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Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Simon Brew, Robert Canning, Luke Clancy, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Reserve Members: Jamie Audsley, Sherwan Chowdhury, Pat Clouder, Patsy Cummings, Steve Hollands, Vidhi Mohan and Robert Ward

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 11 June 2019** at **10.00 am** in **Town Hall**

JACQUELINE HARRIS BAKER
Council Solicitor and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

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www.croydon.gov.uk/meetings
Monday, 3 June 2019

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. **Apologies for Absence**

   To receive any apologies for absence from any Members of the Committee.

2. **Minutes of the Previous Meeting** (Pages 5 - 12)

   To approve the minutes of the meetings held on 9 and 20 May 2019 as an accurate record.

3. **Disclosure of Interests**

   In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. **Urgent Business (if any)**

   To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. **Exclusion of the Press and Public**

   The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

   "That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

6. Progress report (Q4) (Pages 13 - 22)

For Members to receive a progress report to the end of the fourth quarter for the 2018/2019 financial year.

7. Valuation Cycle Consultation (Pages 23 - 58)

For Members to receive a report on proposals to align valuation cycles in the Local Government Pension Scheme (LGPS) and address exit credit payments.

PART B

8. Minutes of the Previous Meeting (Part B) (Pages 59 - 60)

To approve the minutes (Part B) of the meeting held on 9 May 2019.

9. Progress report (Q4) (Part B) (Pages 61 - 64)

For Members to receive a progress report (Part B) to the end of the fourth quarter for the 2018/2019 financial year.

The appendices to the report are to follow and will be provided in a Supplementary Agenda.

10. Investment Strategy Review (Pages 65 - 116)

For Members to review the investment strategy of the Croydon Pension Fund.

11. Verbal update: London CIV Emerging Market Fund

For Members to receive and consider a verbal update on the London CIV Emerging Market Fund.

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Pension Committee

Meeting held on Thursday, 9 May 2019 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Robert Canning, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

Co-opted Members: Mr Peter Howard

Also Present: Councillor Michael Ellsmore
Nigel Cook (Head of Pensions and Treasury) and Lisa Taylor (Director of Finance, Investment and Risk (S151 Officer))

Apologies: Councillor Luke Clancy
Co-opted Members: Gilli Driver (Pensioner Representative) and Charles Quaye (Union Representative)

PART A

16/19 Minutes of the Previous Meeting

The minutes of the meeting held on 12 March 2019 were agreed as an accurate record.

17/19 Disclosure of Interests

Co-opted Member and Pensioner Representative, Peter Howard, declared share ownership through PEP/ISA membership over which he did not have control in addition to being a recipient of a London Borough of Croydon pension.

There were no additional declarations of interests.

18/19 Urgent Business (if any)

There were no items of urgent business.

19/19 Key Performance Indicators for the Local Government Pension Scheme

The report was introduced by the Head of Pensions and Treasury with additional comments provided by the Director of Finance, Investment and Risk (Section 151 Officer). An increase in activity was noted as a result of auto-enrolment as of January 2019.

Four new members of the staff team were reported as having been inducted. Committee Members asked questions regarding processes and resourcing in order to fulfil the statutory reporting requirements.

RESOLVED: The Committee RESOLVED to note the report and agreed the team member responsible for producing the Key Performance Indicator report would attend the meeting in September 2019 to answer Member questions directly.

20/19 Forward Plan

The report was introduced by the Head of Pensions and Treasury with additional comments provided by the Director of Finance, Investment and Risk (Section 151 Officer). It was noted that the Governance Review would not be presented to the Pension Board until its meeting in July 2019 and therefore would not come to the Committee until its meeting in September 2019.

It was also noted that a paper on the new Ministry of Housing Communities and Local Government (MHCLG) consultation on changes to the local valuation cycle and the management of employer risk would be provided as an additional item at the Committee's next meeting in June 2019.

RESOLVED: The Committee noted the report and RESOLVED to add an additional Committee meeting to the business cycle for the 2019-20 municipal year between September and December 2019 [this meeting now being set for 10 am on November 5].

21/19 Consultation: draft statutory guidance on pooling assets

The item was introduced by the Head of Pensions and Treasury noting that this was provided for information as given the deadline date, the consultation had been submitted in advance of the Committee meeting.

RESOLVED: The Committee RESOLVED to note its contentment with the consultation as submitted.

