonshire Pension Fund.

Together the Funds have around 400 employers with contributing members and a total membership of over 119,000 scheme members. These members are split into the following categories and with the following approximate numbers of members in each category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Cambridgeshire Pension Fund</th>
<th>Northamptonshire Pension Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active scheme members</td>
<td>24,854</td>
<td>18,334</td>
</tr>
<tr>
<td>Deferred scheme members</td>
<td>25,793</td>
<td>20,887</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>14,991</td>
<td>14,155</td>
</tr>
</tbody>
</table>

This document outlines our strategic approach to communications and is effective from 1 November 2014. It will be reviewed annually to ensure the key objectives remain relevant.

2. Communication Strategy

Regulatory framework
This Statement has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. The Regulation requires Administering Authorities to:

- Prepare, maintain and publish a written Statement setting out their policy concerning communications with:
  - Scheme members (active, deferred, retired and dependant)
  - representatives of scheme members
  - prospective scheme members
  - scheme employers

- Set out their policy on:
  - the provision of information and publicity about the Scheme
  - the format, frequency and method of distributing such information or publicity
  - the promotion of the Scheme to prospective scheme members and their employers.

- Keep the Statement under review and make such revisions as are appropriate following a material change in the policy on any of the matters included. If revisions are made, a revised statement must be published.
Key objectives

The communications of Cambridgeshire Pension Fund and Northamptonshire Pension Fund will be delivered in line with these objectives. We aim to:

- Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their membership, contributions and benefits
- Deliver a clear and consistent message, that is engaging, factual and presented in plain language
- Promote the Scheme as a valuable benefit
- Seek and review regular feedback from all stakeholders about communications and shape future communications appropriately
- Look for efficiencies in delivering communications including through greater use of technology and partnership working

Measurements are in place to determine if these objectives are being met – see ‘Implementation of Communication Key Objectives’.

Stakeholders of the Fund

There are several categories of stakeholder as detailed below.

- Active Scheme members
- Prospective Scheme members
- Deferred Scheme members
- Retired and Dependant Scheme members
- Scheme Employers
- Fund staff
- Pension Fund Committee
- External bodies
  - Trades Unions
  - Her Majesty’s Revenue & Customs (HMRC)
  - Department for Communities and Local Government (DCLG)
  - The Pensions Regulator
  - National Fraud Initiative
  - Audit Commission
Brand Identity
The Funds recognise that our visual identification is one of our most powerful assets. It tells people who we are and influences how they remember and relate to us. Our branding increases our reputation whilst uniting us visually. When branding our communications it is important that:

- We have individual Fund identities that are distinct from each other and the County Council/LGSS identities.
- The look and feel of a communication should be identical where possible, but with separate Fund branding – e.g. newsletters should be identical where possible but would clearly display separate Fund branding on the front cover and only refer to the relevant Fund throughout the text.
- If it is unreasonable to produce different materials (e.g. cost difference, logistical challenges, etc) a joint brand is to be considered.
- Both Pension Fund Boards will be required to sign off high-level branding decisions.
- The brand will need to be adaptable to other funds that may become part of LGSS in the future.

Confidentiality
The fund is registered under the Data Protection Act 1998 as part of Cambridgeshire County Council and Northamptonshire County Council. Information will be shared between Cambridgeshire County Council and Northamptonshire County Council for the purposes of pensions administration. Information regarding scheme members and organisations is treated with respect by all our staff.

Disclosure
Each Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund’s AVC providers.

Equality
Our communications are tailored to the individual needs of our stakeholders. We will make every effort to provide communications to our stakeholders in their preferred language or format on request.

Freedom of information
This Communications Strategy identifies the classes of information that each Fund publishes or intends to publish in compliance with the Freedom of Information Act. Anyone has a right under the Freedom of Information Act to request any information held by the Fund which is not already made available. Requests should be made in writing to the Head of Pensions at the address at the end of this document.

A fee may be charged and the Funds reserves the right to refuse a request if the cost of providing the information is disproportionately high; if following prompting the request is unclear; and when the requests are vexatious or repeated.
**Implementation of Communication Key Objectives**

This table sets out the implementation of the delivery of the Funds key communication objectives.

