



Shropshire Council  
Legal and Democratic Services  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

Date: Thursday 14 September 2017

**Committee:**  
**Pensions Committee**

**Date:** Friday, 22 September 2017

**Time:** 10.00 am

**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

You are requested to attend the above meeting.  
The Agenda is attached.

Claire Porter  
Head of Legal and Democratic Services (Monitoring Officer)

**Members of the Committee:**

Thomas Biggins  
Chris Mellings  
Brian Williams  
Michael Wood

**Co-opted Members (Voting):**

Malcolm Smith  
David Wright

**Co-opted Members (Non-Voting):**

Jean Smith (Pensioner Representative)  
Nigel Neat (Employee Representative)  
Vacancy (Employee Representative)

**Substitute Members of the Committee:**

Roy Aldcroft (SC)

Roger Evans (SC)

Simon Harris (SC)

Alexander Phillips (SC)

Lee Carter (T&W)

Adrian Lawrence (T&W)

Vacancy (Pensioner Rep)

Vacancy (Employee Rep)

Your Committee Officer is:

**Tim Ward** Committee Officer

Tel: 01743 257713

Email: [tim.ward@shropshire.gov.uk](mailto:tim.ward@shropshire.gov.uk)

# AGENDA

## **1 Apologies and Substitutions**

To receive apologies for absence and notification of any substitutions

## **2 Minutes of the Last Meeting (Pages 1 - 6)**

The minutes of the meeting held on 23 June 2017 are attached for confirmation marked 2

## **3 Internal Audit out turn Report for Shropshire Council Pension Fund 2016/17 (Pages 7 - 16)**

The report of the Head of Audit is attached marked 3

## **4 External Audit - The Audit Findings for Shropshire County Pension Fund 2016/17 (Pages 17 - 40)**

The report of Grant Thornton is attached marked 4

## **5 Pension Fund Annual Accounts 2016/17 (Pages 41 - 182)**

The report of the Head of Finance, Governance and Assurance is attached marked 5

## **6 Corporate Governance Report (Pages 183 - 184)**

The report of the Investment Officer is attached marked 6

## **7 MiFID II (Pages 185 - 200)**

The report of the Head of Treasury & Pensions is attached marked 7

## **8 Investment Strategy Statement (Pages 201 - 220)**

The report of the Head of Treasury & Pensions is attached marked 8

## **9 Pensions Administration Monitoring Report (Pages 221 - 230)**

The report of the Pensions Administration Manager is attached marked 9

**10 Exclusion of Press and Public**

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items 11 to 15 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them

**11 Exempt Minutes (Pages 231 - 234)**

The exempt minutes of the meeting held on 23 June 2017 are attached marked 11

**12 Implementation of Equity Options and BMO Change**

To receive a presentation from Louis-Paul Hill (Aon Hewitt)

**13 Investment Strategy Training**

To receive a presentation from Louis-Paul Hill (Aon Hewitt)

**14 Investment Monitoring Report (Pages 235 - 280)**

The exempt report of the Head of Treasury and Pensions is attached marked 14

**15 Record of Breaches (Pages 281 - 284)**

The exempt report of the Pensions Administration Manager is attached marked 15



Pensions Committee

22 September 2017

10.00 am

## MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 23 JUNE 2017 10.00 AM - 12.55 PM

**Responsible Officer:** Tim Ward  
Email: [tim.ward@shropshire.gov.uk](mailto:tim.ward@shropshire.gov.uk) Tel: 01743 257713

### **Present:**

#### Members of the Committee:

Councillors Thomas Biggins, Roger Evans and Michael Wood

#### Co-Opted Members (Voting):

Councillor David Wright

#### Co-Opted Members (Non-Voting):

Nigel Neat and Jean Smith

### **1 Election of Chairman**

#### 1.1 RESOLVED

That Councillor Tom Biggins be elected Chairman of the Pensions Committee for the forthcoming year

### **2 Apologies and Substitutions**

2.1 Apologies for absence had been received from Councillor Brian Williams

2.2 There were no substitutions.

### **3 Appointment of Vice-Chairman**

#### 3.1 RESOLVED

That Councillor Malcolm Smith be appointed Vice - Chairman of the Pensions Committee for the forthcoming year

### **4 Minutes of the Last Meeting**

4.1 The minutes of the meeting held on 17 March 2017 had been circulated

4.2 RESOLVED:

That the minutes of the meeting held on 17 March 2017 be approved as a true record and signed by the Chairman

## **5 Investment Strategy**

- 5.1 Members received a presentation from Louis Paul Hill which gave an overview of the Shropshire Pension Fund Investment Strategy, in which he updated them on the current investment types and the future strategies that may be followed and suggested topics for future training sessions. He then took questions from Members.

## **6 Equity Protection Options**

- 6.1 Members received a presentation from Louis Paul Hill and Andrew Stals which set out options to enable the reduction of equity risk in the short to medium term and the reasons for doing this.

RESOLVED

That under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Item 6 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them

Members had further discussion around the options and it was RESOLVED

That the Officers recommendations be approved

## **7 LGPS Central**

- 7.1 Members received a presentation from David Kane and Amy Regler which gave an update on progress with the establishment of LGPS Central, an update on the potential savings for member funds and information on the Regulatory Business Plan. They then took questions from Members.

## **8 Member Training Requirement**

- 8.1 The Head of Treasury & Pensions updated Members on plans for the Pensions Training Day. He advised that a questionnaire would be sent out to Members to agree topics to be covered and agree a suitable date for the training to take place

## **9 LGPS Central Investment Pooling Update**

- 9.1 The meeting received the report of the Head of Treasury and Pensions which updated Members on the progress that had been made by LGPS Central towards the requirement to commence investment pooling on 1 April 2018.
- 9.2 The Head of Treasury & Pensions informed members that excellent progress had been made with setting up LGPS Central and that an application for authorisation by the Financial Conduct Authority (FCA) should be made in early July. He advised that Joanne Segars had been appointed Non-Executive Chair of the Board and

Andrew Warwick - Thompson had been appointed Chief Executive Officer and that recruitment of other key management posts was progressing.

9.3 RESOLVED:

That the Pension Committee note the contents of the report

**10 Corporate Governance Report**

10.1 Members received the report of the Investment Officer which gave an update on corporate governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> January 2017 to 31<sup>st</sup> March 2017.

10.2 RESOLVED:

That Members accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B

**11 Pensions Administration Monitoring Report**

11.1 The Meeting received the report of the Pensions Administration Manager which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

11.2 The Pensions Administration Manager advised Members that work was progressing to ensure all employers were submitting data electronically through the iConnect service, and that currently there were only 5 employers still to go live.

11.3 The Pensions Administration Manager informed the meeting that The Pensions Regulator (TPR) had published the results of the 2016 governance and administration survey as part of their 2017 Report and that top priorities were scheme governance, record keeping, internal controls and member communication, and that TPR expected all schemes to undertake an annual data review and instigate an improvement plan where required. The Pensions Administration Manager assured Members that she was confident that the work being undertaken by the Pensions Team was in line with the TPR priorities.

11.4 RESOLVED

That Members accept the position as set out in the report

**12 Exclusion of Press and Public**

12.1 RESOLVED

That under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items 13 to 16 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them

**13 Exempt Minutes (Exempted by Categories 2 and 3)**

13.1 The exempt minutes of the meeting held on 17 March 2017 had been circulated

13.2 RESOLVED:

That the exempt minutes of the meeting held on 17 March 2017 be approved as a true record and signed by the Chairman

**14 Investment Monitoring Report (Exempted by Category 3)**

14.1 The meeting received the exempt report of the Head of Treasury and Pensions which provided Members with monitoring information on investment performance and managers for the period to 31 March 2017

14.2 RESOLVED:

That Members note the position as set out in the report

**15 New Admission Bodies (Exempted by Category 3)**

15.1 The Committee received the exempt report of the Pension Administration Manager which provided Members with details regarding two new employer admissions to the Fund, all under Schedule 2 Part 3 Regulation 1(d)(i) of the Local Government Pension Scheme Regulations 2013 and details of two new admissions that had been approved by the Chairman between meetings, under the Urgency Procedures.

15.2 RESOLVED:

That the recommendations in the exempt report of the Pension Administration Manager be approved

**16 Record of Breaches (Exempted by Category 3)**

16.1 Members received the report of the Pensions Administration Manager which informed them of breaches arising in the quarter 1<sup>st</sup> January to 31<sup>st</sup> March 2017

16.2 RESOLVED:

That Members note the content of Appendix A to the report

*(The full version of Minutes 6 and 13 to 16 constitutes exempt information under Categories 2 and 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been withheld from publication).*

Signed ..... (Chairman)

Date: .....





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<u>Committee and Date</u>	<u>Item</u>
Pension Committee	
22 <sup>nd</sup> September 2017	
	<u>Public</u>

## INTERNAL AUDIT OUTTURN REPORT FOR SHROPSHIRE COUNTY PENSION FUND 2016/17

**Responsible Officer** Ceri Pilawski

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### 1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2017. It reports on progress against the annual audit plan agreed with the Head of Treasury and Pensions. It also provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes taking into account the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

Final performance has been good with 100% of the plan being delivered.

Five good assurances were made in 2016/17. A total of 11 recommendations have been made in the five audit reports related to the year. All the recommendations issued in the year were rated as requires attention or best practice.

***On the basis of the work undertaken and management responses received; the Pension Fund's governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on the Fund's internal control environment for 2016/17.***

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2017.
- b) The Head of Audit's positive year end opinion on the Fund's internal control environment for 2016/17 on the basis of the work undertaken and management responses received.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Pension Fund's financial, governance and risk management systems and procedures and is closely aligned to the risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of the control environments as a contribution to the proper economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

### 4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Pension Fund.

### 5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2016/17 and seeks to:
- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
  - Inform the review of an effective Internal Audit by providing performance data against the plan.
  - Confirm to the Pension Committee that the Audit service has been delivered free from interference throughout the year.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the

Pension Fund to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

- 5.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This annual report provides information to support that assessment and that an effective Internal Audit is established at Shropshire County Pension Fund, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2017, a paper was presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service, against the PSIAS. The Pension Committee can take assurance from this report.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision of two days; any unforeseen work demands that may arise, i.e. special investigations, would be delivered in addition to the planned work using the contingency first and any additional time in agreement with the Fund Administrator. The contingency provision was not utilised in 2016/17.

#### **Annual Internal Audit Opinion from Internal Audit Work undertaken during 2016/17**

- 5.5 It is the responsibility of Shropshire County Pension Fund to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the Pension Fund’s framework of governance, risk management and internal control. This opinion plays a key part in enabling the Pension Committee to deliver their annual assurance statement to stakeholders.
- 5.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Pension Fund’s internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on governance, risk management and controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental systems. Whilst identifying a small number of areas where minor improvement can be made, there are no significant material weaknesses that could result in a material misstatement in the Pension Fund's accounts and reliance can be placed upon the systems.
- From other planned audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the Pension Fund's systems, governance, internal control environment and risk management procedures are sound and working effectively.

5.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

5.8 ***On the basis of the work undertaken and management responses received; the Pension Fund's governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on the Pension Fund's internal control environment for 2016/17.***

#### **Key Assurances provided during 2016/17**

5.9 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

<b>Good</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
<b>Reasonable</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non compliance with some of the controls.
<b>Limited</b>	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

#### **Audit assurance opinions delivered in 2016/17**

<b>Audit</b>	<b>Opinion</b>	<b>Direction of Travel</b>
Corporate Governance	Good	No Change

<b>Audit</b>	<b>Opinion</b>	<b>Direction of Travel</b>
Pension Fund Monitoring	Good	No Change
Investment Managers Internal Control Reports	Good	No Change
Pensions Administration	Good	No Change
Altair Pension Application	Good	No Change

5.10 A summary of the five final audit reports issued in 2016/17 are listed at **Appendix A**.

5.11 Audit recommendations are also an indicator of the effectiveness of the Pension Fund's internal control environment and are rated according to their priority:

<b>Best Practice (BP)</b>	Proposed improvement, rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.12 A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in the table below.

5.13 A total of 11 recommendations have been made in the five audit reports issued in the year; these are broken down by audit area in the table below.

### **Audit opinion and recommendations made on 2016/17 audits**

<b>System</b>	<b>Level of Assurance Given</b>	<b>Number of Recommendations made</b>				<b>Total</b>
		<b>BP</b>	<b>RA</b>	<b>S</b>	<b>F</b>	
Corporate Governance	<b>Good</b>	0	0	0	0	0
Pension Fund Monitoring	<b>Good</b>	0	0	0	0	0
Investment Managers Internal Control Reports	<b>Good</b>	0	0	0	0	0
*Pensions Administration	<b>Good</b>	3	6	0	0	9
**Altair Pension Application	<b>Good</b>	0	2	0	0	2
<b>Totals</b>		<b>3</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>11</b>
<b>Percentage</b>		<b>27%</b>	<b>73%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>

\* Note that the Pensions Administration and the Pensions Administration Transfers in and out audits were presented as one amalgamated report.

\*\* The Altair Pension Application Audit and Information Governance and IT Network audits were presented as one amalgamated report.

- 5.14 Five good assurances were issued during the financial year. In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory action has been taken.
- 5.15 The Internal Audit team has achieved 100% of the plan which is in line with its target.
- 5.16 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. No recommendations have been rejected in the year by management.
- 5.17 Of the 11 recommendations made, eight are rated as requires attention. The three remaining best practice recommendations are designed to add value to the high level of controls in place. This is a reflection of the experience and diligence of the staff in the team, as there are no significant or fundamental recommendations from the audits performed.

### **Audit Performance**

- 5.18 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards (PSIAS), and evaluating improvements made over the last twelve months. A public report of effectiveness against the PSIAS is made annually to the Shropshire Council, June Audit Committee. Shropshire Council Audit Service are also externally reviewed every five years for compliance with the PSIAS and passed the review undertaken by CIPFA in November 2016. The effectiveness of Internal Audit is further reviewed directly by customers as they provided responses to surveys sent out after each audit.

### **Reporting**

- 5.19 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.
- 5.20 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

### **Quality Assurance/Customer Feedback Survey**

- 5.21 A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, which are shown in the table below.



5.22 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. One survey form was returned; the results are identified in the table below.

**Customer Feedback Survey Forms - percentage of excellent and good responses**

Item Being Scored	2016/17
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach, competence	100%
Communication skills, pleasant manner	100%
Timeliness of audit to your business process	100%
Number of forms returned	1

5.20 The results are pleasing, showing services generally delivered consistently at a high level, though the number of forms returned is low. There are regular meetings with the Head of Treasury and Pensions which allow any performance issues to be reviewed at that time. Internal Audit have introduced new auditors to the Pension Fund during this year to ensure that auditors can be rotated in line with the Public Sector Internal Audit Standards (PSIAS) and ensure that Internal Audit are able to continue to offer a professional high quality service going forward. The information received is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pension Fund Internal Audit Plan  
 Public Sector Internal Audit Standards  
 Accounts and Audit Regulations 2015

**Cabinet Member (Portfolio Holder)** N/A

**Local Member** - N/A

**Appendices**

Appendix A - Summary of Findings from Pension Fund Audit Reports 2016/17

## Summary of Findings from Pension Fund Audit Reports 2016/17

**1 Pension Fund Investment Managers Monitoring** - This area is reviewed on an annual basis. The audit concentrated on key controls in the following areas:

- Recommendations made in the previous Pension Fund Investment Managers Audit have been implemented as agreed.
- Investment of the fund complies with statute, regulations and any restrictions specified.
- Appropriate control is exercised over fund managers.
- Transactions undertaken by Fund Managers are independently recorded and verified.
- Appropriate accounting entries are made and fund balances are reflected in the accounting system.
- Relevant management information is provided to strategic management.
- Information is secure and satisfactorily controlled.
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No recommendations were raised in respect of this audit.

**Assurance Level: Good**

**2 Pensions Administration (Including Transfers In and Out)** – This area is reviewed on an annual basis. The 2016/17 audit concentrated on the following objectives:

- Recommendations made in the previous Pensions Administration Audit have been implemented as agreed.
- The Officers responsible for administering the fund have sufficient resources, skills and access to policies and procedures to effectively process transactions and manage the fund.
- In accordance with regulations, if a new employee is required to join the scheme they are identified promptly and recorded accurately as members.
- Contributions received to the fund including, those from employees and employers are recorded accurately and promptly.
- Benefits paid are calculated correctly and paid to eligible persons. Changes are appropriately authorised and processed correctly.
- Pension payments made on the payroll are processed accurately, in a timely manner and are authorised appropriately.
- Fund members leaving the scheme have their deferred pension recorded accurately and any payments made from the scheme to leavers (other than normal pensions) are accurate and appropriately authorised.

- Transfers In and Out of the scheme are calculated correctly, actioned promptly and authorised appropriately.
- There are procedures to ensure that administrative costs associated with the scheme are in accordance with the budget and any costs due to the fund are recovered accurately and promptly.
- The ledger control accounts associated with the scheme are reconciled accurately and on a regular and timely basis.
- There is an appropriate process in place to ensure all complaints are actioned in accordance with the Internal Dispute Resolutions Policy.
- Management information is accurate and reliable.
- Personal data is processed in a secure and controlled manner in line with internal policy and legislation.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.

No significant recommendations were raised in this audit. Nine minor exceptions were noted against which management have provided positive responses.

Six previous recommendations were followed up; of these, progress has been made in the implementation of three, with three outstanding.

Recommendations that remain outstanding have been repeated and are included within the nine recommendations in the report. Of these, two are best practice recommendations, which is not aligned to any risk. The remaining recommendation related to a minor weakness which management have advised has now been resolved

**Assurance Level: Good**

- 3. ALTAIR Pension Application (Pensions System)** – This audit was a follow up of the ALTAIR system and information governance audit performed in 2015/16 to ensure that the recommendations made have been implemented as per the original management responses and a review of the i-Connect file transfer system.

The 2016/17 audit concentrated on the following objectives:

- Recommendations raised in the previous ALTAIR Pension Application Audit have been implemented as agreed.
- Appropriate management arrangements are in place to ensure that the i-Connect interfacing system is operating effectively in practice.
- i-Connect routed data is processed in a timely manner and validated.
- The i-Connect system is operating effectively and securely.

Evaluation and testing of the controls that are in place confirmed that there is a sound system of control in the areas examined.

No significant recommendations were raised in this audit. Two minor exceptions were noted against which management have provided positive responses.

**Assurance Level: Good**

**4. Corporate Governance** –The audit concentrated on the following objectives:

- Recommendations raised in the previous Corporate Governance Audit have been implemented as agreed.
- Risks arising from business strategies and activities are identified and prioritised and management and the Pensions Committee have determined the level of risk acceptable to the organisation.
- Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the Pensions Committee.
- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
- The Pensions Committee and management receive periodic reports of the results of the risk management process.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No recommendations were raised in respect of this audit.

**Assurance Level: Good**

**5. Review of Investment Managers Internal Control Reports** – This annual review provides assurance on the security and management of the Pension Funds' investments, based upon the information provided in AAF 01/06, SOC1 and SSAE16 reports, which are subject to External Audit review. In addition, there are some fund managers who are not required to produce these reports and tailored self-assessment questionnaires are sent to them for completion. The review is performed after the financial year end, when the most up to date reports are available. Reports are reviewed in the first instance by Treasury staff, who seek explanations of any areas where there appear to be weaknesses or concerns in the reports. Following the receipt of these responses, the reports are subject to a second, independent, review by Internal Audit. Audit work concentrated on the following objectives:

- The most recent internal control reports have been received for all fund managers who are required to produce SOC1, SSAE16 or AAF01/06 reports.
- Back office providers reports have been obtained and reviewed.
- Fund Managers have confirmed that they maintain comprehensive procedure notes.
- Fund Managers have confirmed that they have appropriate insurance arrangements in place with adequate liability cover.
- Internal Control Questionnaires have been completed by the Fund Managers who are not required to produce control reports.

The audit concluded that there is a sound system of control and the overall level of assurance was assessed as 'good'. No exceptions were noted in respect of this audit.

**Assurance Level: Good**

# The Audit Findings for Shropshire County Pension Fund

Year ended 31 March 2017

7 September 2017

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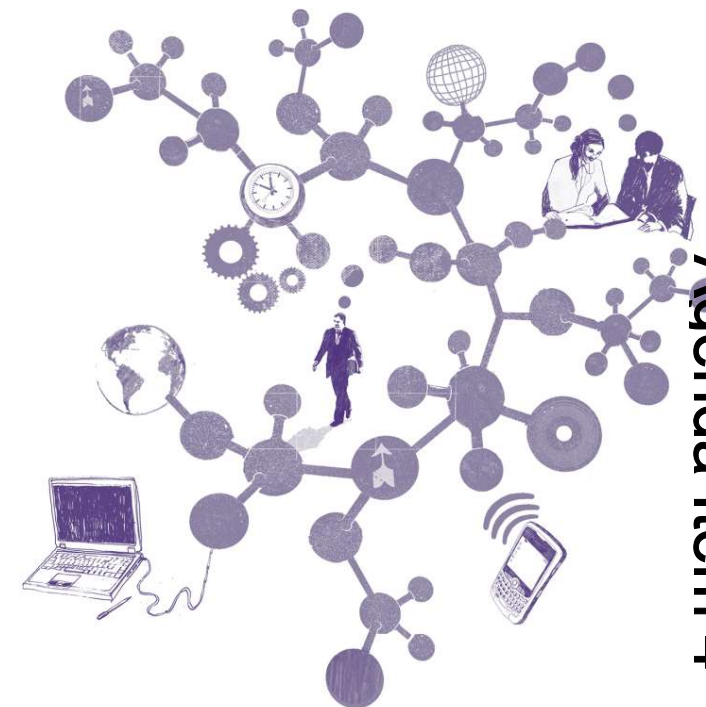
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Agenda Item 4

Shropshire County Pension Fund  
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7 September 2017

Dear Members of the Pensions Committee

**Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2017**

The Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Shropshire County Pension Fund, the Pensions Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the fund accountants and administration staff during our audit.

Yours sincerely

John Gregory  
Director

**Chartered Accountants**

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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## Purpose of this report

This report highlights the key issues affecting the results of Shropshire County Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements: whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

## Introduction

In carrying out our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of final specialist partner review
- obtaining confirmation from outstanding Investment Managers
- obtaining and reviewing the final management letter of representation
- completion of additional responses required in relation to IAS 19 requests from admitted body auditors
- review of the final version of the financial statements; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

## Key audit and financial reporting issues

### Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- We have no adjusted or unadjusted misstatements to report,
- The draft accounts were presented for audit in accordance with the agreed timetable.
- During the course of our work at year end, we were provided with access to all documents as required and the quality of working papers and level of knowledge and assistance provided by fund staff was of a high standard.

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

## Controls

### Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

## Findings

We have not noted any significant control weaknesses during our audit.

## The way forward

Matters arising from the financial statements audit have been discussed with the Head of Treasury and Pensions.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the fund accountants and administration staff during our audit.

**Grant Thornton UK LLP**  
September 2017

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit. We report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found in internal controls as part of the audit. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £17,090,000 (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £828,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

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Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	5% of the value of expenses
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	10% of the value of the highest disclosure

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 25	<p><b>1. The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>We have undertaken the following work in relation to this risk</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
	<p><b>2. Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>We have undertaken the following work in relation to this risk</b></p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management,</li> <li>• testing of journal entries, and</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Level 3 Investments – Valuation is incorrect</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>gained an understanding of the transactions via discussions with the pension fund team and reviewed supporting documentation.</li> <li>carried out walkthrough tests of the controls identified in the cycle.</li> <li>tested a sample of Level 3 investments by obtaining and reviewed the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March 2017 with reference to known movements in the intervening period.</li> <li>reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Investment Income</b>	Investment income not accurate. (Accuracy)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle,</li> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances,</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.
<b>Investment values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle,</li> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances,</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Investments purchases and sales</b>	Investment activity not valid.	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>We reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>	Our audit work has not identified any significant issues in relation to the risks identified.

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# Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Contributions</b></p>	<p>Recorded contributions not correct (Occurrence)</p>	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested key controls over the contributions made to the fund,</li> <li>• tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, and</li> <li>• analysed contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Benefits payable</b></p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested key controls for member to be enrolled on the scheme,</li> <li>• tested a sample of individual pensions in payment by reference to member files, and</li> <li>• rationalised pension paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Member Data</b>	Member data not correct. (Rights and Obligations)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>tested key controls over changes to the pension fund data set, and</li> <li>tested a sample of changes to member data made during the year to source documentation.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>There are two key policies in relation to revenue recognition: that for contribution income and that for investment income.</p> <p>Normal contributions are accounted for in the payroll month to which they relate.</p> <p>Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.</p>	<ul style="list-style-type: none"> <li>The policies are considered appropriate under the accounting framework in place.</li> </ul>	 (Green)
Judgements and estimates	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> <li>The policies are considered appropriate under the accounting framework in place.</li> <li>Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence.</li> </ul>	 (Green)

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**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 (Green)
<b>Other accounting policies</b>	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (Green)

**Assessment**

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Fund.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no non-trivial omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed aside from the omission of disclosure of transactions with the Pension Fund management team. Further details of this are included on page 18.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from all of the investment managers and the custodian of the fund. Positive confirmation was received from all parties, and as a result no further procedures were considered necessary.</li> </ul>
7.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Misstatements, misclassifications and disclosure changes

We did not identify any misstatements within the draft accounts presented to us for audit. We agreed a small number of minor disclosure amendments with officers, and these are being reflected in the final set of accounts. None of these are individually significant enough to merit drawing to the Committee’s attention.