22/19 Review: training support for the Pension Committee

The report was introduced by the Head of Pensions and Treasury. Members asked questions regarding available training including advanced training options. Committee Members expressed their interest in undertaking training which was to be followed-up by officers subsequent to the meeting.

RESOLVED: the Committee RESOLVED to note the report.

23/19 Environmental Impact of the Croydon Pension Fund (Part A)

The item was introduced by Councillor Hall, the Cabinet Member for Finance and Resources. It was noted that the report looked at how the previous four years of investments were contributing to emission reduction and clean energy production.

The Mercer's representative noted the need in securing the objective of moving towards carbon neutrality in the Fund's overall investments that the Committee must pay attention to its fiduciary duties.

RESOLVED: The Committee RESOLVED to

- Undertake a fact-finding and information session on climate change and investment
- Undertake a fuller carbon footprint exercise
- Update the policy on climate change, incorporating targets and metrics
- Consult with Fund members and other scheme employers on the next steps around moving towards carbon neutrality in the Fund
- Implement the adopted policy.

24/19 Exclusion of the Press and Public

The following motion was moved by Councillor Pelling and seconded by Councillor Hall to exclude the press and public:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

25/19 Minutes of the Previous Meeting (Part B)

The minutes (Part B) of the meeting held on 12 March 2019 were agreed as an accurate record (with the correction noted that Councillor Clancy gave his apologies and was not in attendance at the meeting).

26/19 Environmental Impact of the Croydon Pension Fund (Part B)

The Mercer's representative introduced the report. It was noted by Councillor Hall, the Cabinet Member for Finance and Resources and representative on the London Councils Pensions CIV Board that he is actively lobbying for a carbon/fossil fuel neutral investment options to be available through the London CIV.

Committee Members discussed the challenges inherent to seeking to move towards a carbon neutral approach in the Fund's overall investments.

RESOLVED: the Committee RESOLVED that an expert on carbon neutral investments would be invited to attend the Committee's meeting in September 2019.

It was agreed by the Mercer's representative that a report would be produced that could be included in Part A of the agenda of a future meeting.

27/19 Investment strategy review

The report was introduced by the Mercer representative. It was noted that the Croydon Pension Fund held a well-diversified portfolio of differing types of asset classes and that whilst it might not be necessary to make any changes to the investment strategy this needed to be an active decision, if that was the approach to be undertaken.

Members were reminded that implementation of the strategy would be through the CIV and that investments outside of the CIV may be limited by the outcome of the pooling consultation.

Members considered whether the Barbell approach was the right strategy for the Croydon Pension Fund as regards to credit quality mixes in fixed income investment. This approach allowed for a balancing of the risk exposure subject to appropriate timing in the credit cycle.

The importance of the evaluation for determining the correct investment strategy was stressed.

Members also considered value at risk and asset liability modelling.

Inflation risks were highlighted with means of mitigating inflation risk discussed.

Further advice would be provided on long only vol investment techniques.

Members considered the environmental, social and governance criteria.

The merits of a passive or an active manager approach in strong bull markets were also discussed. Councillor Hall, the Cabinet Member for Finance and Resources, noted that the fund had previously paid for active management but had only received the returns expected from a passive approach. Councillor Hall advised that this approach to passive indexed investment management had only been agreed as a holding position whilst the right active products were identified; a passive indexed approach meant being drawn into momentum stocks.

Committee members discussed appropriate active products. The Cabinet Member reported that the CIV had several active products in the pipeline on which more detail would emerge and on which Mercer's view would be invited. It was emphasised that it was possible to achieve environmental, social and governance objectives through the right active funds.

A further presentation to members on the Investment Strategy Review would be made at the June Committee meeting.

RESOLVED: the Committee RESOLVED to:

- receive enhanced information on the Schroders' property portfolio; and
- investigate active fund approaches and options.

28/19 Verbal update: London CIV Emerging Market Fund

The Director of Finance, Investment and Risk and the Mercer representative provided the Committee with an update on the London CIV Emerging Market Fund.

The meeting ended at 1.10 pm

Signed: ....

Date: ....

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Pension Committee

Meeting held on Monday, 20 May 2019 at 8.00 pm in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Humayun Kabir (Chair);
Councillors Andrew Pelling, Simon Hall, Simon Brew, Robert Canning, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

Apologies: Councillor Luke Clancy
Co-opted Members Gilli Driver and Peter Howard (Pensioner Representatives) and Charles Quaye (Union Representative)

PART A

29/19 Appointment of Chair and Vice-Chair

The proposal was received for Councillor Pelling as Chair and Councillor Hall as Vice Chair. The motion was proposed by Councillor Pelling and seconded by Councillor Hall.