The agreed objectives with measures for success that form the ‘Communication Strategy’ are:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Measures of success</th>
<th>Review process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide clear information about the Scheme, including changes to the Scheme, to educate and engage with scheme members so that they can make informed decisions about their benefits</td>
<td>Communication includes information and changes to the scheme that supports all stakeholder understanding. Communication is delivered via the most appropriate media to the audience. Effective promotion of new media or change of processes to all stakeholders. Feedback from all stakeholders that they have understood the communication enough to make an informed decision.</td>
<td>Surveys and polls (on websites and by post). Focus groups. Surveys and polls on websites. Focus groups. Monitor hits on website. Use appropriate media to convey relevant messages. Surveys and polls on websites. Focus groups. Monitor incoming telephone call and email volumes.</td>
</tr>
<tr>
<td>Deliver a clear and consistent message, that is engaging, factual and presented in plain language</td>
<td>An effective implementation of the Communications Timetable to all audiences that is understood and timely. Feedback from all audiences on the quality and language used in the communication sent.</td>
<td>Monitor enquiries from Stakeholders as to when events will take place. (Reduced enquiries mean effective delivery). Surveys and polls on websites. Focus groups.</td>
</tr>
<tr>
<td>Feedback on the simplicity, relevance and impact of the communication sent.</td>
<td>Surveys and polls on websites. Focus groups.</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td><strong>Promote the Scheme as a valuable benefit</strong></td>
<td>Identify trends in opt outs. Communication to opt outs includes positive messaging and invites feedback.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Positive feedback from all stakeholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All communications promote the scheme as a valuable benefit in a way that it understood by the audience</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Monitor opt out rates and reasons, to identify trends.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Surveys and polls on websites.</td>
<td></td>
</tr>
<tr>
<td><strong>Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately</strong></td>
<td>The Communications Strategy is reviewed and adapted where appropriate, as a result of feedback from stakeholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regular feedback is actively sought by the most appropriate media</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Processes are reviewed and adapted where appropriate to ensure the effective delivery of communication to all stakeholders</td>
<td></td>
</tr>
<tr>
<td><strong>Look for efficiencies in delivering communications through greater use of technology and partnership working</strong></td>
<td>Appropriate media is used for all stakeholders while balancing cost efficiency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduction in costs on printing through larger print runs covering both authorities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduction in postage costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>All processes that support the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compare previous communication costs (postage, print and design) with new costs and seek continual improvements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Year on year comparisons.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Continual review of processes and communications.</td>
<td></td>
</tr>
</tbody>
</table>
Methods of Communication and Key Messages/Objectives for Stakeholders

The Funds aim to use the most appropriate method of communication when dealing with stakeholders. This may involve more than one communication method. We have recently obtained two new and improved ways of communicating with our stakeholders:

**The Pensions Website**

In 2012 the LGSS Pensions Service implemented a new website:

- [http://pensions.cambridgeshire.gov.uk](http://pensions.cambridgeshire.gov.uk)
- [http://pensions.northamptonshire.gov.uk](http://pensions.northamptonshire.gov.uk)

Both domain names lead to the same site, which has joint Fund branding ensuring the identity of each Fund is respected.

Whilst the Funds aim to use the most appropriate communication medium for the audience receiving the information we hope that our website will be the first port of call for all stakeholders where appropriate. For the immediate future the Funds will continue to use paper based communications as our main means of communicating with our
stakeholders, for example by sending letters and paper copies of Newsletters and Annual Benefit Statements. However, we are committed to using technology to enhance our service and reduce costs, where appropriate, and will therefore continue to explore and develop the use of electronic communications through our website, emails and Self Service.

**Self Service**

Member and Employer Self Service is an internet based application that allows the individual access to information held by the Pensions Service.

Employer Self Service has been implemented and employers are now able to update their member’s records and carry out benefit calculations.

Access to Member Self Service has been offered to the active membership of each Fund. It gives the individual controlled access to their own details, allowing them to update their personal information and carry out benefit calculations.

One of the many benefits of self service for both scheme employers and scheme members is the increased communication and engagement it allows – whilst in its infancy now this is an avenue we will be exploring more thoroughly in the future.