There is, as in previous years, one area where officers disagree with our view in relation to a disclosure issue, and this is noted below and the accounts have not therefore been amended. We consider this to be a minor disclosure weakness only. The Committee is asked to confirm that it is content that the financial statements are not amended in relation to this matter.

	Adjustment type	Account balance	Impact on the financial statements
Page 33	Disclosure	Note 23, Related Party Transactions	As in prior years, Note 23 on related party transactions notes that the details in respect of the Head of Finance, Governance and Assurance are provided within the Shropshire Council financial statements. Pension Fund financial statements must be capable of standing alone from the local authority financial statements and our view is that appropriate disclosures should be made within the pension fund accounts in line with section 3.4 of the Code of Practice.

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## Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We confirm below our final fees charged for the audit.

## Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	23,427	23,427
Proposed fee variation	1,979	1,979
<b>Total audit fees</b>	<b>25,406</b>	<b>25,406</b>

The proposed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the PSAA regime and is consistent with that requested in prior years.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• None	<b>Nil</b>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices  
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# Appendix A: Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the pension fund financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and the Annual Report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the pension fund financial statements

In our opinion: the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year; and the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Signature - to be added

John Gregory  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

Date – to be added



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<u>Committee and Date</u>
Pensions Committee
22 September 2017
10.00am

<u>Item</u>
Public

## **PENSION FUND ANNUAL ACCOUNTS 2016/17**

**Responsible Officer** James Walton

e-mail: [james.walton@shropshire.gov.uk](mailto:james.walton@shropshire.gov.uk)

Tel: (01743) 255011

### **1. Summary**

- 1.1 The report provides Members with the Shropshire County Pension Fund Annual Report 2016/17 and an update on the annual audit. Grant Thornton has completed its annual audit and an unqualified opinion has been given.

### **2. Recommendations**

- 2.1 The Committee is asked to approve the Pension Fund Annual Report 2016/17.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 The Annual Report 2016/17 will be published on the Scheme's website.

### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

### **5. Background**

- 5.1 Following the end of the financial year officers compiled the Pension Fund accounts for 2016/17. The annual report has been produced which outlines the accounts and details the activities of the Fund during the last year (**Appendix A**).
- 5.2 Grant Thornton have completed the audit of the accounts for the Shropshire County Pension Fund and an opinion and certificate is included within the annual report. An unqualified opinion has been given on the accounts.

## 6. Annual Accounts

- 6.1 In the year to the end of March 2017 the Fund increased in value by £274 million to £1.768 billion. During the year the Fund received £13.9 million in contributions from employees and £47.0 million in contributions from scheme employers.
- 6.2 The last financial year continued to see an increase in the total number of scheme members. Total scheme membership increased by 3.5% to 46,719 during the year.
- 6.3 Local Government employees who leave employment have the option to transfer out their accumulated pension fund. During the last financial year the Fund paid out £6.7 million in transfer payments for staff leaving employment. Conversely, new employees have the ability to transfer in accumulated benefits from previous employment. The Fund also received £2.9 million in transfer payments from new employees during the financial year.
- 6.4 In 2016/17 the Fund paid pensions totalling £54.5 million, an increase of £1.5 million on the previous year. This is due to an increase in the number of pensioners during the year.
- 6.5 Also in 2016/17 management expenses totalled £13.7 million, an increase of £0.6 million from the previous year. This was due to the significant increase in the value of the Fund over the financial year as management fees are charged on the total assets under management.
- 6.6 A full analytical review of the Pension Fund Accounts was carried out by officers and passed to Grant Thornton in advance of their audit. The audit was completed by September 2017.
- 6.7 The Annual Report will be available to all scheme employers, investment managers, advisor's and scheme members as it will be published on the pension fund website. The report will also be available for review at the Fund's AGM in November.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p>
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N/A
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<p><b>Cabinet Member</b></p>
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N/A
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<p><b>Local Member</b></p>
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N/A
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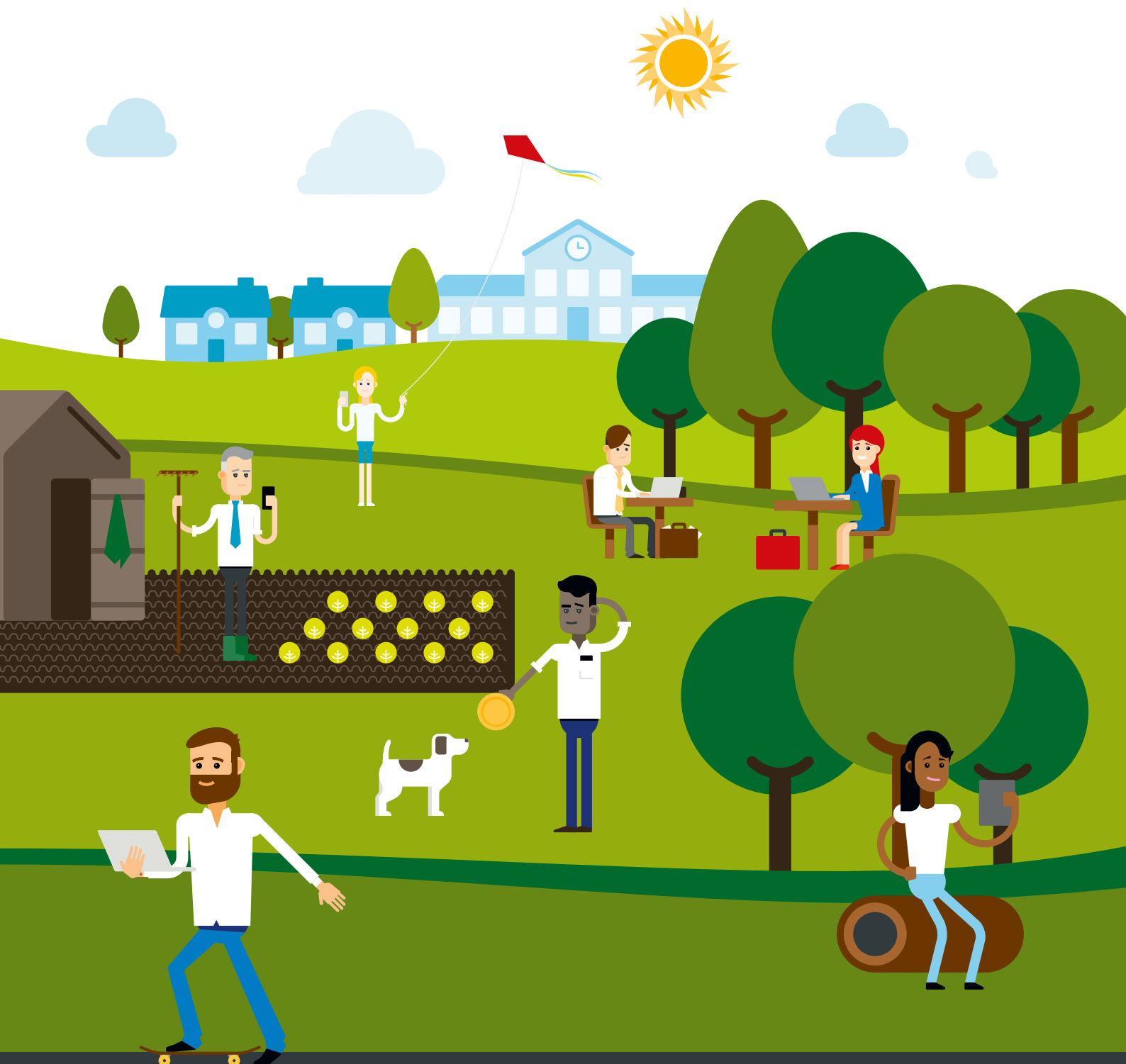
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# Annual report 2016/17



**Shropshire County  
Pension Fund**







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# ➤ Introduction

## Welcome to the 2016/17 annual report and accounts of the Shropshire County Pension Fund

### This year's Fund information

**£274**

million



**Fund value increase**

**£1.768**

billion



**Total Fund value**

**19.2**

%



**Fund value increase**

**4.9**

%



**Outperformed benchmark**

During the year the Shropshire Fund increased in value by £274 million to be valued at £1.768 billion at the end of the year. The Fund increased in value by 19.2% over the year and outperformed its benchmark by 4.9%. The Fund performance was very positive, this was largely due to equity markets performing very strongly throughout the year.

The Shropshire Fund had positive investment returns in a number of asset classes during the year. The strongest returns were experienced in global equities managed by Harris Associates where the Fund's investments increased in value by a notable 43.6%. The Fund's other active global equity managers also produced returns in excess of 30%. The Fund has also achieved strong returns in Infrastructure rising by 28.2%, UK Equity rising by 25.6% and Private Equity increasing by 16.5%. The combined fixed income portfolios (bonds) delivered a return of 11.7%. All managers delivered positive returns during the year.

The Pensions Committee determine the strategic asset allocation for the Fund. This outlines the proportion of assets that the Fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the Fund.

The Pensions Committee undertakes thorough monitoring of the Fund's investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities.

During 2016/17, the decision was made by the Pensions Committee together with Officers and Aon Hewitt, to terminate the contract with Brevan Howard who manage a 5% allocation to Hedge Funds. This was due to a period of underperformance since they were appointed in August 2013 and attempts to enhance their

process and improve performance had been unsuccessful. It was agreed in the short term, that the proceeds from the redemption would be split between the Fund's other hedge fund manager and the funds absolute return strategy managed by PIMCO.

The Fund undergoes an independent actuarial valuation every three years. The latest actuarial valuation was conducted at the end of March 2016, identifying that the Fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 84% which was an increase from 76% at the previous valuation in March 2013. All data was submitted to the Actuary on time during the year and the results of the valuation have been communicated to employers within the Fund and contribution rates have been agreed for the next three financial years commencing 1 April 2017.

As a Local Government Pension Scheme the Fund is able to take a long term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way.

Following the results of the actuarial valuation, the Committee together with Officers and Aon Hewitt started the process of reviewing the Fund's investment strategy. In March 2017, Aon Hewitt undertook a review of the movements in the funding level since the valuation in March 2016 and presented the results to the Pensions Committee. The Committee together with its advisors are currently reviewing the Fund's existing strategy and looking at potential alternative strategies to ascertain if changes to the strategic asset allocation are required.

The Government's investment pooling agenda has meant that the Shropshire Fund has been working extremely hard during the year with eight other Funds in the Midlands region, in order to meet the tight deadlines set by Government to pool assets by 1 April 2018.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) Funds across the Midlands region. It will be a multi-asset manager, investing approximately £40 billion of

assets from 2018 onwards, on behalf of 893,265 LGPS members and 2,441 employers.

LGPS Central Ltd is jointly owned on an equal share basis by eight of those Pension Funds and is seeking to become a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The participating Pension Funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. West Midlands Integrated Transport Authority (ITA) Pension Fund will also be an investor, but not a shareholder, with its shareholder rights represented by West Midlands.

The key objectives of LGPS Central will be to reduce investment costs, whilst ensuring that risk-adjusted investment returns are improved, to enable access to a wider range of asset classes for the participating Pension Funds, and to ensure good governance. LGPS Central will manage a wide range of asset classes, employing a mix of internal and external investment management. The company is a private company limited by shares and was incorporated on 13 October 2016 with registered number 10425159 under the Companies Act 2006. The majority of assets under management will be structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures. The company has been formed to act as an Alternative Investment Fund Manager (AIFM) to allow the participating LGPS administering authorities to pool their respective investments.

On commencement of trading, the company's sole investors will be the partner Funds and the existing assets of those Pension Funds will begin to be transferred to LGPS Central. Responsibility for almost all investment activities, with the exception of strategic asset allocation which will remain with each Fund, will transfer from the Pension Funds to LGPS Central at the same time. In addition to the pooled investment vehicles managed by LGPS Central, the company will also oversee certain legacy investments made before its establishment.

A detailed business case was submitted to Government in July 2016. The Government has reviewed the business case and approval has

been received for us to proceed. The governance structure for LGPS Central has been agreed by all partner Funds and appointments for key individuals has commenced. Regular investment pooling meetings continue to be held with representatives from each of the eight LGPS Funds. The Programme Board, which is made up of s151 Officers from each Fund, are updated regularly on the progress made and key developments of the project. Meetings of the Shareholders Forum, which is made up of one elected member from each Fund, have been held during the year to approve key decisions. A Stakeholder away day has been held to keep members up to date and a further meeting is scheduled later on in the year. An FCA application for LGPS Central Ltd is due to be submitted in July 2017 for approval later on in the year in order to meet the April 2018 deadline. Working with our partners to develop and implement LGPS Central will continue to be a major strategic focus for the Fund over the next year.

The Pensions Administration Team have had a busy year completing the Actuarial Valuation which took place as at 31 March 2016. The Valuation meant that it was essential that all member records were up to date so the Scheme Actuary could assess individual employers contribution rates and funding levels. The data quality supplied by Scheme employers is an integral part of the Valuation process and this was improved by the use of an a monthly data transfer through the year.

During 2016/17 there has been a focus on ensuring compliance with Schedule 4 of the Public Service Pensions Act (2013) which states that good internal controls are fundamental to support and evidence that the record keeping requirements of a Scheme are being adhered to. This has been demonstrated by the Fund's project to reconcile records in line with records held by HMRC following the end of contracting out in April 2016. This project is working to the completion date of the 31 December 2018.

A more in depth report on the work by the Pensions Administration Team can be found on pages 26-28.

These and other developments are covered in more detail on the following pages. We hope you find the report interesting and informative. As always we welcome your feedback on the report and indeed, on any aspect of the Scheme's activities.

The Fund would like to make a special acknowledgement in this year's report to thank Councillor Malcolm Pate who after being a member of the Pensions Committee for 18 years, and who contributed significantly to the performance and running of the Fund, has decided to step down from his position on the Pension Committee.

If you wish to make a comment or if you have any questions, our contact details are given on the back page of the report.



**James Walton**

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**Head of Finance, Governance & Assurance**  
(s151 Officer & Scheme Administrator)  
Shropshire Council



**Thomas Biggins**

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**Chair of Pensions Committee**  
Shropshire Council

# ➤ Scheme management & advisors

## Administering Authority

**Shropshire Council**  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

## Scheme Administrator

**James Walton**  
Head of Finance, Governance  
and Assurance (Section 151  
Officer)

## Shropshire Council Officers

**James Walton**  
Head of Finance, Governance  
and Assurance (Section 151  
Officer)  
**Justin Bridges**  
Head of Treasury and Pensions  
**Debbie Sharp**  
Pensions Administration Manager  
**Claire Green**  
Fund Accountant

## Investment Managers

**Aberdeen Asset Management**  
Bow Bells House  
1 Bread Street  
LONDON EC4M 9HH

**BlackRock**  
12 Throgmorton Avenue  
LONDON EC2N 2DL

**BMO Global Asset Mangement**  
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London  
EC2A 2NY

**Brevan Howard Asset  
Management LLP**  
55 Baker Street  
LONDON W1U 8EW

**GAM**  
20 King Street  
London  
SW1Y 6QY

**Global Infrastructure Partners**  
The Peak  
5 Wilton Road  
LONDON SW1V 1AN

**HarbourVest Partners (U.K.)  
Limited**  
3rd Floor  
33 Jermyn Street  
LONDON SW1Y 6DN

**Harris Associates LP**  
111 South Wacker Drive, Suite  
4600  
Chicago ILLINOIS 60606

**Investec Asset Management**  
Woolgate Exchange  
25 Basinghall Street  
LONDON EC2V 5HA

**Legal & General**  
One Coleman Street  
LONDON EC2R 5AA

**Majedie Asset Management**  
10 Old Bailey  
LONDON EC4M 7NG

**MFS Investment Management**  
One Carter Lane  
LONDON EC4V 5ER

**PIMCO Europe Ltd**  
11 Baker Street  
LONDON W1U 3AH  
EC4R 0HH

## Custodian

**Northern Trust**  
50 Bank Street  
Canary Wharf  
LONDON E14 5NT

## Independent Advisors

**AON Hewitt**  
The AON Centre  
The Leadenhall Building  
122 Leadenhall Street  
LONDON EC2N 2DL

**Roger Bartley**

## Banker

**NatWest Bank**  
Corporate & Commercial Banking  
5th Floor  
2 St Phillips Place  
Birmingham  
B3 2RB

## Auditor

**Grant Thornton UK LLP**  
Colmore Plaza  
20 Colmore Circus  
Birmingham B4 6AT

## Legal Advisor

**Shropshire Council**  
Legal Services

## Actuary

**Mercer**  
No 4 St Paul's Square  
Old Hall Street  
LIVERPOOL L3 9SJ

## AVC Providers

**Prudential Assurance  
Company Ltd**  
Lancing  
BN15 8GB

**Equitable Life Assurance**  
20-22 Bedford Row  
LONDON WC1R 4JS

## Responsible Engagement Advisor

**F & C Management Ltd**  
Exchange House  
Primrose Street  
LONDON EC2A 2NY

## Performance Measurement

**Northern Trust**  
50 Bank Street  
Canary Wharf  
LONDON E14 5NT

# ➤ Risk management

**Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. Shropshire Council has a formal risk management strategy and risk registers for Pension Fund Investment and Administration are included within this overall Strategy.**

**Please see below a summary of the Pension Fund's key risks:**

Risks	Controls in Place
The insolvency of an employer places additional liabilities on the Fund and ultimately the remaining employers.	Admission agreements, Employer covenant check across Fund employers, some bonds in place. Shorter deficit recovery periods for some employers. Funding Strategy Statement approved by Pension Committee.
Failure of Pension Fund investment managers to meet expected returns resulting in increased costs to the Council and other employers.	Rigorous selection process established. Rigorous and continual Investment Manager monitoring arrangements. Diversification of managers. External expert advice. Reporting & monitoring arrangements. Investment Strategy Statement and Funding Strategy Statement published. Clear and relevant mandates. Audit of investment managers.
Risks of the tight timescales imposed by Government for Pension Funds to pool assets by 1 April 2018 which is extremely challenging and a resource intensive process.	Shropshire has joined the LGPS Central Pool with eight other Funds in the Midlands region. Fortnightly meetings take place between the Pool to progress work. Programme Director appointed and work stream leads to progress work and meet deadlines. Advice from PWC and Eversheds regarding governance structure. Regular meetings with DCLG/HMT/LGA to update on progress. Meetings with s151 Officers and Chairs of Pension Committees to update on progress made. Training of Officers and Members throughout process.
Inappropriate Investment Strategy	Funding Strategy Statement published following consultation with Scheme employers outlining how the Fund plans to meet its liabilities. External expert advice. Trained and experienced staff. Three yearly Actuarial Valuation. Investment Strategy Statement. Regular review of investment strategy with Aon Hewitt.
Failure to meet good governance	Compliance against Myners Principles considered on an annual basis as part of the review and updating of the Investment Strategy Statement. The Fund has produced a Governance Compliance Statement. Audit of Governance arrangements.
Failure of Employers to provide accurate data leading to incorrect benefit payments	Employer training. Communication to all employers. Administration Strategy in place. Internal controls in place. Contribution collection Audits.
Continued decrease in UK government bond yields resulting in future reduction in returns from government bonds, increase in the value placed on liabilities through the reduction in the discount rate and deterioration in funding position which results in an increase in employer contribution rates	Monitoring of investment performance relative to the estimated growth in liabilities on an annual basis. Some investment in bonds (and similar investments) helps to mitigate this risk. Implemented Liability Driven Investment (LDI) strategy in order to further hedge liabilities against changes in interest rates and inflation. Change in methodology agreed with Actuary to calculate liability values rather than using gilt yields.



Risks	Controls in Place
<p>Pay and price inflation significantly higher than anticipated and pensioners in receipt of pensions for longer resulting in an increase in the Fund's liabilities, deterioration in funding position and increase in employer contribution rates.</p>	<p>Actuarial valuation process focuses on real returns on assets. Monitoring of investment performance in relation to the estimated growth in liabilities. Some investment in index-linked bonds (and other inflation linked investments) and LDI helps to mitigate this risk. Triennial strategic asset allocation review considers appropriateness of assets. Mortality assumptions are set with some allowance for future increases in life expectancy as part of the valuation process which the Fund Actuary monitors. LDI manager appointed to further hedge liabilities against changes in inflation rates.</p>
<p>Late payment of contributions leading to Pension Fund reporting to the Pension Regulator.</p>	<p>Employer training/guidance on website. Employer newsletter. Contributions check and balance. Adhere to internal governance compliance statement. Adhere to Pension Regulator code of practice.</p>
<p>Not undertaking work to reconcile GMP data in line with ending of contracting out legislation resulting in possible overpayments.</p>	<p>GMP's have historically been processed when received and leavers notified to HMRC. Reconciliation process currently being undertaken by the Pension Administration team. Contract with ITM has been signed to assist in this process.</p>
<p>Failure to identify and report breaches of law, in accordance with the requirements of the Pensions Regulator leading to reputational damage &amp; potential fines.</p>	<p>Breaches policy in place together with a breaches log which is reported to the Pension Committee, Pension Board and Scheme Administrator.</p>
<p>Failure of ICT hardware supported by Shropshire Council, impacting adversely the ability to run the Altair pension administration system.</p>	<p>Disaster recovery plan in place which is tested annually.</p>
<p>Incorrect information/benefits provided to members of the scheme.</p>	<p>Benefit calculations are checked. Supporting calculations are provided to the member. Team training. Employer training.</p>

# Financial Performance

The following tables show the forecasts for the Fund Account and the Net Assets Statement for the next three years to 31 March 2020. It also identifies the 2016/17 actuals against the 2016/17 budget.

## Forecast v actual report on Fund cash flows

PENSION FUND ACCOUNT	2016-17 BUDGET £M	2016-17 ACTUAL £M	2017-18 BUDGET £M	2018-19 BUDGET £M	2019-20 BUDGET £M
Contributions (employees and employers)	61.166	60.977	62.197	63.441	64.710
Transfers in	5.000	2.854	5.000	5.000	5.000
Pensions paid	(55.722)	(54.535)	(56.171)	(57.856)	(59.592)
Lump sums paid	(10.500)	(9.021)	(10.500)	(11.000)	(11.500)
Lump sum death benefits	(1.400)	(1.256)	(1.500)	(1.600)	(1.700)
Refund of contributions	(0.250)	(0.298)	(0.300)	(0.350)	(0.400)
Transfers to other Funds	(4.600)	(6.736)	(4.700)	(4.800)	(4.900)
<b>Net additions from dealings with Scheme Members</b>	<b>(6.306)</b>	<b>(8.015)</b>	<b>(5.974)</b>	<b>(7.165)</b>	<b>(8.382)</b>
<b>Management expenses</b>	<b>(13.778)</b>	<b>(13.717)</b>	<b>(14.462)</b>	<b>(15.036)</b>	<b>(15.330)</b>
Investment income	18.500	23.155	19.500	20.000	20.500
Gain/(loss) on cash and currency hedging *	0.000	10.955	0.000	0.000	0.000
Taxes on income	(0.020)	(0.097)	(0.100)	(0.110)	(0.120)
Change in market value	94.338	261.999	106.524	119.205	128.538
<b>Surplus/(deficit) on the Pension Fund for the year</b>	<b>92.734</b>	<b>274.280</b>	<b>105.488</b>	<b>116.894</b>	<b>125.206</b>
<b>Opening Net Assets of the Scheme</b>	<b>1,493.990</b>	<b>1,493.990</b>	<b>1,768.270</b>	<b>1,873.758</b>	<b>1,990.652</b>
<b>Closing Net Assets of the Scheme</b>	<b>1,586.724</b>	<b>1,768.270</b>	<b>1,873.758</b>	<b>1,990.652</b>	<b>2,115.858</b>

Contributions and payments are based on current expectations, the management expenses are based on current budgets, and the net investment income and change in market value are based on the long term forecast returns for each assets class.

\* A budget has not been included for a gain/(loss) on cash as the movement year on year would be too difficult to account for as it is mainly based on FX currency movements.