RESOLVED: The Committee resolved to agree the proposal confirming Councillor Pelling as Chair and Councillor Hall as Vice Chair.

The meeting ended at 8.05 pm

Signed: ....

Date: ....

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Croydon Council

REPORT TO:	**PENSION COMMITTEE** **11 June 2019**
SUBJECT:	**Progress Report for Quarter Ended 31 March 2019**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.

FINANCIAL SUMMARY:

This report shows that the market value of the Pension Fund (the Fund) investments as at 31 March 2019 was £1,242 m compared to £1,181 m at 31 December 2018, an increase of £61 m and a return of 5.08% over the quarter. The performance figures, Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.

FORWARD PLAN KEY DECISION REFERENCE NO.: N/A

1 RECOMMENDATIONS

1.1 The Committee is asked to note the performance of the fund for the quarter.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 March, 2019. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

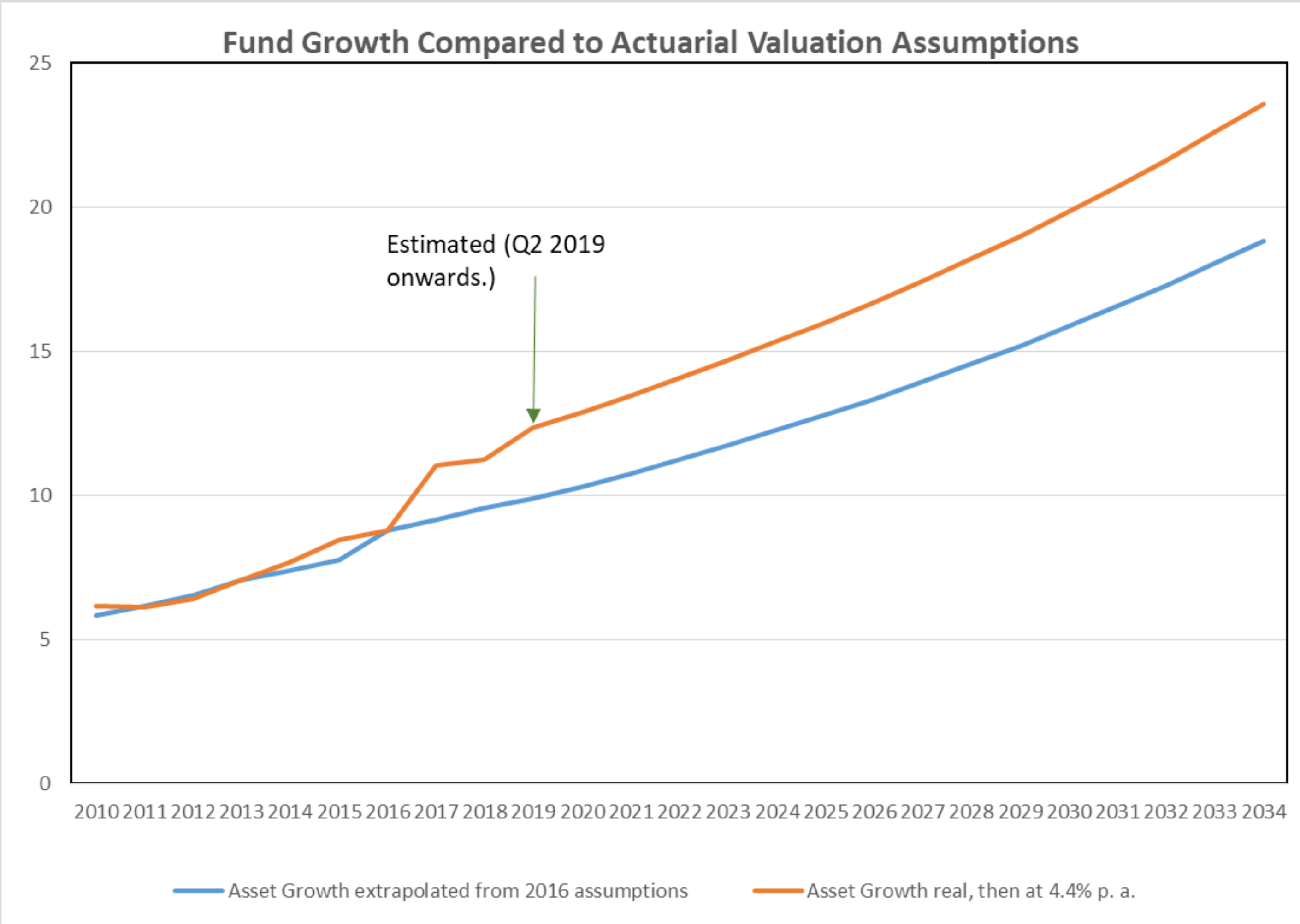
3 DETAIL

Section 1: Performance

3.1 The 2016 Triennial Actuarial Valuation used an asset outperformance assumption of 2.2% over gilt yields, meaning an asset return assumption, otherwise described as the discount rate, of 4.4%. The valuation also assumes that the funding gap will be closed over a 22 year period. However, as a risk based model has been adopted, the recovery period is less critical. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will reduce.

3.2 Graph 1 has been compiled from this information. The blue line shows the expected track of the value of assets growing in line with the 2016 valuation assumptions. This will be adjusted after subsequent valuations. The orange line shows the actual value of the Fund to date and plots the course of growth over subsequent years using the same assumptions. This measure does not take account of other variables, such as changes in demographic factors, wage inflation forecasts and other assumptions and it does not reflect changes in cash contributions nor movements in the gilt yield curve. It is valuable as a tool to help track whether the direction of travel is in the right direction.

Graph 1: Fund Growth Compared to Actuarial Valuation Assumptions



3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors in Appendix A.

Section 2: Asset Allocation Strategy

3.4 A current asset allocation strategy was approved at the Committee meeting held on 8 September 2015 (Minute A29/15 refers). The portfolio now reflects the proportions described in that strategy, allowing for the vagaries of the market.