**Table Showing our Methods of Communication and Key Message/Objective for Stakeholders**

The table below shows the Funds main methods of communicating with the different stakeholder groups, other than the ‘usual’ day to day communications, plus the key messages and objectives we hope to achieve:
<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Communication</th>
<th>Key message/Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Scheme members</strong></td>
<td>Annual Newsletter</td>
<td>Key Messages:</td>
</tr>
<tr>
<td></td>
<td>Annual Benefit Statements</td>
<td>- Your pension is a valuable benefit</td>
</tr>
<tr>
<td></td>
<td>Calculations and costings (e.g. estimates)</td>
<td>- You need to make sure you’re saving enough for retirement</td>
</tr>
<tr>
<td></td>
<td>'Short guide to LGPS'</td>
<td>Objectives:</td>
</tr>
<tr>
<td></td>
<td>'Full guide to LGPS'</td>
<td>- To improve understanding of how the LGPS works</td>
</tr>
<tr>
<td></td>
<td>Website (in particular 'Latest News’ page)</td>
<td>- To inform scheme members of their rights and benefits</td>
</tr>
<tr>
<td></td>
<td>Member Self Service</td>
<td>- For queries and complaints to be reduced</td>
</tr>
<tr>
<td></td>
<td>External training sessions as requested by employer</td>
<td>- To make pensions information more readily available</td>
</tr>
<tr>
<td></td>
<td>LGSS Welcome Events</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LGSS training events</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Roadshows</td>
<td></td>
</tr>
<tr>
<td><strong>Scheme employers</strong></td>
<td>Pension Bulletins</td>
<td>Key Messages:</td>
</tr>
<tr>
<td></td>
<td>Ad hoc email alerts</td>
<td>- You need to be aware of your responsibilities regarding the LGPS</td>
</tr>
<tr>
<td></td>
<td>Biannual forums</td>
<td>- The Fund is a valuable benefit for scheme members and is a good tool for retention of staff</td>
</tr>
<tr>
<td></td>
<td>Website (in particular 'Latest News’ page)</td>
<td>Objectives:</td>
</tr>
<tr>
<td></td>
<td>Seminars/workshops</td>
<td>- To increase understanding of how the Fund works and the effects on</td>
</tr>
<tr>
<td></td>
<td>Bespoke ad hoc training</td>
<td></td>
</tr>
<tr>
<td>Sessions</td>
<td>scheme members of any legislation changes</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Welcome/Joiner information</td>
<td>● To improve relationships</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Continue to improve the accuracy of data being provided to us</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● To make pensions information more readily available</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prospective Scheme members and Opt-Outs</th>
<th>Information on website</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Scheme Information Leaflets</td>
</tr>
<tr>
<td></td>
<td>LGSS Welcome Event</td>
</tr>
<tr>
<td></td>
<td>LGSS training events</td>
</tr>
<tr>
<td>Key Messages:</td>
<td>● The pension benefits are a valuable part of your reward package</td>
</tr>
<tr>
<td></td>
<td>● The LGPS is still one of the best pension arrangements available</td>
</tr>
<tr>
<td>Objectives:</td>
<td>● To improve take up of the LGPS</td>
</tr>
<tr>
<td></td>
<td>● To decrease opt out rate and increase understanding of contribution flexibility i.e. 50/50 option</td>
</tr>
<tr>
<td></td>
<td>● To increase understanding of how the Scheme works and what benefits are provided</td>
</tr>
<tr>
<td></td>
<td>● To make pensions information more readily available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deferred Scheme members</th>
<th>Annual Benefit Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Calculations and costings (e.g. estimates)</td>
</tr>
<tr>
<td>Key Messages:</td>
<td>● It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes</td>
</tr>
<tr>
<td>Scheme Information Leaflets</td>
<td>Objective:</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Retirement Packs</td>
<td>- The LGPS is still a valuable part of your retirement package</td>
</tr>
<tr>
<td>Website</td>
<td>- To improve understanding of how the LGPS works</td>
</tr>
<tr>
<td></td>
<td>- To make pensions information more readily available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retired/Dependant Scheme members</th>
<th>Key Messages:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Newsletter</td>
<td></td>
</tr>
<tr>
<td>Payslips (when criteria is met)</td>
<td></td>
</tr>
<tr>
<td>P60</td>
<td></td>
</tr>
<tr>
<td>Lifetime Allowance</td>
<td></td>
</tr>
<tr>
<td>Calculations and costings (e.g. estimates)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- It is important to keep in touch with the LGSS Pensions Service e.g. provide us with address changes</td>
</tr>
<tr>
<td></td>
<td>- The LGPS is still a valuable part of your retirement package</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund staff</th>
<th>Objectives:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly service meetings</td>
<td></td>
</tr>
<tr>
<td>Team meetings</td>
<td></td>
</tr>
<tr>
<td>Ad hoc meetings</td>
<td></td>
</tr>
<tr>
<td>Consultations</td>
<td></td>
</tr>
<tr>
<td>1:1 / Appraisals</td>
<td></td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- To ensure staff are kept up to date with important information regarding the Service, the Employing Authority and the wider world of pensions as a whole</td>
</tr>
<tr>
<td></td>
<td>- For staff to feel a fully integrated member of the team</td>
</tr>
<tr>
<td></td>
<td>- For management to feedback to staff regarding their individual progress</td>
</tr>
<tr>
<td><strong>Pension Fund Boards and Investment Sub Committees</strong></td>
<td>Committee Papers</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td></td>
<td>Presentations</td>
</tr>
<tr>
<td></td>
<td>Consultations</td>
</tr>
<tr>
<td></td>
<td>Agendas</td>
</tr>
<tr>
<td></td>
<td>Minutes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>External authorities</strong></th>
<th>Response to enquiries and consultations.</th>
<th>Objectives:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Response to changes in legislation.</td>
<td>- To response to enquiries/statutory requirements.</td>
</tr>
<tr>
<td>Trade Unions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Her Majesty’s Revenue &amp; Customs (HMRC)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department for Communities and Local Government (DCLG)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions Regulator</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Commission</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Communication Timetable