## Forecast v actual report on Fund asset values

NET ASSETS STATEMENT	2016-17 BUDGET £M	2016-17 ACTUAL £M	2017-18 BUDGET £M	2018-19 BUDGET £M	2019-20 BUDGET £M
<b>UK Equities</b>	113.696	130.812	141.015	152.015	163.872
<b>Global Equities - Unconstrained</b>	117.509	446.951	485.836	528.103	574.048
<b>Global Equities - Passive</b>	600.392	341.195	365.420	391.365	419.152
<b>Unconstrained Bonds</b>	321.895	423.683	441.901	460.903	480.722
<b>Hedge Funds</b>	157.183	100.106	102.809	105.585	108.435
<b>Private Equity</b>	71.666	74.266	80.356	86.945	94.074
<b>Infrastructure</b>	22.867	43.192	45.654	48.256	51.007
<b>Property</b>	82.176	77.476	82.357	87.545	93.061
<b>Liability Driven Investments (LDI)</b>	53.040	72.826	73.190	73.556	73.924
<b>Cash and net current assets</b>	46.300	57.763	55.220	56.379	57.563
<b>Total investment assets</b>	<b>1,586.724</b>	<b>1768.270</b>	<b>1,873.758</b>	<b>1,990.652</b>	<b>2,115.858</b>



## Forecast for total investment assets



The forecast for total investment assets are based on actual allocations at 31 March 2017 figures multiplied by the forecast long term returns for each asset class as provided by the Fund's Investment Strategy Statement. These forecasts have also been adjusted for any investment decisions formally approved by the Pensions Committee prior to the date of publication of this annual report. They do not assume or take into account any other potential additions or disposals of investments within these asset classes during this three year period.

## Management expenses forecast



Here is a more detailed analysis of the management expenses budget forecast, which from 2014/15 is now split into three categories; investment management expenses, administration expenses and oversight and governance. The budget forecast for 2017/18 to 2019/20 have been revised and are based on the 2016/17 actual costs which have been reanalysed to agree with the CIPFA guidance on management costs. (see note 8)

ASSET CLASS	RETURN
UK Equities	7.80%
Global Equities - Unconstrained	8.70%
Global Equities - Passive	7.10%
Unconstrained Bonds	4.30%
Hedge Funds	2.70%
Private Equity	8.20%
Infrastructure	5.70%
Property	6.30%
LDI	0.50%
Cash	2.10%

OPERATIONAL EXPENSES	2016-17 BUDGET £M	2016-17 ACTUAL £M	2017-18 BUDGET £M	2018-19 BUDGET £M	2019-20 BUDGET £M
<b>Administrative Costs</b>					
Employee costs	0.568	0.573	0.602	0.632	0.663
IT Costs	0.160	0.175	0.180	0.185	0.190
Office accommodation	0.029	0.022	0.024	0.026	0.028
Consultants	0.000	0.067	0.070	0.050	0.000
Printing, Postage and Design	0.064	0.055	0.060	0.065	0.070
Subscriptions	0.016	0.016	0.016	0.017	0.017
Other costs	0.019	0.038	0.040	0.042	0.044
<b>TOTAL</b>	<b>0.856</b>	<b>0.946</b>	<b>0.992</b>	<b>1.017</b>	<b>1.012</b>
<b>Investment Management Expenses</b>					
Management Fees	7.453	8.516	8.700	8.800	8.800
Performance Fees	2.772	1.060	1.500	1.800	2.000
Other Fees	1.507	1.702	1.753	1.806	1.860
Transaction Costs	0.471	0.683	0.700	0.720	0.740
Custody Fees	0.053	0.060	0.065	0.068	0.070
<b>TOTAL</b>	<b>12.256</b>	<b>12.021</b>	<b>12.718</b>	<b>13.194</b>	<b>13.470</b>
<b>Oversight and Governance Costs</b>					
Investment advice	0.303	0.226	0.237	0.249	0.262
Employee costs (pensions investment)	0.141	0.153	0.155	0.150	0.145
Actuarial advice	0.050	0.129	0.055	0.060	0.065
Responsible Engagement Overlay	0.042	0.050	0.052	0.054	0.056
LGPS Central Pooling costs	0.025	0.097	0.150	0.200	0.200
External audit	0.028	0.025	0.027	0.030	0.032
Performance analysis	0.025	0.025	0.026	0.027	0.028
Internal audit	0.018	0.017	0.018	0.019	0.020
Legal and Committee	0.016	0.015	0.017	0.019	0.020
Other costs	0.018	0.013	0.015	0.017	0.020
<b>TOTAL</b>	<b>0.666</b>	<b>0.750</b>	<b>0.752</b>	<b>0.825</b>	<b>0.848</b>
<b>TOTAL MANAGEMENT EXPENSES</b>	<b>13.778</b>	<b>13.717</b>	<b>14.462</b>	<b>15.036</b>	<b>15.330</b>

## Interest charged on overdue contributions

The Fund monitors the timeliness of contribution receipts from all employers and will consider charging interest if the Fund experiences a series of consistent late payments from any individual employer, or a late payment that is of significant size to be a material risk to the Fund. Material breaches will also be reported to the Pensions Regulator.

The Fund classifies contributions income as being received on time where it is received no later than the 19th day of the month following the period of deduction.

During 2016/17 a percentage of 97.14% contributions were received on time. No interest was charged to those payments that were late due to the fact that the individual amounts chargeable were so small.

# Administrative management performance

## Top 10 Cases

This table shows casework volumes processed during the year and the amount completed within the performance targets set. Currently, a project is underway to ensure that the actual working days target set within the Pensions Administration System is legislatively accurate. It is interesting to note that the administration work involved in paying member benefits (such as early, late or normal retirements) is not in the top 10. This is an indication of the work involved now in member movements prior to retirement age.

CASE TYPE	TOTAL	%
New starters*	3944	34.58%
Deferred Benefits	2061	32.27%
Aggregation of records	1681	24.86%
My Pension Online registration	1075	100.00%
Member refund option	970	38.35%
Retirement Quotations	837	60.22%
Certificates	767	90.35%
Opt outs	629	40.38%
Actual refund payment	529	88.28%
General action	473	95.56%

\*Includes cases where employees have changed roles

## Key Indicators 2016/17

8,094



Calls received and answered by Pensions Helpdesk

5,477



Emails received and answered by Pensions Helpdesk

925



Member drop in's to the Pensions Office

28



Average cases completed per day by Pensions Team staff member

1,948



Average Members per Pension Team staff member

6,814



Total members viewed 'My Pension Online'

48,473



Total individual visits to Fund website

110,927



Total page views on website



## Feedback

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*"Really enjoyed the meeting - particularly the useful one-to-one before the meeting."*

**Scheme Member**

*"Thank you for a well-prepared and well-delivered informative meeting. This is very important to me; it's my main income."*

**Retired Member**

*"Thank you for all your help with setting up I-Connect"*

**Scheme Employer**

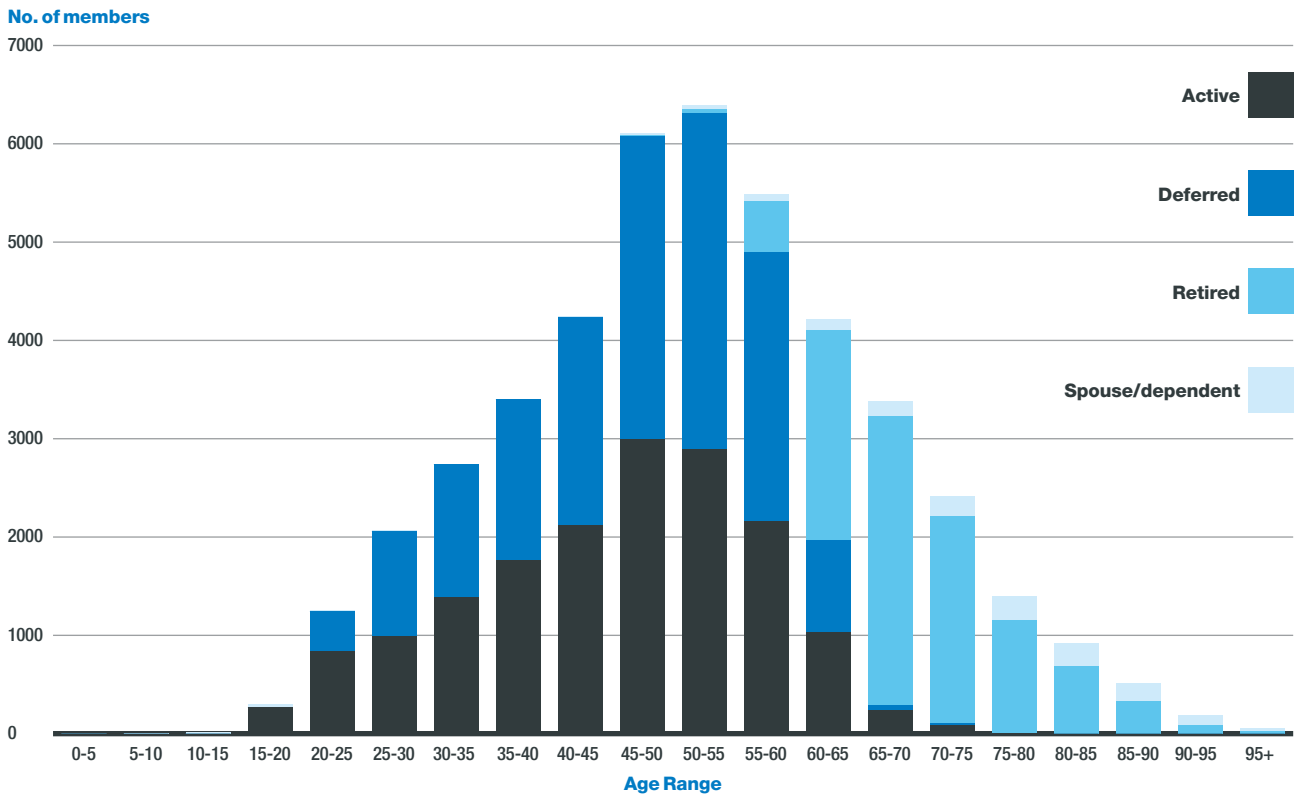
*"Thank you to the Pensions Team for their assistance with his retirement"*

**Retired Member**

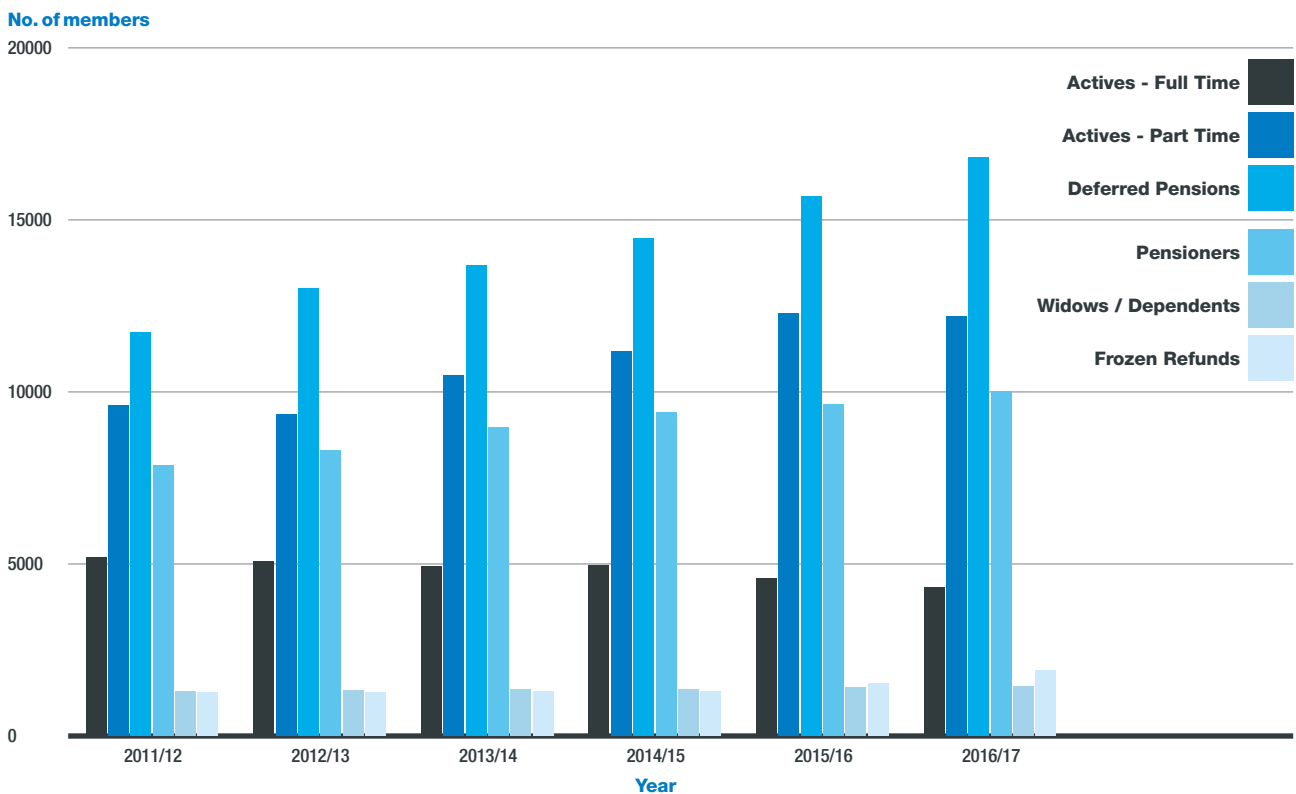
*"The Pensions Team always so helpful when i call into the office. How refreshing it is! Keep up the good work!"*

**Scheme Member**

# Age profile of membership as at 31 March 2017



# Membership numbers and trends



## A list of contributing employers and the amount of contributions received during the year (split by employers and employees)

EMPLOYER NAME	EMPLOYEES CONTRIBUTIONS £	EMPLOYERS CONTRIBUTIONS £
<b>SCHEME EMPLOYER</b>		
Abraham Darby Academy	48,592.85	110,847.79
Abraham Darby School	No active members	
HAFT Adams Grammar School	38,164.55	119,431.88
Adams Grammar School	No active members	
Alveley Primary School	2,467.56	8,531.09
Barrow 1618 Free School	4,884.64	11,976.23
Bishop Anthony Educational Trust	14,518.65	39,100.10
Bitterley C.E Primary School	8,022.15	33,468.25
Bridgnorth Endowed School	28,656.97	101,215.07
Bridgnorth District Council	No active members	
Charlton School	48,643.94	141,801.25
Church Stretton School	32,789.02	126,206.45
Clee Hill Community Academy	7,911.75	26,183.48
Cleobury Mortimer Primary School	17,415.07	57,356.23
Communities Academies Trust	155,362.13	565,169.20
Corbet School	No active members	
Corbet School (Academy)	29,883.63	109,981.93
Dawley C.E Primary Academy	12,255.53	45,188.69
Ellesmere Primary School	13,960.18	52,277.89
Ercall Wood School	37,100.69	115,717.04
Fields Multi-Academy Trust	5,707.00	21,142.22
Grange Junior School	No active members	
Greenacres Primary School	11,286.99	40,115.47
Holy Trinity Academy (BRJ)	24,565.21	76,469.98
Holy Cross C.E School	No active members	
Idsall School	41,882.67	167,021.59
Kickstart Academy	3,673.47	9,013.50
Lacon Childe School	26,641.84	97,899.52
Lakelands Academy	37,939.97	140,858.22
Lawley Village Academy	3,326.08	3,773.21
Ludlow College	No active members	
Ludlow Infant School	4,876.59	19,149.17
Ludlow Junior School	4,660.21	19,930.28
Madeley Academy Trust Ltd	47,982.01	134,485.18
Marches Academy Trust	74,322.87	294,541.19
Moorfield Primary School	13,035.98	41,725.33
Morville C.E Primary School	1,554.91	4,365.71
National Health Service	No active members	
New College Telford	55,226.41	141,826.86
Newport Girls High School Academy Trust	15,822.10	51,982.50
North Shropshire College	89,062.75	351,071.03
North Shropshire College (Pre 02)	No active members	
North Shropshire District Council	No active members	
North West Education Action Zone	No active members	
Oswestry Borough Council	No active members	
Oldbury Wells School	29,254.22	108,825.25
Priorslee Primary Academy Trust	22,319.75	71,276.69
The Priory School Trust	53,141.51	196,937.57
Severndale Specialist Academy	132,993.12	434,830.20
Shrewsbury & Atcham Borough Council	No active members	
Shrewsbury Academies Trust	92,837.87	340,943.11
Shropshire Career Service Ltd	No active members	
Shrewsbury College of Arts & Technology*	65,462.15	211,874.27

EMPLOYER NAME	EMPLOYEES CONTRIBUTIONS		EMPLOYERS CONTRIBUTIONS	
	£		£	
Shrewsbury Sixth Form College*		194,928.97		585,392.31
Shropshire & Wrekin Fire Authority		139,123.07		323,390.94
Shropshire Council		5,032,131.38		16,861,227.60
Shropshire County Council		No active members		
Shropshire Magistrates Court		No active members		
Shropshire Probation Committee		No active members		
South Shropshire District Council		No active members		
Stokesay Primary School		6,216.73		23,328.33
Stottesdon C.E Primary School		4,965.04		17,743.88
Telford & Wrekin Council		4,153,985.37		11,564,587.59
Telford and Wrekin Education Action Zone		No active members		
Telford College of Arts & Technology		342,579.78		868,397.80
West Mercia Energy		26,439.52		186,303.91
Walford College Shropshire		No active members		
West Mercia Supplies		No active members		
William Brookes School		38,778.38		132,861.13
Woodside Primary School		35,148.44		120,492.77
Woodside Start Centre		9,810.11		28,512.39
Wrekin District Council		No active members		
<b>ADMISSION BODIES</b>				
Accord Housing Association		7,283.35		65,214.09
Addaction		9,293.36		26,870.33
Age Uk Shropshire, Telford & Wrekin		4,112.39		40,694.99
Alliance in Partnership- Grange Primary School		1,023.32		3,694.68
Alliance in Partnership- Grange Secondary School		70.96		286.39
Alliance in Partnership (Oldbury Wells)		2,248.79		7,288.31
Alliance in Partnership (Ludlow School)		3,008.12		12,713.91
Alliance in Partnership (SAT)		680.64		2,648.03
Alliance in Partnership- Thomas Adams School		2,261.97		7,921.27
Aquarius		523.51		1,649.71
ARCH Initiatives		20,485.81		60,565.46
Association of Local Councils		2,783.54		11,014.46
Bethphage		2,557.43		8,712.97
Care Quality Commission		9,929.93		61,551.48
Catering Academy Ltd (NGHS)		0.82		2.73
Catering Academy Ltd (Priory)		838.25		2,842.45
Churchill Contract Services		629.43		2,666.64
Compass (UK) Ltd		925.11		3,235.04
Connexions		No active members		
County Training		No active members		
Coverage Care Crowmoor House		26,775.58		72,589.38
Coverage Care Ltd		18,315.52		218,603.23
CRI		No active members		
Energize		5,253.36		13,464.36
Enterprise South West Shropshire		940.25		3,402.12
Fastrack Maintenance Ltd		No active members		
Funeral Services Ltd		1,960.93		4,164.26
Halo Leisure Services Ltd		9,792.47		31,997.09
Harper Adams University College		494,092.65		1,233,993.28
HMM Arts Ltd (The Hive)		No active members		
Interserve Ltd		No active members		
Ironbridge Gorge Museum Trust		5,016.99		67,276.71
Landau Consultants		No active members		
Mencap		No active members		
Meres & Mosses Housing Association		45,161.85		131,026.83
Midland Heart Ltd		34,651.74		121,107.73
Mouchel Ltd		18,621.73		58,581.11
RAPT		3,059.17		7,631.66
Relate		No active members		
Ringway Infrastructure Ltd		142,240.75		306,259.20
Sanctuary Group		20,566.46		69,960.93
Severn Gorge Countryside Trust		6,838.32		18,882.04

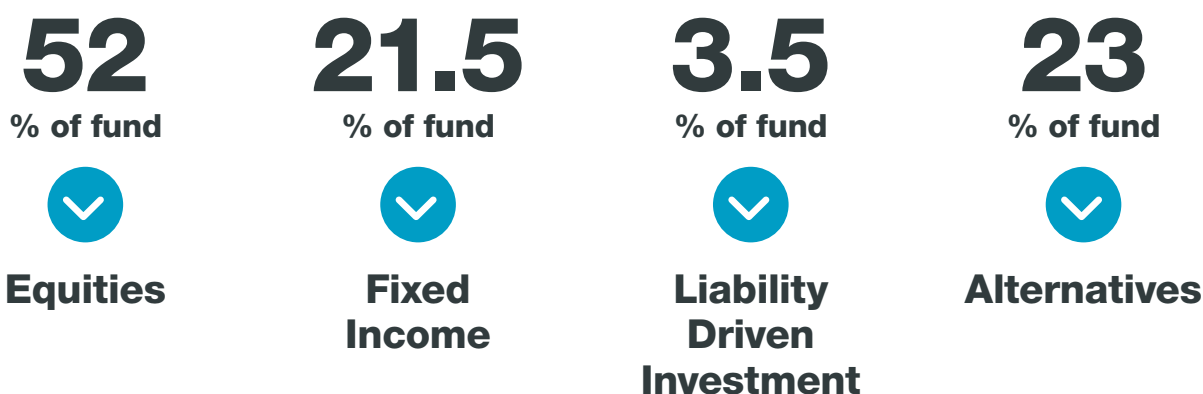
EMPLOYER NAME	EMPLOYEES CONTRIBUTIONS	EMPLOYERS CONTRIBUTIONS
	£	£
Sevenside Housing Association	211,388.40	836,637.52
Shropshire County Leisure Trust	40,162.77	87,358.03
Shropshire Disability Consortium	No active members	
South Shropshire Housing Association	5,693.37	164,097.59
South Shropshire Leisure Ltd	15,971.49	35,868.02
Strettons Mayfair Trust	1,237.60	4,477.78
Taylor Shaw (Bridgnorth Endowed)	478.08	1,651.50
Taylor Shaw (Priory)	No active members	
Telford & Wrekin Services Ltd	76,769.37	435,816.12
Telford Development Corporation	No active members	
Telford Trust	No active members	
The Boathouse Ellesmere Ltd	3,325.08	9,435.00
Transforming Telford	No active members	
Veolia Environmental Services (UK) Plc	107,678.12	258,530.54
Veolia TWC	1,491.75	7,057.00
Womens Royal Voluntary Service	No active members	
Wrekin Housing Trust	794,247.23	2,083,916.87
<b>DESIGNATED BODIES</b>		
Albrighton Parish Council	1,324.33	4,353.50
Bayston Hill Parish Council	2,199.21	8,654.66
Bishops Castle Town Council	1,307.54	3,392.65
Bridgnorth Town Council	17,310.45	57,855.53
Broseley Town Council	3,219.34	13,185.39
Church Stretton Town Council	6,400.67	27,228.75
Conover Parish Council	155.68	544.90
Dawley Hamlets Parish Council	632.27	2,641.52
Donnington and Muxton Parish Council	3,893.47	11,748.52
Ellesmere Town Council	3,494.18	7,824.32
Ford Parish Council	259.90	742.87
Great Dawley Parish Council	7,986.83	15,510.54
Great Hanwood Parish Council	292.65	835.38
Hadley & Leegomery Parish Council	4,162.50	13,506.86
Hollinswood & Randlay Parish Council	5,301.27	16,375.29
Ketley Parish Council	1,086.60	3,044.96
Ludlow Town Council	15,102.30	40,429.39
Madeley Town Council	8,592.54	29,445.78
Market Drayton Town Council	6,820.33	23,809.20
Much Wenlock Town Council	29,049.55	15,478.62
Newport Town Council	6,112.90	15,742.01
Oakengates Town Council	1,981.19	4,389.13
Oswestry Town Council	29,731.27	73,174.22
Shifnal Town Council	4,703.47	17,165.85
Shrewsbury Town Council	78,920.59	188,578.17
Shropshire Towns & Rural Housing	164,523.22	311,619.51
St Georges and Priorslee Parish Council	289.53	893.58
Stirchley & Brookside Parish Council	4,571.01	17,408.64
The Gorge Parish Council	567.15	1,763.68
Wellington Town Council	6,957.32	20,060.49
Wem Town Council	3,732.82	11,683.01
Whitchurch Town Council	3,321.62	7,649.04
Wrockwardine Parish Council	790.33	3,315.47
	<b>13,927,493.57</b>	<b>42,930,159.54</b>

\*Shrewsbury College of Arts and Technology closed from 31 July 2016 and all assets and liabilities transferred to Shrewsbury Sixth Form College (renamed Shrewsbury Colleges Group).

# ➤ Investment of funds

**The Fund pursues a policy of managing risk by diversifying both investments and investment managers. Assets are held by the Fund in order to achieve returns consistent with the cost of future pension liabilities as assessed by the Actuary. Actuarial valuations are undertaken every three years with the latest one being undertaken in March 2016, the results of which have been communicated to employers and new contribution rates have been set for the next three financial years commencing 1 April 2017.**

## The Fund's strategic allocation 2016/17



Fixed Income (also known as Bonds) are generally considered to be less risky, as returns are less volatile than Equities. Over longer periods, investment returns achieved by Bonds are expected to be lower than those achieved by Equities.