3.5 The target portfolio can be broken down as follows:

Asset Class		***Target Allocation***	***Allowable Tolerance***
Equities including allocation to emerging markets. Fixed interest Alternates *Comprised of:*		42% 23% 34%	+/- 5% +/- 5% +/- 5%
Private Equity Infrastructure Traditional (Commercial) Property Private Rental Sector (Residential) Property	8% 10% 10% 6%		
Cash		1%	
	Total	**100%**	

3.6 **Progress towards revised asset allocation**

3.6.1 **Global Equity –** The quarter was positive for the equity markets despite the significant storms battering the global economy – the risk of trade wars between the USA and China; Brexit; unresolved issues in the Eurozone; and so forth. With each asset class at target allocation there is currently no need to disinvest further from the LGIM fund, which represents 41.6% of the portfolio compared to the target of 42%. The L&G FTSE World (Ex Tobacco) fund returned a positive 9.7% during the quarter compared with a large downswing last quarter and illustrating the real volatility currently experienced as well as the difficulty in clawing back losses.

3.6.2 There have been initial difficulties with the emerging London CIV Emerging Market equity fund. A key manager, together with his team, have left Janus Henderson, the investment firm that has hosted the fund and team. The CIV are working on a solution in response to this development.

3.6.3 **Fixed Interest** – Again, the four funds, managed by three managers, represent the target allocation to this asset class. Currently these funds are valued at 22.7% of the portfolio whereas the target allocation is 23%.

3.6.4 **Infrastructure** – Performance information relating to Infrastructure investments and indeed Private Equity, discussed in more detail below, is lagged by a quarter. This is due to the process involving collating information from a number of sub-funds and various compliance checks. The table below shows that the Fund is marginally over-exposed (11.5% compared with a target allocation of 10%, equivalent to £17 m). However the nature of these funds is that it is necessary to over-commit to ensure adequate coverage largely because of the impact of net cash flows. For the same reason it is necessary to commit to each new vintage, all other factors being equal and there being no contrary indicators.

3.6.5 **Private Equity** – .The Fund continued to see distributions during the quarter that served to help with cash flow. This part of the portfolio is slightly overweight for the reasons discussed above.