<table>
<thead>
<tr>
<th>MONTH</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Active Scheme members</td>
</tr>
<tr>
<td>JAN</td>
<td>Monthly team meeting</td>
</tr>
<tr>
<td>FEB</td>
<td>Monthly team meeting</td>
</tr>
<tr>
<td>MAR</td>
<td>Newsletter incorporating Pensions Increase notification, plus pay dates and other relevant information to be sent out with payslip.</td>
</tr>
<tr>
<td>APR</td>
<td>Payslip</td>
</tr>
<tr>
<td>MONTH</td>
<td>Service meeting</td>
</tr>
<tr>
<td>-------</td>
<td>----------------</td>
</tr>
<tr>
<td>MAY</td>
<td></td>
</tr>
<tr>
<td>JUN</td>
<td>Fire Annual Benefit Statements*</td>
</tr>
<tr>
<td>JUL</td>
<td>Police Annual Benefit Statements*</td>
</tr>
<tr>
<td>AUG</td>
<td>Annual Benefit Statements - LGPS and Councillors</td>
</tr>
<tr>
<td>SEPT</td>
<td></td>
</tr>
<tr>
<td>OCT</td>
<td></td>
</tr>
</tbody>
</table>
| NOV |          |          |          |          |          |          | Monthly team meeting  
|     |          |          |          |          |          |          | Service meeting  
| DEC | Annual reports & accounts | Annual reports & accounts | Annual reports & accounts | Annual reports & accounts | Annual reports & accounts | Annual reports & accounts | Annual reports & accounts  
|     | Monthly team meeting | Service meeting | Monthly team meeting | Service meeting | Monthly team meeting | Service meeting | Monthly team meeting | Service meeting  
| Ad hoc Comms | LGSS Training Days Website | Procedures training – road shows. Pension Bulletins Website | LGSS Welcome Events Posters Website | Website | Website | Website | Annual review of entitlement – May/June. Website | Regional Pension Officer Groups Website | Pension Managers Annual Conference Pension Committee Valuation Report (every 3 yrs) CLASS User Group/AGM  
|     | * Must be an active scheme member as at 31st March in the financial year that the statement relates.
3. Further information
If you have any enquiries in relation to this Communications Strategy please do not hesitate to contact us.

LGSS Pensions Service
PO Box 202
John Dryden House
8-10 The Lakes
Northampton
NN4 7YD

01604 366537

pensions@northamptonshire.gov.uk

http://pensions.northamptonshire.gov.uk

http://pensions.cambridgeshire.gov.uk