During 2016/17, the decision was made by the Pension Committee together with Officers and Aon Hewitt, to terminate the contract with Brevan Howard who manage a 5% allocation to Hedge Funds. This was due to a period of underperformance since they were appointed in August 2013 and attempts to enhance their process and improve performance had been unsuccessful. It was agreed in the short term, until the investment strategy review was completed, that the proceeds from the redemption would be split between the Fund's other hedge fund

manager and the Fund's absolute return bond fund managed by PIMCO. Redemption proceeds were received in 25% instalments from Brevan Howard on a quarterly basis, the first of which was received in September 2016. Further instalments were received in December 2016 and March 2017 and the final instalment in June 2017.

In March 2016 the Fund reduced its allocation in investment grade corporate bonds by 7.5% by redeeming funds from PIMCO and increasing the allocation to absolute return bonds. In April 2016 the 10% allocation to index linked bonds was replaced to fund the new allocation to absolute return bonds and Liability Driven Investment managed by BMO Global Asset Management.. It is expected that these changes will provide further diversification of returns, improve the efficiency of the Fund's matching assets, specifically to match

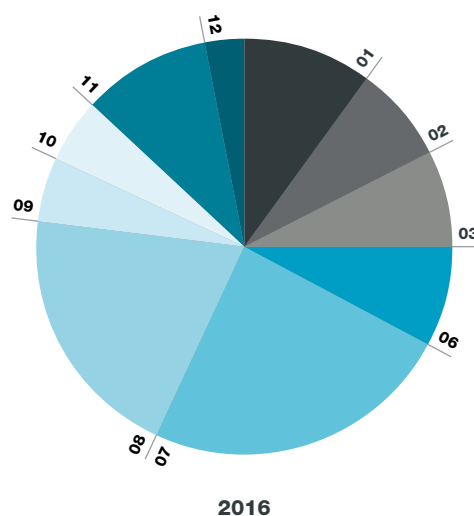


the movement of the Fund's liabilities caused by interest rates and inflation and will help maintain the high standards expected from Shropshire's investment managers. There were no other Fund manager changes during the financial year.

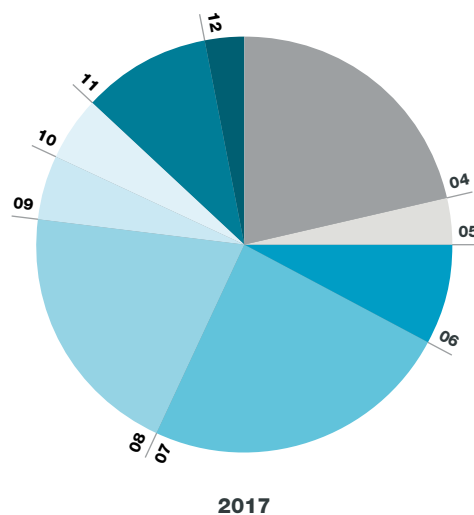
In March 2017, once the results of the Actuarial Valuation were finalised, the Committee in conjunction with Aon Hewitt, started the investment strategy review process by undertaking some asset and liability modelling. Since the valuation was undertaken there has been a significant rise in asset values due to the strong performance of the Fund over the last year. This has resulted in improvements to the funding level therefore the Committee are currently considering if any changes to the strategic asset allocation of the Fund are required. As part of this review consideration is also being given to the long term solution for the proceeds received from Brevan Howard. This process is likely to be completed within the next six months.

The Shropshire Fund continues to work with eight other Funds in the Midlands region in order to meet the tight deadlines set by Government to pool assets by 1 April 2018. On 13 October 2016, LGPS Central Ltd, which is a private company limited by shares was incorporated. LGPS Central Ltd is jointly owned on an equal share basis by eight Pension Funds and is seeking to become a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The majority of assets under management will be structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures. LGPS Central Ltd will be a multi-asset manager, investing approximately £40 billion of assets on behalf of its member Funds from 2018 onwards. The aims of LGPS Central will be to deliver cost savings, to build on the existing investment expertise of its member Funds through increased scale, resilience, and sharing of knowledge. It will also aim to make use of a blend of internal and external investment management and a key objective will be to improve risk adjusted investment returns after cost. Following approval of the business case submitted to Government in July, work will continue to progress during the next year in order to meet the April 2018 deadline to start pooling assets.

## Strategic asset allocation at the start and end of the year



2016















2017



The 20% global equity allocation managed passively by Legal & General is 100% hedged back to sterling. This is designed to eliminate some of the risks in holding an increased proportion of overseas investments.

## Spread of assets between Fund managers as at 31 March 2017

The following table shows the managers responsible for individual portfolios and the value of the Funds they manage.

FUND MANAGER		PERCENTAGE OF FUND %	VALUE OF FUNDS HELD £M	PORTFOLIOS HELD
	<b>Legal &amp; General Investment Managers</b>	19.30	341.195	Global Equities (Passive)
	<b>MFS</b>	8.73	154.295	Global Equities
	<b>Investec</b>	8.32	147.195	Global Equities
HARRIS ASSOCIATES L.P.	<b>Harris Associates</b>	8.28	146.422	Global Equities
	<b>PIMCO Europe Ltd</b>	8.26	146.029	Unconstrained Bonds
	<b>Global Asset Management</b>	7.91	139.880	Unconstrained Bonds
	<b>Majedie Asset Management</b>	7.88	139.393	UK Equities
	<b>Blackrock</b>	7.79	137.787	Unconstrained Bonds
	<b>Blackrock</b>	5.67	100.327	Hedge Fund
	<b>Aberdeen Property Investors</b>	4.87	86.032	Property Unit Trusts
	<b>HarbourVest Partners Ltd</b>	4.50	79.523	Private Equity
	<b>BMO Global Asset Management</b>	4.12	72.829	LDI
	<b>Global Infrastructure Partners</b>	2.48	43.907	Infrastructure
BREVAN HOWARD	<b>Brevan Howard</b>	1.21	21.443	Multi Strategy Hedge Fund
<b>Other</b>		0.47	8.333	<b>Other</b>
<b>Total Assets Held by Fund Managers</b>		99.79	1,764.590	
<b>Net Current Assets</b>		0.21	3.680	<b>Net Current Assets</b>
<b>Total Fund</b>		<b>100.00</b>	<b>1,768.270</b>	

## Major shareholdings as at 31 March 2017

UK EQUITIES		SECTOR	VALUE £M	% OF FUND
	<b>Royal Dutch Shell</b>	Energy	11.800	0.67
	<b>HSBC</b>	Banks	10.900	0.62
	<b>BP Ord</b>	Energy	9.255	0.52
	<b>Diageo</b>	Consumer Staples	7.743	0.44
	<b>Glencore</b>	Materials	7.590	0.43
	<b>GlaxoSmithKline</b>	Health Care	5.669	0.32
	<b>Tesco</b>	Consumer Staples	5.296	0.30
	<b>Vodafone</b>	Telecommunications	5.272	0.30
	<b>British American Tobacco</b>	Consumer Staples	5.042	0.29
	<b>Barclays</b>	Banks	4.408	0.25
OVERSEAS EQUITIES		COUNTRY	VALUE £M	% OF FUND
	<b>Alphabet</b>	United States	11.920	0.67
	<b>BNP Paribas</b>	France	11.051	0.62
	<b>Samsung Electronics</b>	South Korea	8.263	0.47
	<b>Allianz</b>	Germany	7.974	0.45
	<b>Citigroup</b>	United States	7.822	0.44
	<b>CNH Industrial</b>	Netherlands	7.635	0.43
	<b>Daimler</b>	Germany	7.601	0.43
	<b>Credit Suisse</b>	Switzerland	7.120	0.40
	<b>Apple Inc</b>	United States	6.986	0.40
	<b>Roche Holdings</b>	Switzerland	6.968	0.39
<b>Total Fund Value</b>			<b>1768.270</b>	

# ➤ Investment Performance

**During the year the Shropshire Fund increased in value by £274 million to be valued at £1.768 billion at the end of the year.**

## **This year's Fund performance:**

The Fund increased in value by 19.2% over the year and outperformed its benchmark by 4.9%. The Fund performance was very positive, this was largely due to equity markets performing very strongly throughout the year.

The Fund invests in a range of asset classes so as to diversify risk and provide more stable returns. The Shropshire Fund had positive investment returns in a number of asset classes during the year. The strongest performance was in global equities managed actively by Harris Associates where the Fund's investments increased by a notable 43.6% during the year. The Fund's other active global equity managers also produced returns in excess of 30%. The Fund also achieved strong returns in Infrastructure which delivered an investment return of 28.2%, UK Equities rising by 25.6% and Private Equity increasing by 16.5%. The combined fixed income portfolios delivered a return of 11.7% and property increased by 6.7%. All of the Fund's managers delivered positive returns during the year.

### **Graph 01: Whole Fund performance**

Graph 01 shows total Fund investment returns compared with the benchmark. The stock markets that make up the benchmark showed positive returns in 2016/17 of 14.3%. The Fund increased in value by 19.2% over the year outperforming its benchmark by 4.9%. Overall the Fund has increased in value by an average of 10.5% per annum over the last three years which is 1.6% above benchmark, 10.9% per annum over the last five years which is 2.1% above benchmark and by 7% per annum over the last ten years which is slightly above the benchmark by 0.1%.

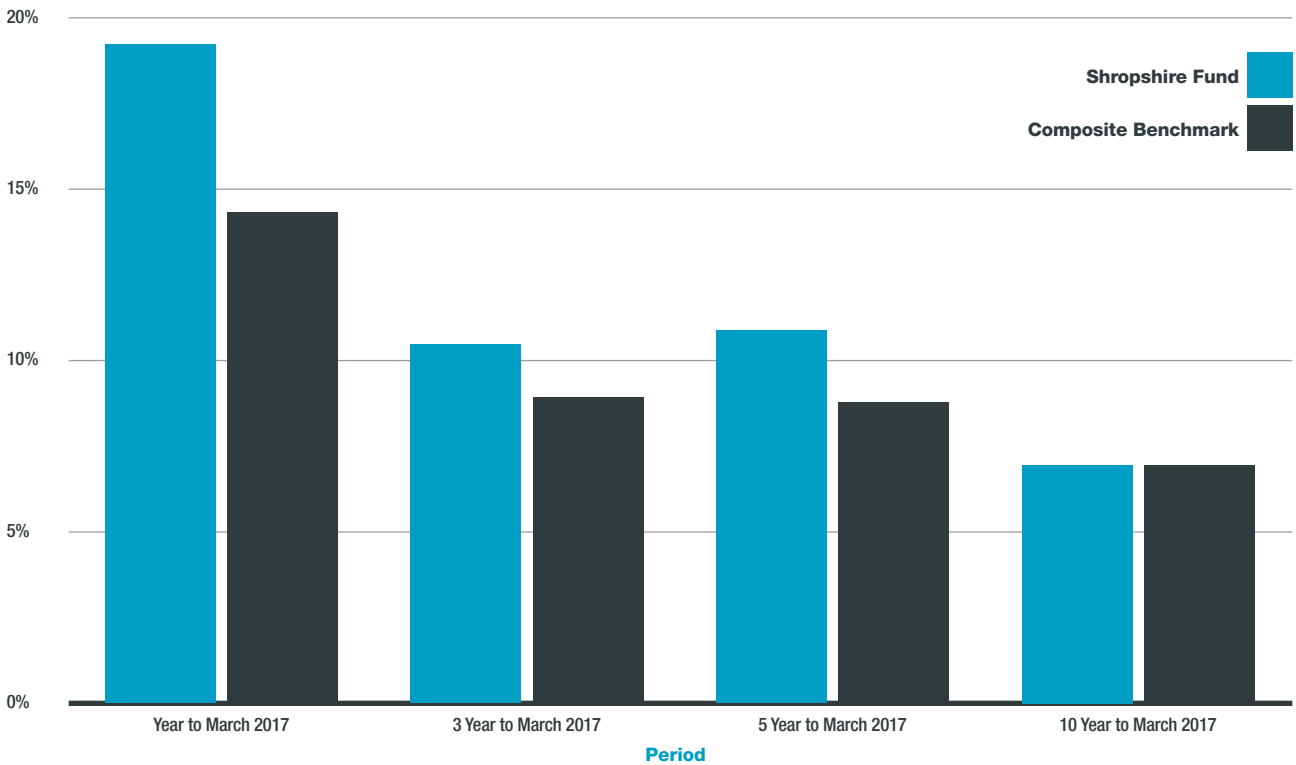
Performance data used in this report is provided by Northern Trust who supplies independent confirmation of the investment performance of individual managers on the Fund's behalf.

### **Graph 02: Individual fund manager performance**

Individual portfolio managers are given performance benchmarks related to the indices of the assets in which they invest or an absolute return benchmark where this is more appropriate. Manager performance compared to their benchmark for the year is shown in Graph 02.

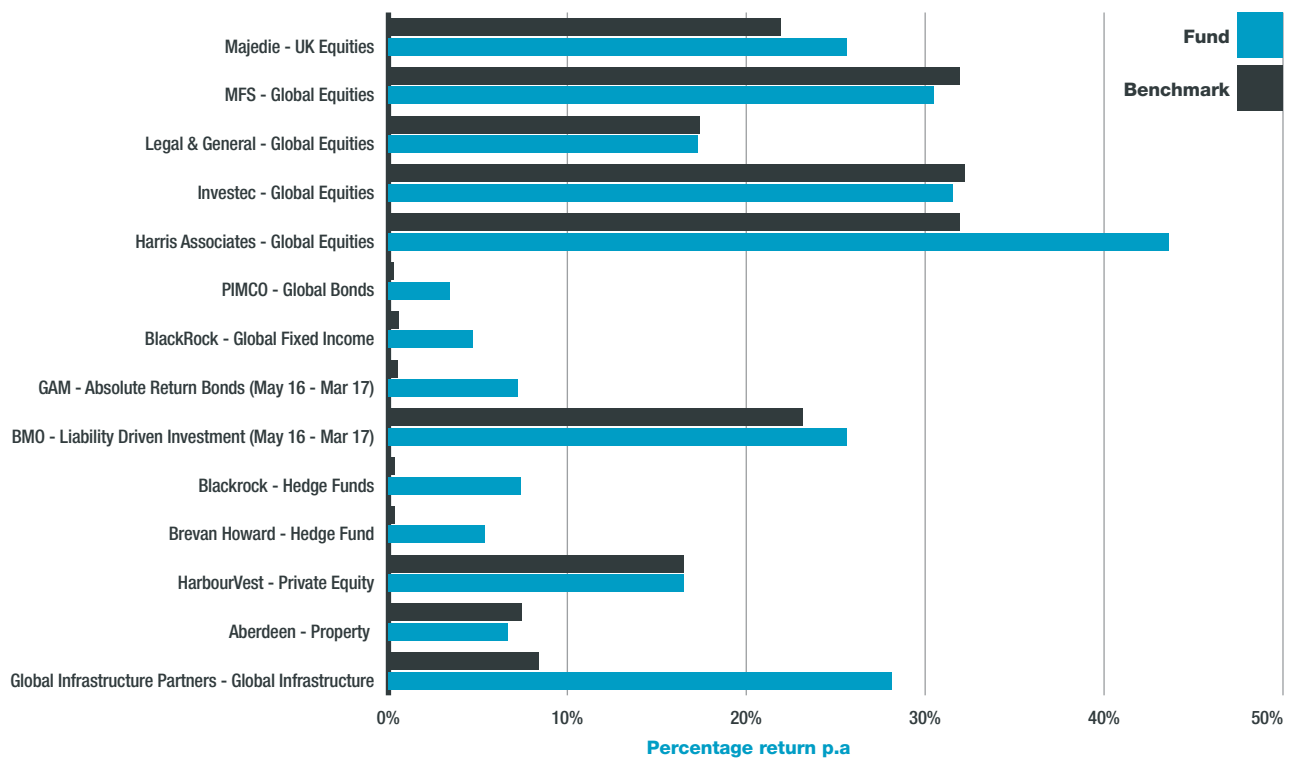
## Graph 01: Whole Fund performance

### Annualised return



## Graph 02: Individual fund manager performance

### Whole fund return



# ➤ Corporate governance and socially responsible engagement

The Shropshire County Pension Fund takes corporate governance and social responsibility seriously. Whilst the Pensions Committee has an overriding duty to consider its financial responsibilities above any other considerations it remains committed to these important issues. Through actively voting at shareholder meetings and sustained shareholder engagement it is felt the Fund is best able to change company behaviour.

The Shropshire Fund does not restrict its investment managers in the companies in which they can invest. To do so would be contrary to the overriding financial responsibility of the Pensions Committee. Furthermore, it is difficult to define a company for exclusion. For example, companies such as Boeing and Rolls Royce are often defined as arms companies but have highly profitable non-arms related aspects to their businesses. The Pensions Committee believe it is more effective to influence company behaviour from the inside as a shareholder.

## Shareholder voting

Shropshire County Pension Fund has been actively voting at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests for over fifteen years. The individual Fund Managers vote on the Fund's behalf on all equity portfolios.

The Fund believes that good governance is an important element in reducing the risk of corporate failures in the future. It also believes that over the long term, commitment to corporate best practice will enhance investment returns. As shareholders, we have a fiduciary interest and a responsibility in ensuring the highest standards of governance and accountability within the companies in which we invest.

Through ISS (Institutional Shareholder Services) the Fund has adopted a corporate governance policy based on codes of best practice and governance. Wherever practicable, votes are cast in accordance with industry best practice as set out in the UK Corporate Governance Code.

During the last year the Fund's voting activity has continued to focus on encouraging the boards of listed companies to be transparent and accountable, maintain effective systems of internal control and adopt fair remuneration structures.

## Socially responsible engagement

The Shropshire Fund is addressing its social responsibility through a strategy of responsible engagement with companies. As a shareholder, the Shropshire Fund is a part owner in a large number of UK companies and by entering into dialogue with these companies it is felt that there is potential to achieve change from the inside. However, it is also recognised that there are certain industries and sectors where engagement is less effective.

Given that the Fund does not have the resources to regularly visit the companies itself, an external advisor has been employed to develop an engagement programme. BMO Global Asset Management provide this responsible engagement overlay on the Fund's UK Equities portfolios. BMO enter into dialogue with companies on the Fund's behalf to put to them the case for improved financial performance through better management of the negative impacts they might have on the environment and society in general.

For example, BMO have been engaging with apparel companies for more than a decade on a range of supply chain labour issues, including health and safety practices, child labour policies

and concerns over migrant labour standards. While many improvements have been noted during this period, the Rana Plaza building collapse in Bangladesh in 2013 was a stark reminder of the persistent shortcomings and risks in many countries which supply the global apparel industry.

There have been some important breakthroughs, including the introduction of a minimum wage and enhanced monitoring of social and safety standards. However, underlying structural issues such as poor levels of governance and weak institutions, which could lead to similar catastrophes repeating, remain largely in place.

In 2015, BMO started an engagement project on these issues. 40 textile and apparel companies were contacted to discuss their approach for addressing wage concerns in their global supply chain. 16 companies provided evidence of initiatives focussed on wage levels in the supply chain, 14 companies had considerable supplier management and audit programs in place but did not carry out specific actions to increase wages above the legal minimum level. The remaining 10 companies either did not review the risk of low supply chain wages or declined to discuss the issue with BMO.

Achieving changes to supplier wage practices requires companies to develop initiatives on a number of levels, ranging from scaling up pilot projects at factory level, to working collaboratively on an industry level to influence market-wide standards.

While a significant number of companies BMO engaged with have recently launched new schemes aimed at addressing supply chain living wage issues, in most cases it is still too early to identify which programs are most successful and it is BMO's intention to continue to review their progress.

In the meantime BMO are building on their engagement on the living wage theme to focus on collective bargaining processes. In 2016, BMO began asking brands and retailers to detail how collective worker rights are acknowledged in their code of conduct, and what steps are taken to enable effective collective engagement with workers in the supply chain.

## **Local authority pension fund forum**

Shropshire remains a committed and active member of the Local Authority Pension Fund Forum (LAPFF). LAPFF brings together 72 public sector Pension Funds (as at 31 March 2017) representing 85% of Local Government Pension Funds when measured by assets. LAPFF exists to promote the investment interests of Local Authority Pension Funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards in corporate governance among the companies in which they invest.

As a member of the Forum the Shropshire Fund has a stronger voice in influencing the companies in which it invests. Over the last 12 months our work with the Forum has included the following areas:

### **1. Responsible Investment, Shareholder Rights and LGPS Pooling**

In June 2016 LAPFF hosted a seminar entitled 'Responsible Investment, Shareholder Rights and Pooling'. The seminar highlighted the uncertainties linked to the mandatory pooling of Local Government Pension Funds, especially in relation to implementing responsible investment through Funds. Speakers emphasised the importance of environmental, social and governance analysis to capital protection and long-term corporate growth. Delegates agreed that pooling should be seen as an opportunity to maximise, not dilute, the active role that Funds have in responsible investment.

### **2. Environmental Risk - Carbon Management**

LAPFF joined other investment institutions in correspondence to the Financial Reporting Council to set out long-term investors' expectations that oil, gas and coal companies should address climate-related risks in the newly introduced viability statements in their annual reports. The Forum co-signed letters on a range of other issues as well, including the promotion of regulatory reform in Indonesia, supporting sustainable palm oil production, and improving reporting of material sustainability risks in US Securities & Exchange Commission filings.

# ➤ Scheme Administration Report

Shropshire County Pension Fund administers the Local Government Pension Scheme (LGPS) which provides occupational pensions for employees (other than teachers) of Local Authority employers within the geographical area of Shropshire. This includes support staff employed by Academies, employees of organisations which have entered into admission agreements with the Fund and bodies who have made a resolution to join the Fund.

The Scheme is a public sector Pension Scheme, regulated by statute through the Department for Communities and Local Government (DCLG). It is a contributory Defined Benefit Scheme and exempt approved for tax purposes. From the 1 April 2014 benefits for active members are now built up in the Career Average Revalued Earnings (CARE) Scheme. Benefits for members with service pre and post April 2014 are calculated under the provisions of the 1997, 2008 and 2013 LGPS Regulations. The Scheme was formerly contracted out of the additional State Pension until the introduction of the new single-tier State Pension on 6 April 2016, which resulted in the end of contracting out.

Shropshire Council is required by law to administer the LGPS for Shropshire. The Pensions Administration Team sits within the Finance, Governance and Assurance service area within Shropshire Council. It is accountable to the Pensions Committee, the Pensions Board, the Fund's participating employers and Scheme members. The responsibilities for Scheme administration are met in-house by the Pensions Team. This includes the collection of employee and employer contributions, member data from all Fund employers, the calculation of member benefits, and payment of pension benefits to retired members, as well as looking after the benefits for deferred members who have not yet taken payment. The Scheme not only provides pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

As at 31 March 2017 the Shropshire County Pension Fund had 16,517 active members, 16,816 deferred members, 10,025 pensioners, 1,447 dependants and 164 employers, all looked after by 23 (Full Time Equivalent) members of staff in the Pensions Administration Team.

## Use of Information Technology

The Fund continues to strive for improved efficiency through the use of Information Technology. The increased complexity involved in the administration of the Scheme means close working with the key system supplier AquilaHeywood to ensure that the pensions administration system continues to meet the needs of the Fund.

A disaster recovery (DR) exercise took place during 2016/17 which tests that the pensions administration system can be moved to and run on a back-up server in the event of the main server not being available. This exercise highlighted that the mirror server would not be robust enough for all members of the Pensions Team to access the system at the same time and alternative DR provision is therefore being looked at.

## iConnect

A service called iConnect was implemented in 2015/16 and during the past twelve months has continued to be rolled out across the Employers in the Fund with 110 (87% of total active employers) using the service as at 31 March 2017. Member data is transferred from an employer's payroll system, on a monthly basis, into the pension administration system. The Fund's largest employers, Shropshire Council and Telford and Wrekin Council use iConnect for their data transfer.

Collecting data in this way has seen an increase in the number of changes and cases being identified on a monthly basis, improving data quality.

The Fund actively engages with all employers to ensure good quality, accuracy and timeliness of



their data. The responsibilities of both the Fund and employers are outlined in the Pensions Administration Strategy (PAS), which can be viewed in appendix 02.

### **Key iConnect data facts for 2016/17**

- 8,466 address changes
- 176,781 contributions postings
- 353,681 pay data postings
- 5,746 notifications of starters
- 3,819 notifications of leavers

### **Data Quality**

Schedule 4 of the Public Service Pensions Act (2013) states that good internal controls are fundamental to support and evidence that the record keeping requirements of a Scheme are being adhered to.

A review of compliance against the statutory requirements imposed on the Fund using the guidance in the Pensions Regulator's Code of Practice 14, was undertaken during the year. This was a significant piece of work.