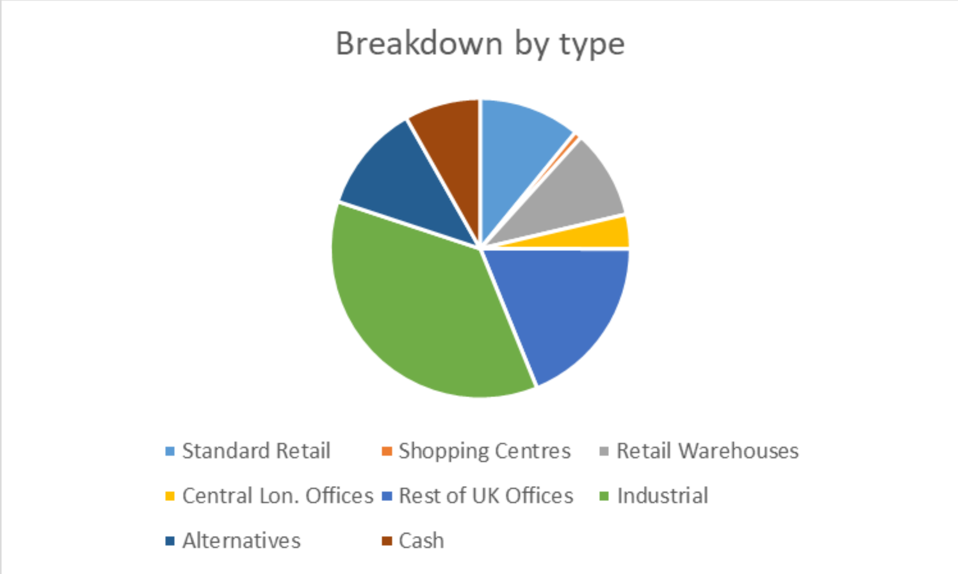
3.6.6 **Traditional Property** – The Schroders portfolio is on target compared to the asset allocation target. The Committee, at its last meeting, requested more detail about this part of the portfolio. The headline figure are set out here, as percentages:

	3 months %	12 months %	3 years %	5 years %	Since inception %
Portfolio return (net of fees)	**0.5**	**5.6**	**6.6**	**9.7**	**8.9**
Compared to MSCI / AREF UK Property Fund Index	**+0.2**	**+0.8**	**+0.5**	**+0.6**	**+1.1**

3.6.7 Returns remain strong and are above benchmark over all time periods. Performance exceeds the benchmark over three months (+0.2%), twelve months (+0.8%), three years (+0.5% per annum), five years (+0.6% per annum) and since inception (+1.1% per annum). The industrial sector, and alternatives were the strongest positive drivers of quarterly performance. Performance exceeded benchmark over the quarter (+0.2%). Value add funds (+0.3%) contributed positively. Core funds, real estate debt and cash holdings made a negligible contribution to relative returns. The Industrial Property Investment Fund (IPIF) was the strongest contributor to performance over the quarter, followed by Multi-Let Industrial Property Unit Trust (Multi-Let). UK Retail Warehouse Fund was the weakest contributor reflecting a further decline in valuations. Cash holdings (-0.2%) detracted from returns, whilst real estate debt made a negligible contribution to relative returns. The sector focussed industrial funds were amongst the strongest positive contributors over one year, alongside Metro Property Unit Trust (Metro), another fund with a significant exposure to industrials. The positive contribution of the three funds mirrored the situation in Q4 2018. UK Retail Warehouse Fund and Legal & General were the main detractors over twelve months.

3.6.8 Returns were above the benchmark over three years (+0.5% per annum), unchanged from the previous quarter. Value add funds (+0.7% per annum) and core funds (+0.3% per annum) both made a positive relative contribution to returns, whilst cash has detracted from returns (-0.2% per annum). The IPIF, Metro and Multi-Let funds have again been the strongest contributing funds over three years. The UK Retail Warehouse Fund, West End of London Property Unit Trust (fully disinvested) and Standard Life were the weakest contributing holdings to performance over three years. Returns exceeded the benchmark by +0.6% per annum over a five-year period. Value add (+0.9% per annum) and core funds (+0.3% per annum) have made a positive contribution to relative performance. Cash (-0.3% per annum) has diluted returns. IPIF, Metro and Hermes Property Unit Trust were the three strongest contributing holdings over five years. UK Retail Warehouse Fund is the weakest contributing holding over the same period. Portfolio returns have outperformed the benchmark by +1.1% per annum since inception.

3.6.9 This pie chart shows the composition of the fund.



Standard Retail 10.9%
Shopping Centres 0.8%
Retail Warehouses 9.6%
Central Lon. Offices 3.7%

Rest of UK Offices 18.8%
Industrial 36.2%
Alternatives 11.7%
Cash 8.2%

3.6.10 **Private Rental Sector –** £10.8m was drawn by M&G during the previous reported quarter. This means the Fund's total commitment of £60 m is now fully invested in the PRS mandate. The allocation is at 4.9% which is below the original target of 6%, but this is due to the good performance experienced by the rest of the portfolio. The Fund does not consider it appropriate to top up this part of the portfolio further.