As part of the review, the Fund has looked in detail at the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 which requires the Scheme Manager to keep specific data about members. Overall, it was found that the Fund's level of compliance is good and this was reported to the Pensions Committee and Board. Areas for improvement have been identified to ensure completeness and accuracy of the information held by the Fund.

### **GMP reconciliation**

During 2015/16, a project was set up to reconcile Fund records with HMRC's records following the end of contracting out in April 2016. The Pensions Team have continued to work with a third party on the reconciliation to ensure that the Guaranteed Minimum Pension (GMP) values held are accurate.

In November 2016, HMRC published information on the ceasing of contracting out, focusing on the reconciliation of active member records and in particular an exercise called the closure scan. A closure scan automatically closes open periods of contracted out employment held on HMRC records, using the Scheme's Contracted-out Number (SCON) provided by employers on their Full Payment Submissions (FPS). The Fund completed and returned its closure scan request to HMRC before the required deadline.

The Fund continues to work on reconciliation for Deferred and Pensioner members' GMP's and is working towards the 31 October 2018 deadline for initial queries to HMRC, with the intention that the project is to be completed by 31 December 2018 for all scheme members.

### **Reporting breaches**

Section 70 of the Pensions Act 2004 imposes a requirement on the Fund and its named stakeholders to report a breach of law to the Pensions Regulator. When deciding whether a breach is likely to be of material significance to the Pensions Regulator, the cause, effect, reaction to and wider implications of the breach should all be considered and, if a breach has occurred that is deemed material, it should be reported to the Pensions Regulator.

Any breaches by the administration team or Fund employers are recorded on the Breaches Log and reported quarterly to the Pensions Committee. Up until the 31 March 2017 87 breaches were recorded however, all were deemed not materially significant to report. The current Reporting Breaches policy can be found in Appendix 06 on page 129.

### **Member Self-Service**

The Fund offers a self-service facility for active and deferred Scheme members to view their pension record, update personal details and perform individual benefit calculations securely via the Fund's website.

## Website

The Fund's website is the primary source for Scheme information for both Scheme members and employers. The information held on the website is regularly reviewed and the latest news page is used to provide important updates, and to advertise upcoming events.

## Pensioner Payments

The Pensions Team utilise Shropshire Council's payroll system to pay pensions to retired and dependant members. Payslips are not automatically issued, unless the pension payment alters by £5 from the previous month's payment. Retired members are contacted twice a year; receiving a P60/Payslip document each April and an invitation sent in September for the Annual Meeting.

The Fund participates in the national Tell Us One (TUI) death notification service and the National Fraud Initiative.

## Valuation

The Fund has completed its Triennial Actuarial Valuation based on the Fund's membership as at 31 March 2016. A valuation plan was put into place in early 2016 to ensure all records were correct before sending the data to the Fund Actuary in July 2016. It is essential that records are up to date at the date of submission to the Actuary to provide an accurate assessment of employer funding levels and contribution rates.

The data supplied by the Fund's employers is an integral part of ensuring accurate data as the posting to each individual member's record, of contributions, CARE pay and pay for Final Salary Benefits are used by the Actuary. The introduction of iConnect has improved this process.

Employers were provided with indicative rates in November 2016 and given the opportunity to consult with the Fund Actuary before the results were finalised.

## Consultation on Amendment Regulations

On 27 May 2016, DCLG commenced a consultation on draft amendment regulations for the LGPS in England and Wales. Amongst other amendments, the consultation covered Fair Deal and changes to AVC provisions in light of the

Freedom and Choice reforms. The consultation document is available under Drafts and Consultations on [www.lgpsregs.org](http://www.lgpsregs.org) and on [Gov.uk](http://Gov.uk). The consultation closed on the 20 August 2016.

## Collaborative Working

The Fund keeps abreast of administration best practice by participating in collaborative groups such as the Local Government Association's Communication Group and hosting the Shrewsbury Pensions Officer Group. The Fund also leads a Communications Work Group with nine other LGPS Funds who meet regularly to discuss communications issues within the LGPS and to share resources for joint communication projects.

## Arrangements in place for gathering assurance over the effective and efficient operation of administration operations:

- External Audit
- Internal Audit
- Pensions Committee
- Pensions Board
- Reporting Breaches policy
- Regular Fund Performance Reporting
- The Pensions Regulator
- Internal compliance monitoring

## Pensions Administration Team



## Scheme Administrator, Head Of Treasury & Pensions & Treasury Team



# ➤ Internal dispute resolution procedure

**Despite our best efforts we do, sometimes, receive complaints from our members when they have not been satisfied with scheme decisions.**

## Your right to ask

Members have the right to ask for Scheme decisions to be looked at again under the formal complaint procedure and also have the right to use the procedure if a decision should, but has not been made by their employer or the Fund.

The complaint procedure's official name is the Internal Dispute Resolution Procedure and the procedure is outlined in Regulation 72 of the LGPS Regulations 2013. A Scheme member, pensioner, deferred pensioner or potential beneficiary can all make an appeal under the IDRP procedure. There are two stages to IDRP with the first stage of the dispute going to the body that made the original decision requesting a review of that decision.

If a member is dissatisfied with the outcome of the stage 1 decision, they may apply to the Administering Authority for a review at stage 2 of the IDRP within six months of the stage 1 decision.

If after the stage 2 decision the member or beneficiary is still dissatisfied, they can contact The Pensions Advisory Service (TPAS) and ask for their assistance. Where the complaint or dispute cannot be resolved after the intervention of TPAS, the member or beneficiary has three years in which to apply to the Pensions Ombudsman for a decision.

The Pensions Ombudsman can investigate any type of complaint about a member's or beneficiary's pension, but they must have been through stages 1 and 2 of the IDRP before they contact the Ombudsman.

Fortunately such instances are few and far between. The table below is a summary of the IDRP cases the Fund has received directly, or has been made aware of, that went to an employer.

### IDRP cases reported 2016-17

STAGE	CASES SUBMITTED	DISMISSED	UPHELD	ONGOING
1st	1	1	0	0
2nd	2	1	1	0

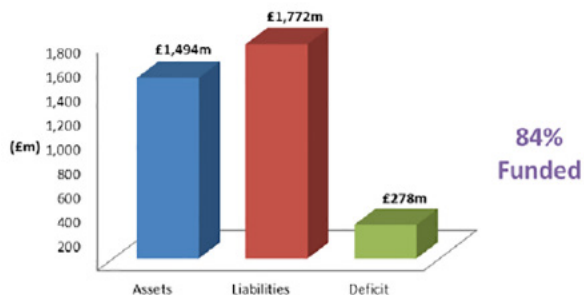
# ➤ Statement by the Consulting Actuary

## Accounts for the year ended 31 March 2017

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,494 million represented 84% of the Fund's past service liabilities of £1,772 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £278 million.



The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective

date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus). The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 22 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £14.4 million (this allows for some employers to phase in any increases or prepay in April 2017). For most employers, the Secondary rate will increase at 3.7% per annum. Other employers have opted to pay a higher non-increasing contribution over the recovery period. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	FOR PAST SERVICE LIABILITIES (FUNDING TARGET)	FOR FUTURE SERVICE LIABILITIES (COMMON CONTRIBUTION RATE)
Rate of return on investments (discount rate)	4.55% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

\* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 MARCH 2016	31 MARCH 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum

	31 MARCH 2016	31 MARCH 2017
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £2,144 million. Interest over the year increased the liabilities by c£77 million, and there was a further increase in liabilities of £448 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above). The value of new benefits earned during the year was cancelled out by benefits actually paid.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £2,669 million.

**John Livesey**  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
May 2017

# Governance structure

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## **Shropshire Council, as an Administering Authority is required to prepare, publish and maintain a Governance Compliance Statement under Regulation 55 of The Local Government Pension Scheme Regulations 2013.**

### **Outline of the Governance Structure**

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The Governance Compliance Statement prescribes how the Shropshire County Pension Fund is governed. It explains the role of the Pensions Committee and the Pensions Board and how it reports into the Council. The make-up of the Committee is outlined and the reasons for the current representation. The role of officers, independent advisors and employee and pensioner representatives are also clearly explained.

The Governance Compliance Statement includes details of compliance against the best practice guidelines on Pension Fund governance that have been issued by the Department for Communities and Local Government. The governance arrangements of the Shropshire Fund adhere to these best practice guidelines.

Under the cabinet structure in local government, management of the Pension Fund is a non-executive function and this is reflected in Shropshire Council's governance structure as Administering Authority.

The Pensions Committee was established in 1994 with responsibility for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the Council and is linked to Full Council by virtue of the Chairman or Vice Chairman being a Shropshire Council member.

The Shropshire County Pension Fund's local Pensions Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013, and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013. The local Pensions Board operates independently of the Pensions Committee, details of which are set out in its terms of reference.

The latest version of the Governance Compliance Statement was approved by the Pensions Committee in June 2015. Please see appendix 1 on page 67 for the latest copy.

### **Pensions Board Chairs Report 2016/17**

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The Pensions Board is now in its second year. The role of the Board is to assist the Administering Authority - Shropshire Council to review the work carried out by Shropshire County Pension Fund and helping to ensure it complies with all the relevant laws and regulations. It is important to note that the Pensions Board has no involvement in the day to day management of the Fund.

The Board has four members, two of whom are employee representatives and two who are employer representatives. During 2016/17 they were:

# The Pensions Board members 2016/17



**Mike Morris** (Chair)

Member Representative



**Pat Hockley**

Member Representative



**Stuart Wheeler**

Employer Representative  
Sevenside Housing



**Liz Furey**

Employer Representative  
Harper Adams University College

Pension regulations are detailed and complex so it is essential that the Pensions Board members are kept up to date through regular training and legislative updates. During the past year Board members have attended the SCPF Members training day along with a range of training events organised by the Local Government Association (LGA), as well as the LGPS Annual Trustee Conference and the SCPF annual meeting. Self-assessment exercises through the Pension Regulators training website have also undertaken by each Board member.

The Board meets, as a minimum, twice a year. Its meetings are open to the public, and both the agendas and subsequent minutes are published on the Shropshire Council website. Topics considered over the past year included:

- Communicating with and safeguarding of 'hard to reach' members
- Overview of ill-health retirements
- Pension related complaints and their resolution
- Performance of the SCPF in tracing gone away deferred pension members
- The Actuarial valuation of the Fund
- The disaster recovery plan for the pensions administration systems
- Future work and training plans for Board members

On page 5 in this Annual Report there is reference to the formation of the LGPS Central Ltd. From April 2018, in line with the Government's timetable, SCPF will commence the process of pooling its investments with eight other Funds in the Midlands region. This topic has also been the subject of much discussion and scrutiny at Pensions Board meetings. The development, performance and administration of LGPS Central will form an important ongoing part of the Board's review programme for the year ahead.

The Pensions Board is greatly assisted by the close cooperation of the Administration Authority and the Board would like to thank its officers for their support over the past year.

**Mike Morris**  
**Chair of the Pensions Board**  
*2016/17*

# ➤ Committee members 2016-17



**Malcolm Pate**  
(Chairman)

Shropshire Council  
VOTING



**Malcolm Smith**  
(Vice Chairman)

Telford & Wrekin Council  
VOTING



**Anne Chebsey**

Shropshire Council  
VOTING



**Andrew B Davies**

Shropshire Council  
VOTING



**Thomas Biggins**

Shropshire Council  
VOTING



**Dave Wright**

Telford & Wrekin Council  
VOTING



**Jean Smith**

Pensioner Representative  
NON-VOTING



**Nigel Neat**

Employee Representative  
NON-VOTING

Overall responsibility for the Shropshire County Pension Fund lies with Shropshire Council, however, this responsibility has been delegated to the S151 Officer, James Walton, Head of Finance, Governance and Assurance who is the Scheme Administrator for the Fund.

The Pension Fund Committee is responsible for advising the Scheme Administrator on the overall management of the Fund and they do this by meeting four times a year, or otherwise as necessary.

Some of the main responsibilities of the Committee are as follows:

- Monitor investment activities during the year
- Monitor overall performance of all the Fund managers
- Oversee the appointment and termination of investment managers
- Monitor the activities of the administration function
- Accept new employers into the Fund
- Reviewing governance arrangements

The agenda and minutes from each of the Pensions Committee meetings can be found on the Shropshire Council website which can be accessed here:

[www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)



# Training policy (members and officers)

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As an Administering Authority of the Local Government Pension Scheme, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Pension Scheme are equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

## Training policy

The Fund has adopted a Training Policy which sets out how the Fund intends to meet its training responsibilities. The current Training Policy can be found in appendix 07 on page 137. Reference within the policy is made to the Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills framework which identifies eight core areas of technical knowledge and skills for those working in public sector pension's finance. They are:

- Pensions Legislation
- Public Sector Pensions Governance
- Pensions Administration
- Pensions Accounting and Auditing Standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial Markets and Product Knowledge
- Actuarial methods, Standards and Practices

The Fund's Training Policy has a knowledge matrix based on the eight core areas shown above. The matrix identifies the level of knowledge required for Officers, Pension Committee Members and Pension Board Members and will assist the Fund when organising future training required.

## Pensions Committee

The Pensions committee meets quarterly or more often if required and before each meeting there is a training session usually delivered by the Fund investment advisors, Aon Hewitt.

Topics are wide ranging and in the past year have included the following:

- Investment pooling update
- Unconstrained equities
- Actuarial Valuation

- Investment Strategy
- Illiquid & Opportunistic credit market

As well as specific training completed at each Pension Fund committee meeting for members and senior officers, a number of additional training sessions were provided during the year for both members and officers. These included:

**Pensions Board:** Each Pension Board member throughout 2016/17 received training. The training was either provided by the Local Government Association, Aon Hewitt or was provided by officers in-house. Each Pension Board member and senior officers have completed the The Pensions Regulators' eLearning programme.

**Pensions Training day:** Presentations on Private Equity, Infrastructure, Hedge Funds, illiquid asset classes and a pension regulations update.

**Pensions AGM:** Presentations were given on property by Aberdeen, Investment Pooling, Investment Performance and a Fund administration update.

**Officer Attendance at conferences, seminars and networking groups:** LGC Investment Symposium, LGC Investment Summit, PLSA conference, CIPFA Pensions network seminars, North West and Wales Pension & Accounting Group.

As Head of Finance, Governance and Assurance and Scheme Administrator for Shropshire County Pension Fund I confirm that the officers and members charged with the financial management of and decision making for the Pension Fund collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

**James Walton**

**Head of Finance, Governance and Assurance**  
(S151 Officer and Scheme Administrator)

22 September 2017

# ➤ Pension Fund Account

## Pension Fund Account for the year ended 31 March 2017

2015/16 £M		NOTES (PGS 38-55)	2016/17 £M
	<b>CONTRIBUTIONS &amp; BENEFITS</b>		
	<b>Contributions</b>		
45.854	Employers	7	47.049
14.235	Employees	7	13.927
2.373	Transfers In from other Pension Funds	7	2.854
<b>62.462</b>	<b>Total Income</b>		<b>63.830</b>
	<b>Benefits Payable</b>		
53.069	Pensions	7	54.534
9.488	Commutation of pensions and lump sum retirement benefits	7	9.021
1.074	Lump sum death benefits	7	1.256
	<b>Payment to &amp; account of leavers</b>		
0.245	Refund of contributions	7	0.298
4.259	Transfer to other Funds	7	6.736
<b>68.135</b>	<b>Total Expenditure</b>		<b>71.845</b>
<b>(5.673)</b>	<b>Net additions/(withdrawals) from dealings with scheme members</b>		<b>(8.015)</b>
<b>(13.097)</b>	<b>Management Expenses</b>	8	<b>(13.717)</b>
	<b>Returns on Investments</b>		
19.322	Investment Income	8	23.155
12.277	Gain/(loss) on cash and currency hedging		10.955
(0.020)	Taxes on Income	10	(0.097)
(31.554)	Profits and (losses) on disposal of investments and changes in value of investments	11A	261.999
<b>0.025</b>	<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<b>296.012</b>
<b>(18.745)</b>	<b>Surplus / (deficit) on the pension fund for the year</b>		<b>274.280</b>
<b>1512.735</b>	<b>Opening Net Assets of the Scheme</b>		<b>1493.990</b>
<b>1493.990</b>	<b>Closing Net Assets of the Scheme</b>		<b>1768.270</b>

# ➤ Net Assets Statement

## Net Assets Statement as at 31 March 2017

31/03/2016 £M		NOTES (PGS 38-55)	31/03/2017 £M	%
	<b>Investment Assets</b>			
213.865	Equities	11b	263.900	14.92
	<b>Pooled Investment Vehicles</b>			
162.999	Unitised Investment Vehicles		0.000	0.00
1077.783	Other Managed Funds	11b	1446.606	81.81
	<b>Cash Deposits</b>			
38.116	Deposits		54.084	3.06
0.860	Temporary Investments	26	2.520	0.14
1493.623	<b>Total Investment Assets</b>		<b>1767.110</b>	<b>99.93</b>
	<b>Current Assets</b>			
2.262	Contributions due from employers	17	2.233	0.13
1.835	Other Current Assets	17	1.697	0.10
0.005	Cash Balances	19	0.000	0.00
	<b>Current Liabilities</b>			
(0.380)	Unpaid Benefits	18	(0.218)	(0.01)
(3.355)	Other Current Liabilities	18	(2.453)	(0.14)
0.000	Cash Balances	19	(0.099)	(0.01)
1493.990	<b>Net Assets of the Scheme - Available to Fund Benefits as at 31 March</b>		<b>1768.270</b>	<b>100.00</b>

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 17.

## To the Shropshire County Pension Fund accounts for the year ending 31 March 2017

### Note 1: Description of Fund

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory Defined Benefit Pension Scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national Pension Schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 164 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

SHROPSHIRE COUNTY PENSION FUND	31 MARCH 2017	31 MARCH 2016
No of employers with active members	127	114
<b>Number of employees in the scheme</b>		
Shropshire Council	7,227	7,605
Other employers	9,290	9,264
<b>Total</b>	<b>16,517</b>	<b>16,869</b>
<b>Number of pensioners in the scheme</b>		
Shropshire Council	4,920	4,806
Other employers	5,105	4,838
<b>Total</b>	<b>10,025</b>	<b>9,644</b>
<b>Number of deferred pensioners in the scheme</b>		
Shropshire Council	8,366	7,755
Other employers	8,450	7,919
<b>Total</b>	<b>16,816</b>	<b>15,674</b>

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers contributions which are set based on triennial actuarial funding valuations. The last valuation was as at 31 March 2016. Currently, employer contribution rates range from 3.3% to 28.0% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

	SERVICE PRE 1 APRIL 2008	SERVICE POST 31 MARCH 2008
<b>Pension</b>	Each year worked is worth 1/80 X final pensionable salary	Each year worked is worth 1/60 X final pensionable salary
<b>Lump sum</b>	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a Career Average Scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits.

## Note 2: Basis of Preparation

The statement of accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## Note 3: Summary of Significant Accounting Policies

### Fund Account – revenue recognition

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary or on receipt if earlier than the due date. Employers augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

#### Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see note 7). Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 7). Bulk (group) transfers are included for on an accruals basis in accordance with the terms of the transfer agreement.

#### Investment Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

## **Fund Account – expense items**

### **Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### **Taxation**

The Fund is a registered Public Service Scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### **Management expenses**

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### **Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee will be performance related:

Majedie Asset Management – UK Equities  
Pimco Europe Ltd – Absolute Return Bonds  
MFS Investment Management – Global Equities  
Blackrock – Hedge Fund  
Investec Asset Management – Global Equities  
Harris Associates – Global Equities  
Performance related fees in 2016/17 £1.060m  
(2015/16 £2.640m).

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, £0.005m of fees is based on such estimates (2015/16 £0.007m).

## **Net Assets Statement**

### **Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the day the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 14).

### **Foreign Currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

## Cash

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

## Additional voluntary contributions

Shropshire County Pension Fund provides an Additional Voluntary Contribution (AVC) Scheme for its members, the assets of which are invested separately from those of the Pension Fund. Please see note 20 for further information.

## Note 4: Critical judgments in applying accounting policies

The net pension fund liability is recalculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the Actuary and have been summarised in note 17.

## Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the net assets statement as at 31 March 2017 for which there is significant risk of material adjustment in the forthcoming financial year are detailed in the following table and also in

note 15a:

ITEM	UNCERTAINTIES	EFFECT IF ACTUAL RESULTS DIFFER FROM ASSUMPTIONS
Private Equity	Private Equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £74.3 million. There is a risk that this investment may be under or over-stated in the accounts.
Hedge Funds	The hedge funds are valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £100.1 million. There is a risk that these investments may be under/over - stated in the accounts.

## Note 6: Events after the Reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2017 and when these accounts were authorised that require any adjustments to be made.

## Note 7: Analysis of the main revenue account transactions

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

	ADMINISTERING AUTHORITY	ADMISSION BODIES	DESIGNATION BODIES / SCHEME EMPLOYERS	TOTAL
	£M	£M	£M	£M
<b>2016/17</b>				
<b>Contributions Received</b>				
Employees	5.137	2.093	6.697	13.927
Employers	18.618	6.632	21.799	47.049
Transfers In	1.525	0.210	1.119	2.854
<b>Total Income</b>	<b>25.280</b>	<b>8.935</b>	<b>29.615</b>	<b>63.830</b>
<b>Payments Made</b>				
Pensions	32.828	6.562	15.144	54.534
Lump Sums	2.916	1.772	4.333	9.021
Death Benefits	0.652	0.221	0.383	1.256
Refunds	0.108	0.029	0.161	0.298
Transfers Out	3.923	0.552	2.261	6.736
<b>Total Expenditure</b>	<b>40.427</b>	<b>9.136</b>	<b>22.282</b>	<b>71.845</b>
<b>2015/16</b>				
<b>Contributions Received</b>				
Employees	5.289	2.234	6.712	14.235
Employers	18.687	6.997	20.170	45.854
Transfers In	1.375	0.076	0.922	2.373
<b>Total Income</b>	<b>25.351</b>	<b>9.307</b>	<b>27.804</b>	<b>62.462</b>
<b>Payments Made</b>				
Pensions	32.484	6.261	14.324	53.069
Lump Sums	3.928	1.982	3.578	9.488
Death Benefits	0.405	0.058	0.611	1.074
Refunds	0.080	0.021	0.144	0.245
Transfers Out	0.351	0.374	3.534	4.259
<b>Total Expenditure</b>	<b>37.248</b>	<b>8.696</b>	<b>22.191</b>	<b>68.135</b>

This table shows a breakdown of the employers contributions above:

2015/16 £M	EMPLOYERS CONTRIBUTION BREAKDOWN	2016/17 £M
31.199	Employers normal contributions	30.774
11.333	Employers deficit contributions	12.156
3.322	Employers augmentation contributions	4.119
<b>45.854</b>		<b>47.049</b>



## Note 8: Management Expenses

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

2015/16 £M	MANAGEMENT EXPENSES	2016/17 £M
0.817	Administrative costs	0.946
11.673	Investment management expenses	12.021
0.607	Oversight and governance costs	0.750
<b>13.097</b>		<b>13.717</b>

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Fund's behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled Fund investments.

The investment management expenses shown below includes £1.060m (2015/16 £2.640m) in respect of performance related fees paid/payable to the Fund's investment managers.

It also includes £0.683m in respect of transaction costs (2015/16 £0.449m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of Investments (see note 11A).

2015/16 £M	INVESTMENT EXPENSES	2016/17 £M
7.098	Management Fees	8.516
2.640	Performance Fees	1.060
1.435	Other Fees	1.702
0.449	Transaction Costs	0.683
0.051	Custody Fees	0.060
<b>11.673</b>		<b>12.021</b>

The costs incurred by the Council in administering the Fund totalled £0.946m for the year ended 31 March 2017 (2015/16 £0.817m).

2015/16 £M	ADMINISTRATIVE COSTS	2016/17 £M
0.541	Employee costs	0.573
0.155	IT	0.175
0.000	Consultants	0.067
0.062	Printing, Postage and Design	0.055
0.028	Office Accommodation	0.022
0.014	Subscriptions	0.016
0.017	Other Costs	0.038
<b>0.817</b>		<b>0.946</b>

The costs incurred by the Council in Oversight and Governance totalled £0.750m for the year ended 31 March 2017 (2015/16 £0.607m)

2015/16 £M	OVERSIGHT & GOVERNANCE COSTS	2016/17 £M
0.294	Investment advice	0.226
0.138	Employee costs (pensions investment)	0.153
0.005	Actuarial advice	0.129
0.023	LGPS Central Pooling costs	0.097
0.048	Responsible engagement overlay	0.050
0.027	External audit	0.025
0.023	Performance analysis	0.025
0.017	Internal audit	0.017
0.015	Legal and Committee	0.015
0.017	Other costs	0.013
<b>0.607</b>		<b>0.750</b>

## Note 9: Investment Income

The table below analyses the investment income received by the Fund (mostly in the form of dividends) over the last 12 months.

2015/16 £M	INVESTMENT INCOME	2016/17 £M
6.508	Dividends from equities	6.943
3.649	Income from pooled investment vehicles	4.974
0.022	Interest on cash deposits	0.014
9.143	Other	11.224
<b>19.322</b>		<b>23.155</b>

## Note 10: Taxes on Income

This table breaks down the taxes on income by asset class:

2015/16 £M	TAXES ON INCOME	2016/17 £M
0.000	Withholding tax - Fixed interest securities	0.000
0.020	Withholding tax - equities	0.097
0.000	Withholding tax - pooled	0.000
<b>0.020</b>		<b>0.097</b>

## Note 11a: Reconciliation of movements in investments

2016/17	VALUE AS AT 1ST APRIL 2016	PURCHASES AT COST	SALE PROCEEDS	TRANSITION	OTHER CASH TRANSACTIONS	CHANGE IN MARKET VALUE	VALUE AS AT 31ST MARCH 2017
INVESTMENT TYPE	£M	£M	£M	£M	£M	£M	£M
Equities	213.865	101.680	(121.297)			69.652	263.900
Pooled Investment Vehicles - Unitised Investment Vehicles	162.999		(0.806)	(158.665)		(3.528)	0.000
Pooled Investment Vehicles - Other managed Funds	1077.783	313.156	(298.245)	158.665	(0.615)	195.863	*1446.607
	<b>1454.647</b>	<b>414.836</b>	<b>(420.348)</b>	<b>0.000</b>	<b>(0.615)</b>	<b>261.987</b>	<b>1710.507</b>
Cash deposits - with Managers	38.116				15.956	0.012	54.084
Temporary Investments	0.860				1.660		2.520
	<b>1493.623</b>	<b>414.836</b>	<b>(420.348)</b>	<b>0.000</b>	<b>17.001</b>	<b>**261.999</b>	<b>1767.111</b>

\* Within the Pooled Investment Vehicles - other managed funds total of £1446.607m are £174.371m of level 3 investments as at 31 March 2017. The value of the level 3 investments were £214.739m as at 1st April 2016 which decreased to £174.371m as at 31 March 2017. The decrease in value is due to purchases of £18.711m, sales of £68.025m and change in market value of £8.946m. // \*\* The total change in market value for 2016/17 as per the table above is £261.999m. This figure is made up of profit on sales of £133.785m and also the difference between book cost and market value for the whole Fund which for 2016/17 was £128.214m.

2015/16	VALUE AS AT 1ST APRIL 2015	PURCHASES AT COST	SALE PROCEEDS	TRANSITION	OTHER CASH TRANSACTIONS	CHANGE IN MARKET VALUE	VALUE AS AT 31ST MARCH 2016
INVESTMENT TYPE	£M	£M	£M	£M	£M	£M	£M
Equities	228.604	84.236	(79.570)			(19.405)	213.865
Pooled Investment Vehicles - Unitised Investment Vehicles	159.821					3.178	162.999
Pooled Investment Vehicles - Other managed Funds	1082.132	156.834	(143.357)		(2.460)	(15.366)	*1077.783
	<b>1470.557</b>	<b>241.070</b>	<b>(222.927)</b>	<b>0.000</b>	<b>(2.460)</b>	<b>(31.593)</b>	<b>1454.647</b>
Cash deposits - with Managers	39.915	8.468	(8.517)		(1.789)	0.039	38.116
Temporary Investments	3.380				(2.520)		0.860
	<b>1513.852</b>	<b>249.538</b>	<b>(231.444)</b>	<b>0.000</b>	<b>(6.769)</b>	<b>** (31.554)</b>	<b>1493.623</b>

\* Within the Pooled Investment Vehicles - other managed funds total of £1077.783m are £214.739m of level 3 investments as at 31 March 2016. The value of the level 3 investments were £218.741m as at 1st April 2015 which decreased to £214.739m as at 31 March 2016. The decrease in value is due to purchases of £23.896m, sales of £22.247m and change in market value of -£5.651m. // \*\* The total change in market value for 2015/16 as per the table above is -£31.554m. This figure is made up of profit on sales of £28.599m and also the difference between book cost and market value for the whole Fund which for 2015/16 was -£60.153m.

## Note 11b: Analysis of investments (excluding derivative contracts)

2015/16 £M		2016/17 £M
<b>Equities</b>		
<b>UK</b>		
103.007	Quoted	118.440
<b>Overseas</b>		
110.858	Quoted	145.449
<b>213.865</b>		<b>263.889</b>
<b>Pooled Funds - additional analysis</b>		
<b>UK</b>		
162.999	Index Linked Bonds	0.000
11.075	Unit Trusts	12.372
<b>Overseas</b>		
753.072	Unit Trusts	1139.205
149.051	Hedge Fund of Funds	100.106
77.526	Pooled property investments	77.476
65.688	Private Equity	74.266
21.371	Infrastructure	43.192
<b>1240.782</b>		<b>1446.617</b>
<b>1454.647</b>	<b>Total investment assets</b>	<b>1710.506</b>

## Note 12: Stock lending

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collateralised lending generated income of £0.058m in 2016/17 and this is included within investment income in the Pension Fund Account. At 31 March 2017 £8.803m worth of stock (via the Custodian) was on loan, for which the Fund was in receipt (via the Custodian) of £9.508m worth of collateral representing 108% of stock on loan.

Although stock lending involves the transfer of title of those securities to the borrower, the lender's rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic

interest in the securities transferred. During the period stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

## Note 13: Analysis of derivatives

Between November 2007 and September 2013 the Fund passively hedged 50% of all currency exposure to eliminate some of the risks over the longer term involved in holding an increased proportion of overseas investments. In 2013 a decision was made to terminate the contract with Northern Trust who provided this service due to the restructure of the Fund which took place on 30 September 2013.

From September 2013, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling.

## Note 14: Fair value - basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

DESCRIPTION OF ASSET	VALUATION HIERARCHY	BASIS OF VALUATION	OBSERVABLE AND UNOBSERVABLE INPUTS	KEY SENSITIVITIES AFFECTING THE VALUATIONS PROVIDED
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Infrastructure	Level 2	Valued at the net asset value or a single price advised by the fund manager	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date by changes in cashflows.
Private Equity	Level 3	Valued based on the Fund's share of the net assets in the fund or limited partnership using the latest financial statements in accordance with the International Private Equity and Venture Capital guidelines 2012	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date by changes in cashflows.
Hedge Funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes in cashflows.

### Sensitivity of assets valued at level 3:

The table opposite sets out the assets which have been categorised at level 3. The figures have been derived using the valuation methods adopted by each of the relevant investment managers and are assumed to be accurate. The table also sets out the consequential potential impact on the closing value of investments if these valuations were inaccurate, based on an indicative movement of 5% on the value of investments held as at 31 March 2017.

ASSET	ASSESSED VALUATION RANGE (+/-)	VALUE AS AT 31-MAR-17 £M	VALUE ON INCREASE £M	VALUE ON DECREASE £M
Private Equity	5%	74.266	77.979	70.553
Hedge funds	5%	100.106	105.111	95.101
Total		174.372	183.090	165.654

## Note 14a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur, during 2016/17 however there were no transfers identified.

### Level 1:

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2:

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3:

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments

and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly, however, lag a quarter behind so the valuation in the accounts is as at 30 September 2016. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provide an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

ASSET TYPE 2016/17	INVESTMENT MANAGER	INVESTMENT TYPE	MARKET VALUE	QUOTED MARKET PRICE	USING OBSERVABLE INPUTS	WITH SIGNIFICANT UNOBSERVABLE INPUTS
			£M	LEVEL 1 £M	LEVEL 2 £M	LEVEL 3 £M
<b>Equities</b>	Majedie Asset Management	UK Equities	120.148	120.148		
	Harris Associates	Global Equities	143.741	143.741		
<b>Pooled Investment Vehicles</b>	Majedie Asset Management	UK Pooled Fund	12.372	12.372		
	Pimco Europe Ltd	Global Aggregate Bonds	146.028	146.028		
	MFS	Global Equities	154.295	154.295		
	HarbourVest Partners Ltd	Private Equity	74.266			74.266
	Aberdeen Property Investors	Property Unit Trusts	77.476		77.476	
	Blackrock	Hedge Fund	80.627			80.627
	Global Infrastructure Partners	Infrastructure	43.192		43.192	
	Legal & General	Global Equities	341.195	341.195		
	Investec	Global Equities	147.195	147.195		
	Brevan Howard	Hedge Fund	19.479			19.479
	Blackrock	Fixed Interest	137.777	137.777		
	GAM	Absolute Return Bonds	139.878		139.878	
	BMO	LDI	72.826	72.826		
<b>Net Current Assets (including cash)</b>			<b>57.775</b>	<b>57.775</b>		
			<b>1768.270</b>	<b>1333.352</b>	<b>260.546</b>	<b>174.372</b>

ASSET TYPE 2015/16	INVESTMENT MANAGER	INVESTMENT TYPE	MARKET VALUE	QUOTED MARKET PRICE LEVEL 1	USING OBSERVABLE INPUTS LEVEL 2	WITH SIGNIFICANT UNOBSERVABLE INPUTS LEVEL 3
			£M	£M	£M	£M
Equities	Majedie Asset Management	UK Equities	105.961	105.961		
	Harris Associates	Global Equities	107.897	107.897		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	162.999	162.999		
	Majedie Asset Management	UK Pooled Fund	11.075	11.075		
	Pimco Europe Ltd	Global Aggregate Bonds	104.506	104.506		
	MFS	Global Equities	134.460	134.460		
	HarbourVest Partners Ltd	Private Equity	65.688			65.688
	Aberdeen Property Investors	Property Unit Trusts	77.525		77.525	
	Blackrock	Hedge Fund	75.029			75.029
	Global Infrastructure Partners	Infrastructure	21.371		21.371	
	Legal & General	Global Equities	290.816	290.816		
	Investec	Global Equities	123.194	123.194		
	Brevan Howard	Hedge Fund	74.022			74.022
	Blackrock	Fixed Interest	100.096	100.096		
	Net Current Assets (including cash)			39.351	39.351	
			<b>1493.990</b>	<b>1180.355</b>	<b>98.896</b>	<b>214.739</b>

## Note 15: Financial instruments

### Note 15a: Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

FAIR VALUE THROUGH PROFIT & LOSS	31-MAR-16			31-MAR-17		
	LOANS AND RECEIVABLES	FINANCIAL LIABILITIES AT AMORTISED COST		FAIR VALUE THROUGH PROFIT & LOSS	LOANS AND RECEIVABLES	FINANCIAL LIABILITIES AT AMORTISED COST
£M	£M	£M		£M	£M	£M
<b>Financial Assets</b>						
213.865			Equities	263.900		
162.999			Pooled Investment Vehicles - Unitised Investment Vehicles	0.000		
1077.783			Pooled Investment Vehicles - Other managed Funds	1446.606		
	38.981		Cash		56.505	
	4.097		Debtors		3.930	
<b>1454.647</b>	<b>43.078</b>	<b>0.000</b>		<b>1710.506</b>	<b>60.435</b>	<b>0.000</b>
<b>Financial Liabilities</b>						
		(3.735)	Creditors			(2.671)
<b>0.000</b>	<b>0.000</b>	<b>(3.735)</b>		<b>0.000</b>	<b>0.000</b>	<b>(2.671)</b>
<b>1454.647</b>	<b>43.078</b>	<b>(3.735)</b>		<b>1710.506</b>	<b>60.435</b>	<b>(2.671)</b>

## Note 15b: Net gains and losses on financial instruments

2015/16 £M	FINANCIAL INSTRUMENTS	2016/17 £M
<b>Financial Assets</b>		
(31.554)	Fair value through profit and loss	261.999
0.000	Loans and receivables	0.000
0.000	Financial liabilities measured at amortised cost	0.000
<b>Financial Liabilities</b>		
0.000	Fair value through profit and loss	0.000
0.000	Loans and receivables	0.000
0.000	Financial liabilities measured at amortised cost	0.000
<b>(31.554)</b>		<b>261.999</b>

## Note 16: Nature and extent of risks arising from financial instruments

### Risk and Risk Management

The Fund's primary long term risk is that its assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield

movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

1. The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. The Fund's investment managers mitigate this

price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

### Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, it has been determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions

contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

ASSET TYPE	POTENTIAL MARKET MOVEMENTS (+/-)
UK Equities	19.2%
Global Unconstrained Equities	21.2%
Global Equities (passive)	20.2%
Property	12.7%
Private Equity	27.6%
Hedge Funds	9.3%
Unconstrained Bonds	5.2%
Infrastructure	18.6%
LDI	31.4%

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

ASSET TYPE	VALUE AS AT 31 MARCH 2017 £M	POTENTIAL MARKET MOVEMENT £M	VALUE ON INCREASE £M	VALUE ON DECREASE £M
<b>Net Assets including Cash</b>	57.764	0.000	57.764	57.764
<b>Investment Portfolio Assets</b>				
UK Equities	130.812	25.116	155.928	105.696
Global Equities (unconstrained)	446.950	94.753	541.703	352.197
Global Equities (passive)	341.195	68.921	410.116	272.274
Unconstrained Bonds	423.684	22.032	445.716	401.652
Property	77.476	9.839	87.315	67.637
Private Equity	74.265	20.497	94.762	53.768
Hedge Funds	100.106	9.310	109.416	90.796
Infrastructure	43.192	8.034	51.226	35.158
LDI	72.826	22.867	95.693	49.959
<b>TOTAL ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>1,768.270</b>	<b>281.369</b>	<b>2,049.639</b>	<b>1,486.901</b>

ASSET TYPE	VALUE AS AT 31 MARCH 2016 £M	POTENTIAL MARKET MOVEMENT £M	VALUE ON INCREASE £M	VALUE ON DECREASE £M
<b>Net Assets including Cash</b>	39.343	0.000	39.343	39.343
<b>Investment Portfolio Assets</b>				
UK Equities	114.082	12.207	126.289	101.875
Global Equities	659.329	64.614	723.943	594.715
Absolute Return Bonds	204.602	5.729	210.331	198.873
Property	77.525	1.861	79.386	75.664
Private Equity	65.688	3.022	68.710	62.666
Hedge Funds	149.051	6.856	155.907	142.195
UK Index linked Gilts over 5 years	162.999	15.648	178.647	147.351
Infrastructure	21.371	0.983	22.354	20.388
<b>TOTAL ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>1,493.990</b>	<b>110.920</b>	<b>1,604.910</b>	<b>1,383.070</b>

## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out opposite. These disclosures present

interest rate risk based on the underlying financial assets at fair value.

ASSET TYPE	AS AT 31 MARCH 2017 £M	AS AT 31 MARCH 2016 £M
Cash and cash equivalents	51.010	35.656
Cash balances *	(0.099)	0.005
Bonds	423.684	367.601
<b>Total</b>	<b>474.595</b>	<b>403.262</b>

\* overdrawn cash balance as at 31st March 2017

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates assuming all variables, in particular exchange rates, remain constant.

ASSETS EXPOSED TO INTEREST RATE RISK	VALUE AS AT 31 MARCH 2017 £M	POTENTIAL MOVEMENT ON 1% CHANGE IN INTEREST RATES £M	VALUE ON INCREASE £M	VALUE ON DECREASE £M
<b>As at 31 March 2017</b>				
Cash and cash equivalents	51.010	0.000	51.010	51.010
Cash balances	(0.099)	0.000	(0.099)	(0.099)
Bonds	423.684	4.237	427.921	419.447
<b>Total</b>	<b>474.595</b>	<b>4.237</b>	<b>478.832</b>	<b>470.358</b>

ASSETS EXPOSED TO INTEREST RATE RISK	VALUE AS AT 31 MARCH 2016 £M	POTENTIAL MOVEMENT ON 1% CHANGE IN INTEREST RATES £M	VALUE ON INCREASE £M	VALUE ON DECREASE £M
<b>As at 31 March 2016</b>				
Cash and cash equivalents	35.656	0.000	35.656	35.656
Cash balances	0.005	0.000	0.005	0.005
Bonds	367.601	3.676	371.277	363.925
<b>Total</b>	<b>403.262</b>	<b>3.676</b>	<b>406.938</b>	<b>399.586</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

During 2016/17 the Fund received £0.014m in interest from surplus pension fund revenue cash. This was either invested in call accounts which are classified as a variable rate investment or a fixed term deposit. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.052m. The impact of a 1% fall in interest rates would therefore imply a negative interest rate and therefore it is assumed no interest would have been received or charged on these investments.



## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the currency of the Fund (UK sterling). The Fund's currency rate risk is routinely monitored by its investment advisor in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

CURRENCY EXPOSURE - ASSET TYPE	AS AT 31 MARCH 2017 £M	AS AT 31 MARCH 2016 £M
Overseas Equities	419.612	354.361
Overseas Pooled Fixed Interest	8.337	100.096
Overseas Private Equity	74.266	68.239
Overseas Pooled Property	20.583	24.320
Overseas Infrastructure	43.192	22.948
<b>Total overseas assets</b>	<b>565.990</b>	<b>569.964</b>

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 11% (as measured by one standard deviation). An 11% fluctuation in the currency is considered reasonable based on historical movements in the month end exchange rates over a rolling 36 month period assuming all other variables, in particular, interest rates, remain constant. An 11% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

ASSETS EXPOSED TO CURRENCY RISK	ASSET VALUE AS AT 31 MARCH 2017	POTENTIAL MARKET MOVEMENT £M	VALUE ON INCREASE £M 11%	VALUE ON DECREASE £M 11%
Overseas Equities	419.612	46.157	465.769	373.455
Overseas Fixed Interest	8.337	0.917	9.254	7.420
Overseas Private Equity	74.266	8.169	82.435	66.097
Overseas Pooled Property	20.583	2.264	22.847	18.319
Overseas Infrastructure	43.192	4.751	47.943	38.441
<b>Total change in assets available</b>	<b>565.990</b>	<b>62.258</b>	<b>628.248</b>	<b>503.732</b>

ASSETS EXPOSED TO CURRENCY RISK	ASSET VALUE AS AT 31 MARCH 2016	POTENTIAL MARKET MOVEMENT £M	VALUE ON INCREASE £M 6%	VALUE ON DECREASE £M 6%
Overseas Equities	354.361	21.064	375.425	333.296
Overseas Fixed Interest	100.096	5.950	106.046	94.146
Overseas Private Equity	68.239	4.057	72.296	64.183
Overseas Pooled Property	24.320	1.446	25.766	22.874
Overseas Infrastructure	22.948	1.364	24.312	21.584
<b>Total change in assets available</b>	<b>569.964</b>	<b>33.881</b>	<b>603.845</b>	<b>536.083</b>

## Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, (the Fund currently does not hold any, but derivatives positions would be an exception here, where risk equates to the net market value of a positive derivative position). However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The investment priorities for the management of the Pension Fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction of minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements as at 31 March 2017 was £2.520m (31 March 2016 £0.860m). This was held with the following institutions.

	RATING	AS AT 31 MARCH 2017 £M	AS AT 31 MARCH 2016 £M
Lloyds Bank Fixed Term deposit	A+	0.520	-
Handelsbanken Instant Access Account	AA	2.000	0.860
<b>TOTAL</b>		<b>2.520</b>	<b>0.860</b>

### Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that

the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also cash to meet investment commitments.

The Council has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2017 was £8.322m. The Fund does not have access to an overdraft facility.

Officers prepare a daily cash flow forecast to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the investment strategy.

All financial liabilities at 31 March 2017 are due within one year.

### Note 17: Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where it considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 22 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2016 actuarial valuation, the Fund was assessed as 84% funded (76% at the March 2013 valuation). This corresponded to a deficit of £278 million (2013 valuation was £383 million) at that time. Revised contributions set by the 2016 valuation will be introduced in 2017/18 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 14.9% of pensionable pay (14% at the March 2013 valuation).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

FINANCIAL ASSUMPTIONS	31 MARCH 2016	31 MARCH 2013
Discount rate	4.55% p.a.	4.95% p.a.
Assumed long term CPI inflation	2.2% p.a.	2.6% p.a.
Salary increases – long term	3.7% p.a.	4.1% p.a.
Salary increases – short term	1% p.a. for 4 years	1% p.a. for 3 years
Pension increases in payment	2.2% p.a.	2.6% p.a.

The post retirement mortality tables are the S2PA tables. These base tables are then projected using the CMI 2015 model, allowing for a long-term rate of improvement of 1.5% per year. The assumed life expectancy from age 65 is as follows:

DEMOGRAPHIC ASSUMPTIONS	GENDER	31 MARCH 2016	31 MARCH 2013
Current pensioners (at age 65)	Males	22.9	23.7
	Females	26.1	26.0
Future pensioners (assumed current age 45)	Males	25.1	25.9
	Females	28.4	28.8

It is assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths

cash sum (which is the standard for pre April 2008 service).

## Note 18: Analysis of Debtors

Provision has been made for debtors known to be outstanding as at 31 March 2017. An analysis of debtors is shown below:

2015/16 £M	DEBTORS	2016/17 £M
0.005	Central Government bodies	0.147
1.949	Other Local Authorities	1.615
0.000	NHS Bodies	0.000
0.000	Public corporations	0.000
2.143	Other entities and individuals	2.168
<b>4.097</b>		<b>3.930</b>

## Note 19: Analysis of Creditors

Provision has also been made for creditors known to be outstanding at 31 March 2017. An analysis of creditors is shown below:

2015/16 £M	CREDITORS	2016/17 £M
0.000	Central Government bodies	0.592
1.852	Other Local Authorities	0.189
0.000	NHS Bodies	0.000
0.000	Public corporations	0.000
1.883	Other entities and individuals	1.890
<b>3.735</b>		<b>2.671</b>

## Note 20: Additional Voluntary Contributions

Scheme members have the option to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 519 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2016/17 contributions to the Schemes amounted to £0.577m. The combined value of the AVC funds as at 31 March 2017 was £4.711m.

## **Note 21: Related Party Transactions**

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The Shropshire County Pension Fund is administered by Shropshire Council. Consequently there is a strong relationship between the Council and the Pension Fund. Shropshire Council incurred costs of £1.173m (2015/16 £0.977m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

Shropshire Council is also the single largest employer of members of the Pension Fund and contributed £18.274m (2015/16 £18.523m). All monies owing to the Fund were paid across in the year. The Scheme Administrator of the Shropshire County Pension Fund is also the Head of Finance, Governance & Assurance for Shropshire Council.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Shropshire County Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Shropshire Council.

Under legislation, introduced in 2003/04, Councillors are entitled to join the scheme and

three Members of the Pension Fund Committee are Members of the Fund. These are Thomas Biggins, Malcolm Pate and Andrew B Davies.

Jean Smith, pensioner representative, and Nigel Neat, Unison representative, are also members of the Fund.

Legislation which came into force on 1 April 2014 means the LGPS is only available to councillors and elected mayors of an English County Council or District Council who elected to join before 31 March 2014. From 1 April 2014 access to the LGPS for councillors has been removed. Current members can continue in the LGPS until the end of their individual office.

## **Note 22: Contractual Commitments**

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The Fund has a 5% (£88 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2017 £208m has been committed to investment in private equity via a fund of funds manager (HarbourVest Partners). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2017 the Funds Private Equity investments totalled £74.266m.

## **Note 23: Contingent Assets**

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14 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## **Note 24: Value Added Tax**

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The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

## **Note 25: Custody of Investments**

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Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of

voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodian's own assets.

### **Note 26: Fund Auditors**

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Grant Thornton has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

### **Note 27: Pension Fund Bank Account**

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Since April 2010 all income received for the Pension Fund has been paid into a separate Pension Fund bank account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2017 £2.520 million was invested. The cash balance in the Pension Fund account as at the same date was overdrawn £0.099m.

In April 2016 a second bank account was opened and from 27 April 2016 the Fund had the capacity to make all payments direct from this account including the monthly pensioner payroll. Previous to this date the Fund relied on Shropshire Council to make all payments on behalf of the Fund and the Fund would then reimburse Shropshire Council each month for the total expenditure made. The Fund no longer requires Shropshire Council to make payments on its behalf and therefore the monthly transfer to Shropshire Council is no longer necessary.

### **Note 28: Fund Structure update**

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During April 2016 the Fund disinvested assets from its L&G index linked bond portfolio and the funds were split between BMO, the Fund's newly appointed LDI manager and GAM, a new unconstrained bond manager.

At the June 2016 Pensions Committee, members decided that all funds with Brevan Howard, hedge fund manager, should be redeemed. During 2016/17 it has only been possible to redeem 75% of the value of the portfolio with the final amount being redeemed in June 2017. These funds have been invested with Pimco in the absolute bond fund portfolio.

# **Independent audit opinion and certificate**

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## **Independent Auditor's Report**

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### **Independent auditor's report to the members of Shropshire Council on the consistency of the pension fund financial statements included in the pension fund annual report**

#### **Opinion**

The pension fund financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Shropshire County Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

#### **Pension fund annual report - Pension fund financial statements**

The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

#### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 22 September 2017.