3.6.11 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 31 March 2019

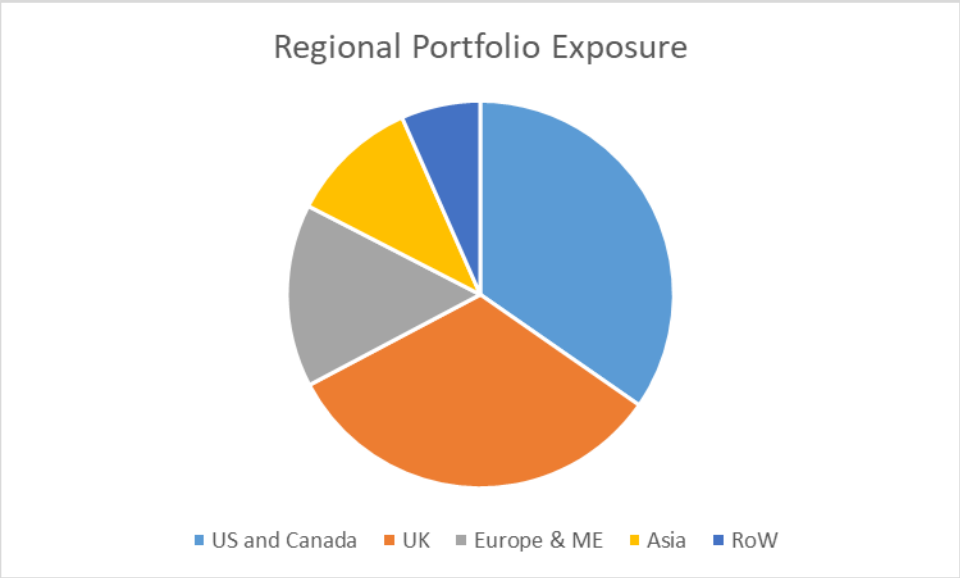
	Valuation at 31/12/2018 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 31/03/2019 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**41.6%**	**42%**
Legal & General FTSE4Good	241	-	-2	239		
Lega & General FTSE World (Ex Tobacco)	417,508	-	40,484	457,993		
LCIV Emerging Markets	55,506	-	2,538	58,044		
Fixed Interest					**22.7%**	**23%**
Standard Life	127,200	-	4,028	131,228		
Wellington	64,735	-	2,391	67,126		
LCIV Global Bond	80,254	-	3,813	84,066		
Infrastructure					**11.5%**	**10%**
Access	13,574	-326	169	13,417		
Temporis	31,257	-	3,273	34,530		
Equitix	64,473	-2,849	2,420	64,045		
Green Investment bank	25,149	-994	-	24,155		
I Squared	4,754	-300	2,353	6,807		
Private Equity					**8.9%**	**8%**
Knightsbridge	28,971	88	160	29,219		
Pantheon	68,113	-1,950	-1,612	64,552		
Access	12,597	1,412	-858	13,151		
North Sea	2,452	800	-209	3,044		
Property					**10.0%**	**10%**
Schroders	123,553	-	851	124,403		
Property PRS					**4.9%**	**6%**
M&G	60,085	-	160	60,245		
Cash					**0.4%**	**1%**
Cash	645	4,845	46	5,536		
Fund Total	**1,181,068**	**726**	**60,005**	**1,241,799**	**100%**	**100%**

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are lagged by 3 months due to the timing of the reporting of these funds.

3.7 Regional Exposure

3.7.1 The Committee asked for an indication of the geographical dispersion of the underlying assets comprising the portfolio. This is set out graphically in the chart below. This information is for illustrative purposes only. It should be noted that there are differences in the period represented as some data is updated far more frequently than others.

Graph 2: Geographic dispersion of funds.



3.7.2 The descriptor Asia includes Japan, Korea and Australia. The rest of the world (RoW) includes the continent of Africa and Latin America.

Section 3: Risk Management

3.8 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.

3.9 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.10 Mercer, the Fund's investment advisor, have drafted a Fund Monitoring Report, for the 3 months to 31 March 2019. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

3.11 Members of the Pensions Committee continued with their programme of visits:

- Temporis, January 2019 and
- I Squared in February.

These visits help develop the relationship between investor and fund manager and count against training day requirements.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cove to the Committee Members.)

Appendices:

There are no part A appendices.

Part B appendices:

Pursuant to Schedule 12A paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information), the following appendices are considered to be precluded from publication:

Appendix A: London Borough of Croydon Returns to 31 March 2019, Mercer

Appendix B: Market Background and Market View Q1 2019, Mercer

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Croydon Council

REPORT TO:	**Pension Committee** **11 June 2019**
SUBJECT:	**Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk**
LEAD OFFICER:	**Nigel Cook Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Simon Hall** **Cabinet Member for Finance and Resources**
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This consultation by the Ministry of Housing Communities and Local Government (MHCLG) relates to the periodic valuation of the Pension Fund and matters relating to other scheme employers.	
FINANCIAL SUMMARY: This report describes proposals to align valuation cycles in the LGPS and to deal with exit credit payments.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

1.1 That the Committee note the appended consultation from the Ministry of Housing Communities and Local Government (MHCLG).

1.2 That the Committee note that the Council will be responding to this consultation; the response will be made by the Director of Finance, Investment and Risk in consultation with the Chair and Cabinet Member for Finance and Resources.

2. EXECUTIVE SUMMARY

2.1 This report details a MHCLG consultation which seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covers the following areas:

1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle;
2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles;
3. Proposals for flexibility on exit payments;
4. Proposals for further policy changes to exit credits; and
5. Proposals for policy changes to employers required to offer LGPS

membership.

3 DETAIL

3.1 The Ministry of Housing Communities and Local Government (MHCLG) have launched a consultation about changes to the valuation cycle and the management of employer risk for LGPS funds in England and Wales. The consultation closes on 31 July 2019. The consultation can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf.

3.2 The five key proposals covered by the consultation are:

1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle;
2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles;
3. Proposals for flexibility on exit payments;
4. Proposals for further policy changes to exit credits; and
5. Proposals for policy changes to employers required to offer LGPS membership.

These are addressed in turn below.

Amendments to the local fund cycle

3.3 In order to provide a consistent picture across the public services and to enable the Government Actuary Department to monitor the aggregate cost of the local government scheme the LGPS (England and Wales) is to be valued over a four-year cycle. This consultation proposes that local fund valuations are transitioned from 3 yearly to 4 yearly, so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards.

3.4 This change is being brought in to match the same four-yearly cycle that applies in other public service schemes. However there are sound reasons why the approach adopted by the LGPS might be different. Most significantly, the LGPS is a funded public pension scheme. This means that contributions from employers and employees are paid into a fund, which is invested and from which pension benefits are paid. The other main public service schemes are unfunded. They operate on a pay-as-you-go (PAYG) basis, which means there is no fund of assets which is invested and from which pension benefits are paid. Employer and employee contributions are paid to the sponsoring government but these contributions are not invested. Instead, the sponsoring government department pays benefits to pensioner members, netting off the contributions received. There are, as a result, good reasons why a funded scheme should have a shorter valuation cycle than an unfunded scheme such as to allow better management of risks relating to market volatility or changes to employer circumstances. Given the significant events that are bound to impact on the valuation, such as Brexit, global economic volatility and the need to monitor the funding gap closely it would seem preferable for this fund to carry out a valuation in 2022, rather than leaving contribution rates in place for half a decade until the next valuation.

3.5 The 2016 Valuation, covers the period 1st April 2017 to 31st March 2020, i.e. the three financial years 2017/2018; 2018/2019 and 2019/2020. As it stands, the 2019 valuation, the current valuation, will cover the period 1st April 2020 to 31st March 2023 – the years 2020/2021; 2021/2022; and 2022/2023. If valuations are aligned from 2024 then it must be assumed that the current valuation in progress will be in place until the new four-year cycle valuation takes effect from April 2024 – in 5 years.

Measures aimed at mitigating the risks of moving cycles

3.6 The second proposal considers giving Funds the power to carry out 'interim' valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances (with the 'trigger points' for the interim valuations subject to statutory guidance).

3.7 LGPS funds have a diverse range of sponsoring employers, and they bring varying degrees of risk. The financial covenant and experience of these employers can change quickly. This extreme volatility can result in significant changes to market conditions such that deficits can become surpluses, or vice versa. The ability for funds to assess the impact of such changes, and have the power to carry out an interim valuation under a wider range of circumstances than the current Regulations allow, should be welcome from a risk management perspective. The extent to which there should be guidance on the use of that power is another discussion point.