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## **Head of Finance, Governance and Assurance's responsibilities for the pension fund financial statements in the pension fund annual report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority, in this case the Head of Finance, Governance and Assurance, is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

John Gregory

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

22 September 2017

# > Statement of responsibilities

## For the statement of accounts

### Shropshire Council's Responsibilities

Shropshire Council, as Administering Authority for the Shropshire County Pension Fund, is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, the responsibility of Chief Financial Officer is allocated to the Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator);
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

### Approved by Pensions Committee

The Statement of Accounts was approved at a meeting of the Pensions Committee on 22 September 2017.

**Thomas Biggins**

**Chair of Pensions Committee**

*22 September 2017*

### Responsibilities of Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator) as Chief Financial Officer

The Head of Finance, Governance & Assurance & Scheme Administrator is responsible for the preparation of the Shropshire County Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

#### In preparing this Statement of Accounts, the Head of Finance, Governance & Assurance & Scheme Administrator:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

#### The Head of Finance, Governance & Assurance & Scheme Administrator has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### Certificate of the Chief Financial Officer

I hereby certify that the Shropshire County Pension Fund Statement of Accounts presents a true and fair view of the financial position and the income and expenditure of the Fund for the year ended 31 March 2017 and also that the Statement of Accounts complies with the requirements of the Accounts and Audit Regulations 2011.

**James Walton**

**Head of Finance, Governance & Assurance**  
(s151 Officer & Scheme Administrator)

*22 September 2017*



# ➤ Other Fund Policies

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## Governance Compliance Statement

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This Statement has been prepared by Shropshire Council (the Administering Authority) to set out the governance arrangements for the Shropshire County Pension Fund, in accordance with The Local Government Pension Scheme Regulations 2013 (Regulation 55).

**The latest copy of this document can be found in appendix 1 on page 69.**

## Pensions Administration Strategy Report

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Pension Fund Administering Authorities have discretion as to whether to prepare a Pensions Administration Strategy Statement. Shropshire Council, as Administering Authority do produce a report under regulation 59 of The Local Government Pension Scheme Regulations 2013.

This report sets out the administration processes for the Fund and outlines the policies and performance standards towards providing a cost-effective, inclusive and high quality administration service.

**The latest copy of this document can be found in appendix 2 on page 81.**

## Funding Strategy Statement

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Administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS) under Regulation 58 of The Local Government Pension Scheme 2013 (as amended).

This document provides the basis for the actuarial valuation which occurs every three years. The Funding Strategy Statement formed the basis of the 2016 actuarial valuation. It sets out in a transparent way the Fund's prudent approach to meeting pension liabilities and maintaining stable employer contribution rates. It outlines the financial assumptions used in the actuarial valuation and identifies the risks and countermeasures employed by the Fund.

**Please see appendix 3 on page 91 for the latest copy of this document.**

## Investment Strategy Statement

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Pension Fund Administering Authorities are also required to prepare, maintain and publish an Investment Strategy Statement (ISS) under Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.

This document sets out the investment objectives of the Fund and how investments are allocated between equities, bonds and alternatives. Target investment performance is defined for each of the investment managers. The Fund's approach to social, environmental and ethical issues is also explained as is the Fund's compliance with Myners Principles.

**Please see appendix 4 on page 109 for the latest copy of this document.**

## How we keep in touch with our members and employers

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**Part 2 (61) of the LGPS regulations 2013, state that an Administering Authority must prepare, maintain and publish a written statement setting out its policy concerning communications with members, representatives of members, prospective members; and scheme employers. The statement sets out the Fund's formal policy concerning communications with its stakeholders including the format and frequency of information provided. Following any amendments this document is passed for approval to Pensions Committee and is published on the Fund website. The most recent statement in place can be found in Appendix 05.**

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### **Fund Website**

The Fund's website is the main source of information for both current and prospective members, and employers. The website address is [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

The website holds the Brief Scheme Guide including the forms and other guidance available to members to download. Members can also access their pension record online via 'My Pension Online' and is the most popular page on the website.

The website also holds information for Scheme employers and provides links to the forms and guidance made available for employers to use to supply employee data.

### **Annual Benefit Statements**

To comply with the timescale set out in section 14(5) of the Public Service Pensions Act 2013 and regulation 89 of the LGPS Regulations 2013 an Administering Authority must issue an Annual Benefit Statement to members by the 31 August.

In 2016, Annual Benefit Statements for active members were issued securely and on time via 'My Pension Online'. Members without access were able to request a paper copy of their statement under the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, however only a small number took up this option. Members can view and print a copy of their statement on 'My Pension Online' and an email was sent to all registered users once the statements were available. The notes that accompanied this year's statement were assessed by the Plain English Campaign and were awarded their Crystal Mark.

Members who had yet to register for this service were sent an activation key during September 2016. As a result the number of individual active members using 'My Pension Online' increased from 13% as at 31 May 2016 to 26% as at the 31 October 2016. During the year, the Fund further promoted 'My Pension Online' to encourage active members to register for 'My Pension Online'.

Annual Benefit Statements for deferred members were issued at the end of July 2016. The statement artwork, along with the accompanying newsletter, was produced as a joint project with seven other LGPS Funds. Deferred members were informed that 2017's statements will be issued electronically via 'My Pension Online', unless they opted to continue to receive a paper statement. Members who left during 2015/16 were not issued with a 2016 statement on time due to the pension administration system software providers not being able to implement the negative revaluation order in time. This was as a result of the delayed instruction from the Government on how the negative revaluation was to be implemented. The individuals affected were written to so that they were aware of the delay.

### **Presentations in the workplace**

Presentations and one-to-ones were held at Severnside Housing, Wrekin Housing Trust, Telford & Wrekin Council and South Shropshire Housing. In total 105 members took up the opportunity to have a one-to-one consultation with a member of the Pensions Team.

The Prudential also organised presentations with employers Shropshire Council and Telford & Wrekin Council between July and October which covered Additional Voluntary Contributions. In most cases these were supported by a member from the Pensions Team. Over 247 members attended across the two employers and the presentations were well received.

### **Employer training**

In October 2016, the annual employers meeting was held covering the actuarial valuation. The meeting was held over a morning and the agenda featured updates from the Scheme Administrator, the Fund Actuary and from officers. For the employers who were unable to attend the meeting, each of the presentations were filmed and are available to view on the Fund's website. Employers were also provided with their interim valuation results.

### **Communication to retired members**

The retired members newsletter InTouch is issued bi-annually in April and November 2016. It covers an update from Jean Smith, pensioner representative and also features an update from the Pensions Manager and covers various pension issues such as death benefits in retirement. The Fund also issues a combined P60, April payslip and pensions increase notification to Pensioners in April. Payslips and P60s are available for pension members to view online if they wish.

### **Newsletters to active members**

A newsletter for active members was produced in December 2016 which covered pension taxation rules and other topics such as state pension top up. The newsletter was made available for all active members on the Fund's website.

### **Employers Discretions Policy**

Regulation 60 of the Local Government Pension Scheme regulations 2013 state that a Scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under the regulations and share a copy with the administrating authority before 1 July 2014. In May 2016 the Fund wrote to the employers who it believed had not yet published a discretions policy.

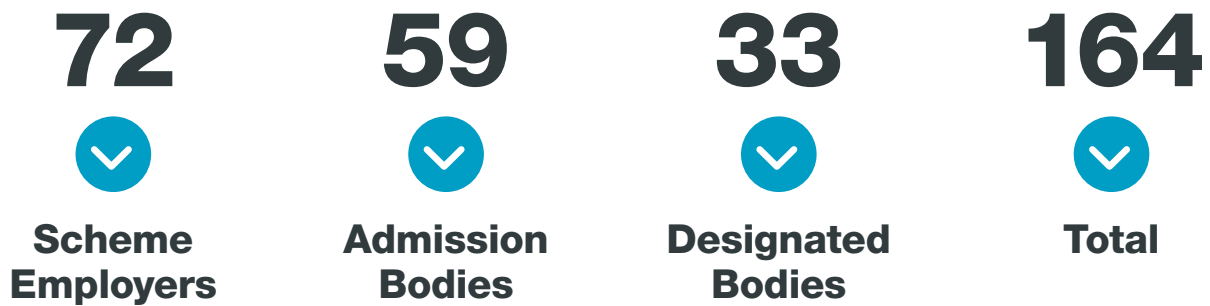
The Fund has worked hard with employers to ensure each participating employer in the Fund has a discretions policy in place and is made available on the Fund's website. To assist employers a template was purchased which provided comprehensive guidance on making a policy. This has been helpful and there has been an increase in the number of discretions policies the Fund now has. Visits have also been made to various employers around the County to provide one to one guidance.

# ➤ Further information

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## Employer Summary as at 31 March 2017

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A summary of the number of employers in the Fund analysed by Scheme employers, admission bodies and designated bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities) as at 31 March 2017.

EMPLOYERS	ACTIVE	CEASED	TOTAL
Scheme Employers	50	22	72
Admission Bodies	44	15	59
Designatd Bodies	33	0	33
<b>Total</b>	<b>127</b>	<b>37</b>	<b>164</b>

## Analysis of Fund assets as at 31 March 2017

ASSET TYPE	UK £M	NON-UK £M	GLOBAL £M	TOTAL £M
<b>As at 31 March 2017</b>				
Equities	130.812	145.460	642.686	918.958
Bonds	0.000	0.000	423.684	423.684
Alternatives	129.719	94.849	143.297	367.865
Cash and cash equivalents	44.467	9.617	0.000	54.084
<b>Total</b>	<b>304.998</b>	<b>249.926</b>	<b>1209.667</b>	<b>1764.591</b>
<b>As at 31 March 2016</b>				
Equities	103.007	110.858	559.545	773.410
Bonds	162.999	0.000	204.602	367.601
Alternatives	55.162	109.423	149.051	313.636
Cash and cash equivalents	28.609	7.047	2.460	38.116
<b>Total</b>	<b>349.777</b>	<b>227.328</b>	<b>915.658</b>	<b>1492.763</b>

## Analysis of investment income accrued during the reporting period

ASSET TYPE	UK £M	NON-UK £M	GLOBAL £M	TOTAL £M
<b>As at 31 March 2017</b>				
Equities	4.578	2.364	0.000	6.942
Bonds	0.000	0.000	0.000	0.000
Alternatives	3.256	1.718	0.000	4.974
Cash and cash equivalents	0.086	0.021	0.011	0.118
Other	1.043	3.894	6.184	11.121
<b>Total</b>	<b>8.963</b>	<b>7.997</b>	<b>6.195</b>	<b>23.155</b>
<b>As at 31 March 2016</b>				
Equities	4.126	0.000	2.381	6.507
Bonds	0.000	0.000	0.000	0.000
Alternatives	2.750	0.899	0.000	3.649
Cash and cash equivalents	0.090	0.004	0.453	0.547
Other	1.136	4.349	3.134	8.619
<b>Total</b>	<b>8.102</b>	<b>5.252</b>	<b>5.968</b>	<b>19.322</b>

# Glossary

## **Actuary**

An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

## **Additional Voluntary Contributions (AVC)**

An option available to individuals to secure additional pension benefits by making regular payments in addition to the basic employee contribution payable.

## **Admission Bodies**

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Fund and the relevant body.

## **Benchmark**

A yardstick against which the investment performance of a fund manager can be compared, usually the index relating to the particular assets held.

## **Cash Equitisation**

A technique using financial futures to minimise the drag on investment performance by holding cash.

## **Corporate Bonds**

Investment in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.

## **Currency Hedging**

A technique using forward currency contracts to off set the risks associated with the changing value of currency on the Fund's overseas investments.

## **Custody**

Safe-keeping of securities by a financial institution. The custodian keeps a record of a client's investments and may also collect income, process tax reclaims and provide other services according to the client's instructions.

## **Deferred Pension**

The inflation linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before the normal retirement age.

## **Designated Bodies**

An organisation which must make a statutory resolution covering some or all of its employees, stating that they may be scheme members.

## **Emerging Markets**

Developing economies in Latin America, Africa, Asia, and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

## **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at Shareholders' meetings.

## **Fixed Interest Securities**

Investments in mainly government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

## **Fund of Funds**

Funds whose principle activity is investing in other investment funds. Investors in funds of funds can increase their level of diversification and take advantage of the experience and research capability of the fund of funds manager.

## **Futures**

A contract made to purchase or sell an asset at an agreed price on a specified date.

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## **Hedge Funds**

An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.

## **Infrastructure**

A relatively new asset class often regarded as a stable source of cash flow with limited correlation to other asset classes providing diversification and low volatility. Its inflation hedging and long duration characteristics have also added to its attraction for investors. Infrastructure encompasses two broad groups: economic (transportation, utilities and communications) and Social (schools, hospitals, prisons and government buildings).

## **Index linked Securities**

Investment in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

## **Liability Driven Investments (LDI)**

A strategy which aims to enable Pension Funds to reduce risk and improve funding levels by reducing volatility over time. Because the value of future pension payments is directly linked to inflation, interest rates and the longevity of Fund members, Funds have sought investments linked to such factors.

## **Market Value**

The price at which an investment can be bought or sold at a given date.

## **Myners Principles**

A set of six principles which Pension Schemes are required to consider and publish their degrees of compliance. The principles require Pension Schemes to disclose, for example, the effectiveness of decision making, performance management reporting and approach to shareholder voting.

## **Pooled Investment Vehicles**

Any fund in which multiple investors contribute assets and hold them as a group.

## **Private Equity**

Investments into new and developing companies and enterprises which are not publicly traded on a recognised stock exchange.

## **Return**

The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

## **Scheme Employers**

Councils and other similar bodies whose staff automatically qualify to become members of the Pension Scheme.

## **Stakeholders**

Members who have a financial interest in the Fund's investments.

## **Transfer Value**

These are sums which represent the capital value of past pension rights which a member may transfer on changing Pension Schemes.

## **Unit Trust (Managed Funds)**

A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.





# Governance Compliance Statement

Appendix

# 01

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Agreed by Pensions Committee on 26 June 2015

## Appendices

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**67. Appendix 01**

Governance Compliance Statement

**79. Appendix 02**

Administration Strategy Statement

**89. Appendix 03**

Funding Strategy Statement

**107. Appendix 04**

Investment Strategy Statement

**117. Appendix 05**

Communications Policy Statement

**127. Appendix 06**

Reporting Breaches Policy Statement

**135. Appendix 07**

Training Policy Statement

## ■ Introduction

1. This Statement has been prepared by Shropshire Council (the Administering Authority) to set out the governance compliance statement for the Shropshire County Pension Fund (the Scheme), in accordance with The Local Government Pension Scheme Regulations 2013 (Regulation 55 refers), and its predecessor, Regulation 31 of the Local Government Pension Scheme Regulations 2008 (as amended).
2. It has been prepared by the administering authority in consultation with appropriate interested persons.

## ■ Purpose of Governance Compliance Statement

3. The regulations on governance compliance statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out:
  - a. whether it delegates its functions, or part of its functions, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;
  - b. and, if so, it must state:
    - the terms of reference, structure and operational procedures of the delegation;
    - the frequency of any committee/ sub-committee meetings;
    - whether the committee/sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members and, if there are such representatives, whether they have voting rights.
  - c. the extent to which delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
  - d. details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).
4. Thus, the policy statement should include information about all of the administering authority's pension fund governance arrangements. Information about the representation of employers should cover any arrangements for representing admitted body employers (non-scheme employers).

## Governance of Shropshire County Pension Fund

5. Under the cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the Shropshire Council governance structure that is set out below.
6. The Pensions Committee was established in 1994 with responsibility for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the Council and is linked to Full Council by virtue of the Chairman or Vice Chairman being a Shropshire Council member.
7. The Shropshire County Pension Fund local Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013. The local Pension Board operates independently of the Pensions Committee, details of which are set out in its terms of reference (summarised below).

## ■ Shropshire Council

Pensions Committee (non-executive committee)  
The Pensions Committee reports to Full Council. It meets formally at least quarterly and more frequently if formal decisions are required. In between meetings Chairman's approval may be sought.

### Terms of Reference:

- a. To advise the Council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- b. To advise employing organisations and employees within the Fund of their benefits, contributions and the financial performance of the Fund;
- c. To advise and assist the Council on the determination of any matters of general policy relating to the investment of the Pension Fund;
- d. To approve the annual report and accounts of the Fund and hold an Annual Meeting.

8. The Pensions Committee formal terms of reference (above) are interpreted as including:
- Admission of employing organisations to the Fund where discretion is permitted;
  - Appointment of external advisors and actuaries to assist with the administration of the Fund, and of external managers for the management of the Fund's portfolio of assets;
  - Approval of the periodic formal valuation of the Fund;
  - Consideration of the advice of the Council's external investment advisers and of the Scheme Administrator;
  - Determination of the objectives and general investment approach to be adopted by external fund managers;
  - Review and monitoring of investment transactions and the overall investment performance of the Fund;
  - To develop and implement shareholder policies on corporate governance issues;
  - To review and approve on a regular basis the content of the Statement of Investment Principles and to monitor compliance of the investment arrangements with the Statement;
  - To review the Funding Strategy Statement in detail at least every three years ahead of the triennial valuations being carried out, in order to inform the valuation process;
  - To review and approve on a regular basis the Communications Policy for the Fund;

## Representation

9. Representation on the Pensions Committee is as follows:

ORGANISATION	ALLOCATION
Shropshire Council	4
Borough of Telford and Wrekin Council (co-opted)	2
Employees (co-opted)	2 (non-voting)
Pensioners (co-opted)	1 (non-voting)

The Administering Authority (Shropshire Council) always holds either the Chairmanship or Vice Chairmanship. The position of Chairman and Vice Chairman rotate between Shropshire Council and the Borough of Telford & Wrekin on a one year basis.

The Committee is supported by the advice from an independent advisor and investment consultant

– one advises on strategic issues and overall investment approach and the investment consultant provide analysis and advice of a technical nature in relation to portfolio construction, interpretation of performance measurement and the monitoring of investment managers.

The role of Scheme Administrator is held by the officer who has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

Legal advice is provided by the Head of Legal and Democratic Services.

The remit for the LGPS vests formal statutory responsibility for the LGPS and fund investment with the administering authority which is answerable for the effective and prudent management of the scheme.

10. The power to co-opt rests with the Council in full assembly and not with committees; although in practice the selection of persons to serve as co-opted members is usually left to committees. The co-opted members from the Borough of Telford & Wrekin are voting members.
11. The Pensions Committee can, if so minded, elect a co-opted member as its Chairman but in this instance the Chairman is unable to:
- attend council meetings and pilot Pension Committee proposals through the full assembly;
  - answer questions put to him/her there;
  - represent the Pensions Committee on other committees
  - However, a Shropshire Council Vice-Chairman is able to deputise for the co-opted member Chairman.

## ■ Reasons for current representation

**12.** Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Pensions Committee are offered the Employers Organisation training.

The Fund holds an annual training day when members of the Committee are exposed to presentations on topical issues, such as hedge funds, private equity, actuarial valuations, infrastructure etc.

### **13. In the CIPFA Guidelines relating to the governance regulations, it states that...**

*'As things stand, Section 7 of the Superannuation Act 1972 does not permit the Secretary of State to make regulations which impact on the constitution and membership of local authority committees. There are no plans at present to amend local government law to change the provisions regarding the composition of investment or pension committees. This must be a matter for individual fund administering authorities to consider, reflecting local circumstances and choice. But in exercising that choice, it is important that authorities recognise the desirability of achieving an effective and comprehensive level of stakeholder representation within the LGPS nationally.'*

*'The challenge for pension fund panels is to find ways of engaging those people with an interest in decisions made without undermining the operation of the Panel. The Funding Strategy Statements will encourage greater emphasis on consultation and if local authority employers contributing to a fund do not have representation on the panel or committee, be it voting or non voting, then there would be a need to demonstrate they were being engaged in other ways.'*

### **For example by the holding of:**

- bi-lateral discussions, or similar forums, involving employers and other stakeholders;
  - i. an annual general meeting for all employers;
- *a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation'.*

**14.** The Myners principle, the CIPFA guidance and the statutory position have led the Council as administering authority to conclude that current representation provides the appropriate balance between accountability and inclusion.

## ■ Local Pension Board

### **Introduction and Role**

- 15.** The Shropshire County Pension Fund local Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013.
- 16.** The role of the local Pension Board as defined by regulation 106 (1) of the LGPS Regulations, is to assist Shropshire Council, the Administering Authority, as Scheme Manager;
- to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
  - to ensure the effective and efficient governance and administration of the LGPS for the Shropshire County Pension Fund.

The Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund but merely makes recommendations to assist in such management.

### **In undertaking its role, the Pension Board will ensure it:**

- is done effectively and efficiently
- complies with relevant legislation and
- is done by having due regard and in the spirit of the Code of Practice on the

governance and administration of public service pension schemes issued by the Pension Regulator and any other relevant statutory or non-statutory guidance.

### **Composition and Appointment**

**17.** The Pension Board shall consist of 4 voting members and be constituted as follows:

- a. **2 employer representatives**
- b. **2 scheme member representatives**

Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. Subject to restrictions as set out in the LGPS Regulations, Employer representatives can also include elected members. Member representatives shall be scheme members of the Shropshire County Pension Fund and have the capacity to represent scheme members of the Fund.

**18.** An independent member and substitute members may also be included in the composition of the Pension Board at the discretion of the Appointment Panel. Substitute members for employer and scheme member representatives will have voting rights but an independent member or any other members appointed to the Pension Board by the Appointment Panel will not.

**19.** The Appointment Panel, made up of the Legal Monitoring Officer and the Head of Finance, Governance & Assurance at Shropshire Council (or their deputies) will determine any eligibility and/or selection criteria that will apply to Pension Board members having due regard to the LGPS Regulations and any other relevant Code of Practice and guidance (statutory or otherwise). The selection process for representative members will be:

- **Employer representatives** – each employer will be invited to nominate one representative to represent employers on the Pension Board.
- **Scheme member representatives** – all active, deferred and pensioner scheme members will be invited to submit applications to join the Pension Board.

The applications and nominations will then be subject to a selection process determined and

carried out by the Appointment Panel. The Chair and Deputy Chair will be determined by the Appointment Panel. The term of office will be for 4 years with a possible extension for up to 2 years.

Former or existing members of the Pension Board can be reappointed (under the appointment procedures) with no limit on the number of terms they may have.

### **Operational Procedures**

**20.** Full details of the operational procedures are set out in the local Pension Board's Terms of Reference. This includes:

- circumstances where membership may be terminated prior to the end of the member's term of office
- Duties and role of the chair insofar as they:
  - i. will ensure all meetings are productive and effective
  - ii. ensure opportunity for all views to be heard, and
  - iii. seek to reach consensus and that decisions are properly put to vote where necessary.
- A quorum constituting as 2 members, made up of 1 employer and 1 member representative.
- The reporting of any concerns over a decision made by the Pension Committee to the Pension Committee subject to the agreement of at least 50% of voting Pension Board members if all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.
- Escalation route and procedures if necessary, regarding a breach of regulation / the regulator's code previously reported to the Pensions Committee but not rectified in a reasonable time period.
- Meetings will normally be held at the offices of Shropshire Council and will be a minimum of twice in each calendar year.
- Compliance with Shropshire Council's Conflict of Interest Policy including declarations of interest of members which may lead to a conflict.
- The ability to access advice and information, either from Fund officers, or other professional advisers as appropriate.

- The requirement of members to be able to demonstrate their appropriate knowledge and understanding and to refresh and keep their knowledge up to date. In addition to the requirements under the Public Service Pensions Act, it includes compliance with the Pension Fund's Training Policy insofar as it relates to Pension Board members.
- A requirement for members to have the highest standards of conduct in accordance with the Council's Constitution.
- The right for members of the Pensions Committee to attend in an observer capacity.
- The publication of information relating to the local Pensions Board in accordance with the Public Service Pensions Act requirements.
- Details of reimbursement, remuneration and allowances.

### ■ Delegation to officers

- 21.** Under the Local Government Pension Scheme Regulations 2013 the Shropshire Fund was required to formulate a policy on local discretions. These discretions were originally approved by Pensions Committee in March 1998 and have been updated following subsequent regulation changes. The latest version taking into account LGPS Regulations 2013 is listed in Appendix A.
- 22.** In addition to these local fund-wide discretions there are certain employer discretions, which under regulations, employers have the authority to determine. These discretions are employer specific.

### ■ Arrangements outside of formal governance

The Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. The arrangements include:

### ■ With employing authorities

- 23.** The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this to endeavour to maintain stable employers' contribution rates. Employing Authorities are pro-actively consulted on the Funding Strategy Statement on which the valuation and employer contribution rates are based.
- 24.** The ratio of membership from the various employing authorities in the Shropshire County Pension Fund is:

ORGANISATION	CONTRIBUTORS %
Shropshire Council	48
Borough of Telford and Wrekin Council (co-opted)	27
Parish / Town Councils	1
Other Scheme Employers	14
Admitted Bodies	10
<b>TOTAL</b>	<b>100</b>

The Shropshire County Pension Fund involves all employers, irrespective of size, in consultations and communications.