Proposals for flexibility on exit payments

3.8 The third proposal is to allow Funds more flexibility around the way in which they manage employers that exit the LGPS, by spreading cessation debt repayments or setting up private sector style 'deferred debt' arrangements to ease employer concerns over affordability

3.9 In many respects, this is long overdue, some LGPS funds, including this one, are already using these sort of arrangements to allow employers to exit the LGPS in an affordable manner or indeed without triggering some sort of budget crisis. It is generally not in a fund's interest to force an employer out of business over a debt, and the arrangements described (subject ideally to some level of security from the employer) can be structured to minimise the risk of unpaid debt and avoid the cost and implications of suing employers that are unable to pay a large one-off lump sum. So this proposal is useful in that it puts these arrangements on a more formal footing.

Proposals for further policy changes to exit credits

3.10 The next proposal is to amend the LGPS Regulations to allow exit credits to be reduced to nil where a pass-through arrangement is in place. This is new; the current regulations allow for deficits but are silent on the subject of credits.

3.11 This amendment would remove one of the unintended consequences of the introduction of exit credits and is sensible. It is worth clarifying that the actuarial assumptions used for these calculations are not prescribed in the regulations, but are instead at the discretion of the Fund and its Actuary.

Proposals for policy changes to employers required to offer LGPS membership

3.12 The final proposal relates to removing the requirement for further education, higher education and sixth form college corporations in England to offer new employees access to the LGPS. Many of these institutions have been looking at ways to manage their pensions costs and it is possible that many will close to new entrants. It is not uncommon for their LGPS liabilities to be worth tens of millions of pounds. In terms of risk management and assessing the strength of these covenants officers have kept in close touch with these employers and regularly monitor their financial strength, and wherever possible seek security to reduce the risk of unpaid liabilities falling on other employers in the event of insolvency. If an employer were to close to new entrants, this authority would seek to agree an exit strategy in advance to address any affordability and security concerns. This proposal would in effect create a two-tier work force and with that additional monitoring issues such as preventing employers from inducing staff to leave the scheme. Note that the teachers' scheme is distinct and not impacted by this proposal.

3.13 Responses to the consultation are due by 31st July, 2019. The authority will draft a response.

4 FINANCIAL CONSIDERATIONS

4.1 There are potentially significant financial considerations for individual scheme members arising from the proposals in this consultation. At this stage it is difficult to estimate these as it is unknown which proposals will be implemented.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

6. COMMENTS OF THE SOLICITOR TO THE COUNCIL

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal consequences arising from the recommendations in this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Resources department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

PEN 11062019

Appendices

Appendix A

Local government pension scheme: changes to the local valuation cycle and management of employer risk, Ministry of Housing, Communities & Local Government, 8 May 2019

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Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

May 2019
Ministry of Housing, Communities and Local Government

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

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

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May 2019

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covers the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result. Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme. Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.

	When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle[1], and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.

- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended[2] to allow the payment of 'exit credits' to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016[3]. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS's funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019**.

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[2] S.I. 2018/493
[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

Changes to the Local Government Pension Scheme (LGPS) valuation cycle

1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes[4].

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

[4] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Dealing with changes in circumstances between valuations

2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations[5]. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

[5] https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement[6] requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

[6] Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Flexibility on exit payments

3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis[7] on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers[8] in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

[7] Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

[8] Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)[9]:

> *"(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—*
>
> *(a) the contribution at the primary rate should be adjusted; or*
>
> *(b) any prior secondary rate adjustment should be increased or reduced,*
>
> *with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable."*

[9] In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?

3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector[10] defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become “deferred employers”. A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a ‘relevant event’ (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

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[10] These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;

2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;

3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Exit credits under the LGPS Regulations 2013

4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes[11] to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016[12], as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

[11] S.I. 2018/493
[12] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS[13]. Use of the deemed employer approach,

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[13] https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Employers required to offer LGPS membership

5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.
- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.
- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation 'Insolvency regime for further education and sixth form colleges', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a "funded scheme". This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

Public sector equality duty

6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

About this consultation

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

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

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

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

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

Individual responses will not be acknowledged unless specifically requested.

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

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

Annex A

Personal data

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

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

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

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

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

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

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

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

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

a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

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

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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 8

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