The information to be supplied by employers to enable the Administering authority to discharge its functions is outlined in the Pensions Administration Strategy Statement and can be found on the fund's website.

- 25.** Over the last decade, consultation with employing authorities on pension fund investment, actuarial matters and proposed central government changes to the regulations has evolved. A large step forward was afforded by the introduction of Statements of Investment Principles and Funding Strategy Statements, the consultation process surrounding them, and their accessibility to the Council's web site.
- 26.** All employers are invited to regular employer meetings which provide information on changes in regulations, investment matters and actuarial valuations. All employing authorities are also kept abreast of events, by e-mail, and they are encouraged to get in touch if they have questions.

- 27.** The Fund undertakes annual monitoring of its actuarial valuation position. Employer organisations are kept up to date of the latest position and its likely impact on employer contributions at the next formal valuation. At triennial valuations the Scheme Actuary presents to the employers meeting to explain changes in the funding level and implications on employer contribution rates. Employers meetings are also used to discuss the Funding Strategy Statements and data requirements for FRS17.
- 28.** An annual meeting is held each year to which all employers are invited. The meeting outlines investment performance and any changes to the Fund's investment strategy as well as regulation changes and administration issues. A Fund Manager also presents at the meeting and allows employers and scheme members the opportunity to ask questions.

### ■ **With Scheme members**

- 29.** Employees are represented on the Pensions Committee by two non-voting members (both Union members) who have an active role in the selection of managers, performance monitoring, investment strategy and responses to consultations on regulation changes. Pensioners are represented by a non-voting pensioner member.
- 30.** All employees, as well as representatives from employer organisations, are invited to the Annual Meeting each year. All pensioners and deferred members also receive an invite to the Annual Meeting which is usually held in November in the county. The meeting is filmed and made available online to enable members unable to attend in person to watch. The meeting is well attended and provides a useful opportunity for members to meet their Employee or Pensioner Representative, learn about the fund and ask questions.
- 31.** Where possible every member of the scheme receives Pensions Newsletters. The fund's annual report and a financial summary of the scheme are published on The Pension Fund's web site and in September an email notifications (where an email address is held) is issued notifying the website update. The full communication policy can be found on the website. This outlines the fund approach on

communicating with members, representatives of members, prospective members and employing authorities including the format, frequency and method of communications.

### **The Pension Fund's website includes further information on:**

- Full annual report and financial summary
- Statement of Investment Principles
- Myners Compliance
- Funding Strategy Statement
- Communication Policy
- Actuarial Valuation
- Investments
- Pensioner meetings

- 32.** The Pensions Section has a very good informal working relationship with the unions, and is always there to assist with any problems in understanding the regulations.
- 33.** In light of the requirements following the LGPS Governance changes emerging from the Public Service Pensions Act 2013, Fund Officers are currently reviewing the Training Policies in order to ensure that all stakeholders are well equipped to carry out their duties as effectively and efficiently as possible. The Training Plan includes:
- Pension Fund Officers and Managers
  - Pensions Committee Members
  - Local Pensions Board Members.

Once this review has been completed, the updated Training Policy will be adopted and steps taken to ensure all parties meet their requirements.

### ■ **Compliance against best practice guidelines**

- 34.** The current governance arrangements which were established in 1994 and updated since to take account of the latest regulatory change, adhere to the best practice guidance given by the Secretary of State.

The extent to which delegation complies with the best practice guidance is shown in Appendix B.

## > Appendix A

### Shropshire County Pension Fund policy on local directions

- The Local Government Pension Scheme Regulations 2013 [prefix R]
- The Local Government Pension Scheme (Amendment) Regulations 2015
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]
- The Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

REGULATION	DISCRETION	GUIDELINE	DELEGATED TO
A52 (2) TP17 (5) TO (8) R40 (2) R43 (2) R46 (2) R82 (2) LGPS 1997 38 (1) & 155 (4) R17 (12)	Payment of death grant	The death grant will normally be paid to or amongst nominated beneficiaries. Where no nomination has been made, we would normally pay a death grant to the deceased's personal representatives (in that capacity). Where both of these options are seen to be inappropriate or impossible perhaps because nominees have died, circumstances appear to have changed since the nomination was made or other persons claiming some or all of the death grant or would seem to have a claim, we may pay the grant as we see fit to or between surviving nominees or personal representatives or any person appearing to us to have been a relative or dependant of the deceased at any time.	Scheme Administrator
R17 (12)	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	The approach for this discretion will be the same as stated above in 'Payment of death grant'	Scheme Administrator
Rsch1 & TP 17 (9)	Decide to treat child as being in continuous education or vocational training despite a break	To be reinstated where break does not exceed one academic year	Scheme Administrator
B27 (5)	Split of children's pensions	To be paid in equal proportions to the children	Scheme Administrator
A52 (A) B27 (5)	Payment of children's pensions to parent or guardian	To be paid to child and only paid to parent or guardian in exceptional circumstances.	Scheme Administrator
R30(8) TP3 (1), TPSch2, paras 2 (1) and 2 (2) B30 (5) and B30A (5)	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age including any actuarial reduction on pre and/or post April 2014 benefits	Due to the potential costs of waiving actuarial reduction it is recommended that it be applied only on strong compassionate grounds e.g. where evidence shows that long-term care is being given to a dependent relative (solely dependent on the employee) and that this is likely to continue for many years. However, the cost of pension strain will be given significant relevance in reaching a decision.	Scheme administrator (where Employer has become defunct)
R30 (8)	Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	The Fund will not agree to flexible retirement except in circumstances where the interests of the employer considers and it is in its financial or operational interests to do so. Each case - will be considered on the merits of the financial and / or operational business case put forward, - will set out whether, in addition to any pre 1 April 2008 benefits, the member will be permitted, as part of the flexible retirement agreement, to take a) all, some or none of their 1 April 2008 to 31 March 2014 benefits, and /or b) all, some or none of their post 31 March 2014 benefits, and - will require the approval of the scheme administrator	Scheme administrator (where Employer has become defunct)
B39 & T14 (13) R34 (1)	Commutation of small pensions	To be commuted in all cases where annual value is below Inland Revenue limits other than in exceptional circumstances. The member must make a formal request including the exceptional circumstance they wish to be taken into account. Each formal request to not commute benefits will be assessed on its circumstances and merits	Scheme Administrator
A56 (2) R 36 (3)	Medical requirements	To be based on advice from the Council's Occupational Health Physician or one of the doctors on the list as approved by the pensions committee for the giving of certificates regarding permanent incapacity.	Scheme Administrator
LGPS97 - 60 (5)	Minimum level of Additional Voluntary Contribution	NONE	Scheme Administrator



REGULATION	DISCRETION	GUIDELINE	DELEGATED TO
R71 (1)	Employer's Contributions	To be paid with employees contribution by the 19th of month following the month to which they relate. If contributions are overdue by a month or more than interest may be charged depending on the individual circumstances.	Scheme Administrator
A28 (2) TP15 (1) (d) A28 (2)	Charge for estimate of transfer of AVC to main scheme	First calculation free thereafter £25 per estimate	Scheme Administrator
LGPS97 - 92	Recovery of Contribution Equivalent Premium	To be recovered in all cases permitted by the regulations	Scheme Administrator
A83 (9) R100 (7)	Acceptance of transfer value	To be refused if insufficient to meet Guaranteed Minimum Pension liability	Scheme Administrator
R100(68)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	The Fund will only extend the 12 month time limit within which a scheme member must make an election to transfer other pension rights into the LGPS after joining the LGPS: - where the member asked for transfer investigations to be commenced within 12 months of joining the LGPS but a quotation of what the transfer value will purchase in the LGPS has not been provided to the member within 11 months of joining the LGPS. The time limit for such a member to make a formal election to transfer pension rights into the LGPS will be extended to one month beyond the date of the letter issued by the Pension Fund administering authority notifying the Scheme member of the benefits the transfer will buy in the LGPS; - where the available evidence indicates the member made an election within 12 months of joining the LGPS, but the election was not received by the Pension Fund administering authority (e.g. the election form was lost in the post); - where the available evidence indicates the member had not been informed of the 12 month time limit due to maladministration. - The Funds decision would also be to support employers decision where is reasonable	T
<b>Financial Rules of the Administering Authority, Shropshire Council.</b>	Overpayment of pension	Overpayments of less than £100 not to be recovered where they occur during the month of death and recovery is likely to cause hardship or be impractical.	Scheme Administrator
R69 (1)	Decide frequency of payments to be made over to Fund by employers and decide form and frequency of information to accompany payments	All payments must be made by the 19th of the month following the month they were deducted. The formal procedure employers must adhere to is set out in the Administration Strategy Statement.	Scheme Administrator
A60 (8) R76 (4)	Procedure to be followed by Admin Authority when exercising its stage two IDRP functions	Full procedure can be found on: <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a>	Scheme Administrator
R100 (68)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	The fund will generally support employers who wish to allow an employee to transfer in pension rights outside of the standard 12 month election period. However, where the Fund considers that such a transfer would have a significantly adverse effect on an individual employers funding position and/or there is a possibility that the additional liability will fall to a sponsoring employer or some other employing authority a late transfer will not be permitted.	Scheme Administrator
LGPS97 - 109 & 110 (4) (b) TP3 (13) A70 (1) A71 (4) (c) T12	Abatement of pensions following re-employment	From the 1 June 2006 the abatement and suspension of pension policy operated by the Council changed and since this date no adjustments are required to funded pensions in respect of re-employment, regardless of the level of earnings.  This policy applies to the funded element of the pension only and not the added year's compensation. This will still be subject to adjustment as per the regulations.	Scheme Administrator
B10 (2) TP3 (6) TP4 (6)(c) TP8 (4) TP10 (2) a TP17 (2)(b) Tsch1 L23(9)	Where a member dies before making an election of average of 3 years pay for final pay purposes.	Election to be made by the Fund on behalf of the deceased member.	Scheme Administrator
A52 A B27 (5) R83	Payments for persons (other than an eligible child) incapable of managing their affairs	If it appears that a person (other than an eligible child as defined in the appropriate regulations) is entitled to the payment of benefits under the Scheme but is, by reason of mental disorder or otherwise, incapable of managing his or her affairs, taking regard to the circumstances of the case and medical guidance where appropriate the following will be considered; (a) paying benefits or any part of them to a person having care of the person entitled, or such other person as the Scheme Administrator may determine, to be applied for the benefit of the person entitled as the Scheme Administrator may direct, or (b) applying the benefits in such manner as the Scheme Administrator may determine for the benefit of the person entitled, or his/her beneficiaries and is authorised to implement the Regulation subject to any third parties who are not the legal partner of the pension benefit recipient being required to provide Power of Attorney where the annual pension payable exceeds £1000 (linked to CPI from 2014); in cases where the annual pension benefit is below £1000, medical and documentary evidence as applied for legal partners would be deemed acceptable.	Scheme Administrator

REGULATION	DISCRETION	GUIDELINE	DELEGATED TO
B25 RSch1 TP17 (9)(b)	Evidence required to determine financial dependence of co-habiting partner	A signed declaration form is required confirming the conditions which have been met and supported by the appropriate evidence.	Scheme Administrator
TSch 1 & L23 (9) B42 (1) (c) R49 (1) (c)	In the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	Benefit which is more beneficial to member to be used.	Scheme Administrator
31 (2)	Recharging payments to employers for annual compensation	A 1% handling fee of the total recharge of compensation being paid on behalf of the Employer, will be levied.	Scheme Administrator
R36 (3)	Approve medical advisors used by employers (for ill health benefits)	The medical advisors used by the employers for opinion on ill health benefits must meet the requirements set out in the LGPS regulations and have been approved by the Pensions Committee.	Scheme Administrator
TPSch 2, para 2 (3)	Whether to require any strain on Fund costs to be paid 'up front' by employing authority following flexible retirement or release of benefits before age 60	All strain is required to be paid up front. The process is outlined in 'Administration Strategy Statement'. The Fund may agree, on request from an Employer, to an alternative repayment period if exceptional circumstances are shown.	Scheme Administrator
R16 (1)	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g where the sum being paid is very small and could be paid as a single payment)	Requests to pay an APC/SCAPC via a lump sum will be refused if cost is less than £50.	Scheme Administrator

## > Appendix B

### Governance

The best practice guidelines on pension fund governance that has been issued by Communities and Local Government and the extent of the Council's compliance with each of the guidelines is set out below.

#### 1. Structure

- a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

#### Fully compliant

The Council delegates the management of the Shropshire County Pension Fund to the Pensions Committee.

- b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

#### Fully compliant

The Pensions Committee includes a representative from Shropshire Council and Borough of Telford and Wrekin Council. Representatives of employees and pensioners are also members of the Pension Committee.

- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

#### Not applicable.

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

### **Not applicable**

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that including all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

## **2. Representation**

- a. That all key stakeholders are afforded the opportunity to be represented within the main committee or advisory panel. These include:
  - i. employing authorities (including non-scheme employers, eg admitted bodies)
  - ii. scheme members (including deferred and pensioner scheme members),
  - iii. independent professional advisors
  - iv. expert advisors (on an ad-hoc basis)

### **Fully compliant**

The Pension Committee includes representatives from its main employers which represent 75% of active members. The Committee includes two co-opted employee representatives and a pensioner representative. The Committee is supported by the advice of an independent advisor and investment consultant.

- b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

### **Fully compliant**

All Pension Committee members have equal access to all papers and meetings, and are able to participate in training, and contribute to the Committee's decision-making process.

## **3. Selection and role of lay members**

- a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

### **Fully compliant**

All Pension Committee members are given training on their responsibilities and are aware of the terms of reference and remit of the Pensions Committee.

- b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda

### **Fully compliant**

All Pension Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda at the start of each committee meeting.

## **4. Voting**

- a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

### **Fully compliant**

The elected councillor representatives, from Shropshire Council and Borough of Telford and Wrekin Council representative all have voting rights. The Constitution of the Administering Authority requires voting members to be democratically elected. The employee and pensioner representatives are therefore co-opted non-voting members of the Committee.

## **5. Training / facility time / expenses**

- a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.

### **Fully compliant**

The Pensions Committee hold an Annual Training day to which all Committee members and substitute members are invited. Training is also provided to new members and on an ad hoc basis as required. All Pensions Committee members are covered by their respective Council's scheme for reimbursement of expenses for committee members.

- b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

### **Fully Compliant**

All Pensions Committee members have equal access to training and reimbursement of expenses.

### **6. Meetings (frequency/quorum)**

- a. That an administering authority's main committee or committees meet at least quarterly.

### **Fully compliant**

The Pensions Committee meets quarterly. Additional meetings are arranged for specific items of business as required.

- b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

### **Not applicable**

The Shropshire County Pension Fund does not have any secondary committee or panel. It is felt that having all members including employee and pensioner representatives on the main Pensions Committee is more inclusive.

- c. That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

### **Fully compliant**

The Fund includes employee and pensioner representatives on its main Committee. The Fund also hold an Annual Meeting to which all employers, employees, deferred members and pensioners are invited.

### **7. Access to information, documents and advice**

- a. That subject to any rules in the Councils constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.

### **Fully compliant**

All Pensions Committee members have equal access to all papers and meetings.

### **8. Scope**

- a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

### **Fully compliant**

The Pensions Committee terms of reference are multi-disciplined and include the monitoring of investments, scheme administration and general scheme issues.

### **9. Publicity**

- a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

### **Fully compliant**

The Pension Fund Governance Policy Statement is published on the Administering Authority's website and hard copies are available on request.

# Administration Strategy Statement

Appendix

**02**

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Agreed by Pensions Committee on 26 June 2016

## Appendices

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- 67. Appendix 01**  
Governance Compliance Statement
- 79. Appendix 02**  
Administration Strategy Statement
- 89. Appendix 03**  
Funding Strategy Statement
- 107. Appendix 04**  
Investment Strategy Statement
- 117. Appendix 05**  
Communications Policy Statement
- 127. Appendix 06**  
Reporting Breaches Policy Statement
- 135. Appendix 07**  
Training Policy Statement

## ■ 1. Introduction

Shropshire County Pension Fund (“the Fund”) is responsible for the administration of the Local Government Pension Scheme (“the Scheme”) within the geographical area of Shropshire. The Fund also administers the Scheme on behalf of a number of qualifying employers who are not situated within the Shropshire area. The service is carried out by Shropshire Council (“the administering authority”) on behalf of qualifying employers and ultimately the Scheme members.

This document is the Pensions Administration Strategy Statement which outlines the policies and performance standards towards providing a cost-effective, inclusive and high quality pensions administration service.

Delivery of such an administration service is not the responsibility of one person or one organisation, but is rather the joint working of a number of different stakeholders which between them are responsible for delivering the pensions administration service to meet the diverse needs of the membership and the regulatory requirements.

## ■ 2. Compliance

Developed in consultation with employers within the Fund, this statement seeks to promote good working relationships, improve efficiency and ensure agreed standards of quality in delivery of the pension administration service amongst the employers and the Fund. A copy of this strategy is issued to each of the relevant employers and can be found in the employer area of our website.

**In no circumstances does this strategy override any provision or requirement of the Regulations nor is it intended to replace the more extensive commentary provided by the Employers’ information on the Funds website and guides provided by the Local Government Association (LGA)**

## ■ 3. Review

The undertakings set out within this Pension Administration Strategy will be reviewed annually by the Fund. The Fund will review this policy statement and make revisions as appropriate following a material change in its policies in relation to any of the matters contained in the strategy. Employers will be consulted and informed of the changes.

## ■ 4. Regulatory framework

Regulation 59-(1) of the LGPS Regulations 2013 enables an LGPS administering authority to prepare a document (“the pension administration strategy”) detailing administrative standards, performance measures, data flows and communication with employers.

In addition, Regulation 70.-(1) of the LGPS Regulations 2013 allows an administering authority to recover costs from an employing authority where costs have been incurred because of that employing authority’s level of performance in carrying out its functions under these Regulations. See section on Poor Performance.

This document has been presented, considered and ratified by the Pensions Committee on the 28th June 2016 and, as such, the contents of which apply to all existing and future employers of Shropshire County Pension Fund from that date.

## ■ 5. Scheme employer duties and responsibilities

The delivery of a high quality, cost effective administration service is not the responsibility of just the administering authority, but depends on the joint working of the administering authority with a number of individuals employed in different organisations to ensure Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

### **Monthly/Annual Data transfer**

The Fund’s preferred method of data collection for employee is via iConnect or an agreed alternative. It is a Fund intention that all employers are using iConnect by March 2018.

### **Appointing a main contact**

Each Employing authority must designate a named individual to act as the main point of contact with regard to any aspect of administering the LGPS and be responsible for ensuring the requirements set out in this strategy are met.

### **Their key responsibilities will be to:**

- to act as a conduit for communications to appropriate staff within the employer - for example, Human Resources, Payroll teams, Directors of Finance;

- to ensure that standards and levels of service are maintained and regulatory responsibility is complied with.
- to ensure that details of all nominated representatives and authorised signatures are correct and to notify the Fund of any changes immediately;
- to arrange distribution of communications literature as and when required;
- to inform the Fund of any alternative service arrangements required;
- to assure data quality and ensure the timely submission of data to the Fund; and
- to assist and liaise with the Fund on promotional activities.

### **Authorised signatories**

Each employer must nominate individuals to act as authorised signatories whose names and specimen signatures will be held by Pensions and must sign all documents or instructions received from an employer. In signing a document an authorised officer is not merely certifying that the form comes from the employer stated, but also that the information being provided is correct.

Consequently if an authorised signatory is certifying information that someone else has compiled, for example leaving information including a final salary pay, career average pay, assumed pay, (s)he should satisfy him/herself that the information is correct.

It is the employer's responsibility to ensure that details of the authorised signatures are correct, and to notify the Fund of any changes.

### **Employer Training**

The Fund holds annual training for employers where its officers provide information on Fund Finances, Investment Performance, Regulatory changes and also Administration Performance. Attendance by each employer's main contact and Senior Management is actively encouraged. Usually the meeting content is communicated so the relevant staff can attend. In some instances the training is filmed to enable individuals unable to attend to watch afterwards.

### **Policy Discretions**

Each employer is required by statute to prepare and publish, a written statement of its

policy regarding detail the exercise of certain discretionary functions available to them within the LGPS regulations. The policy statement must be kept under review and, where revisions are made, the revised policy statement must be sent to the Fund and made readily available to all employees within the employing authority within one month of the effective date. The LGA has produced a list of discretions employers have in the LGPS. The document can be found on the website [www.lgpsregs.org](http://www.lgpsregs.org)

### **Notification of employee's rights**

Internal Disputes Resolution Procedure (IDRP) Under Regulation 72 of The LGPS 2013 regulations any decisions made by an employing authority affecting an employee's rights to membership or entitlement to benefits must be made as soon as is reasonably practicable and notified to the employee in writing including a reference to their right of appeal in line with Regulation 73 of the LGPS regulations. Every notification must;

- Specify the rights under stage 1 and 2 of the appeals procedure quoting the appropriate regulations;
- Specify the time limits within an appeal under either stage must be made and;
- Specify to whom an application for appeal must be made
  - For first stage appeals this must be the nominated person of the employer who made the decision. For second stage appeals this will be the appointed person at the administering authority

### **Nominated person**

Each employing authority is required to nominate and name the person to whom applications under Stage 1 of the Internal Disputes Resolution Procedures should be made. The name, job title and contact details of this nominated person which must be kept up-to-date with the Fund. Employers must also notify the Fund of any first stage appeals employers receive.

### **Computer Links**

The Fund can provide the links to the Pensions Administration System to appropriate large employers, in order for employing authority staff to produce retirement estimates and enquire on their employees' record of membership. There is a charge for this access.

The Fund will ensure that the Pensions Administration System is available for use during normal office hours with the exception of any necessary scheduled maintenance of the system. Employers must notify the Fund when registered users leave the organisation or no longer requires access.

## 6. Service standards to Scheme members

Overriding legislation dictates minimum standards that Pension Schemes and Employers should meet in providing certain pieces of information to the various associated parties – not least of which the Scheme member. The LGPS Regulations also identifies a number of requirements for the Fund and Employers, which may not have been all covered in this document.

**Some of these performance standards are held within the following tables but not all:**

NEW APPOINTMENTS	
EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To ensure that pensions information is included as part of any induction process including in contracts of employment and appointment letters.</p> <p>To provide each new employee with a Brief Scheme Guide and New Member Form with their contract of employment. This may be in the form of issuing a paper copy, or PDF or directing all new members to the Funds website where the information can be viewed or downloaded. The most up to date versions can always be found on our website. Employers should ensure that whoever deals with new joiners within their organisation is issuing or directing members to the latest version of both the New Member Form and the Brief Scheme Guide.</p> <p>Employers must also determine the appropriate contribution rate (whether individually or by an automated process on payroll) and the employer must (as soon as is reasonably practicable) notify the employee of the contribution rate to be deducted from the employee's pensionable pay and the date from which the rate is payable. It is for the employer to determine the method by which the notification is given to the employee but the notification must contain a conspicuous statement giving the address from which further information about the decision may be obtained; must notify the employee of the right to appeal and including the process and timescales involved. To apply the correct employee contribution rate according to the scheme the member is in – either the 50/50 or 100/100 scheme. To alter employee contribution rates at all other times in line with the employers' discretionary policy on adjusting employee contribution rates.</p>	<p>To support employers request to attend inductions.</p> <p>To update pension information in accordance with regulatory changes and to keep PDF versions up to date on the Fund website <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p>

NEW STARTERS	
EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To ensure that all employees subject to automatic/contractual admission are brought into the Scheme from the relevant date, and provide the Pension Administration Team, with accurate details within 4 weeks of their start date by the agreed monthly return format.</p> <p>To assist the Fund in ensuring that all new starters complete the New Member Form containing information including on previous pension schemes and personal details such as their National Insurance Number, Date of Birth and Home Address. New starter information should also be added to the agreed monthly return within four weeks of the employees first pay date.</p> <p>Where there is more than one contract of employment with the same employer, each membership shall be maintained separately and the Fund notified as above.</p> <p>To send the Fund notification in agreed monthly return of any eligible employees subject to automatic entry, who opt out of the scheme within three months of joining.</p>	<p>To accurately record and update associated member records on the pension administration system.</p> <p>To apply for any Transfer Value details within two weeks of receipt of all the relevant information from the member and to produce Membership Certificates and forward them to member's home address, within thirteen weeks of joining the Scheme or as stated within the Regulations.</p> <p>To accurately create member records on the pension administration system within four weeks of receipt of the notification.</p> <p>To accurately record and update member records on the pension administration system within four weeks of receipt of the documents.</p>

ANNUAL RETURN, VALUATION & ANNUAL BENEFIT STATEMENTS	
EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To provide the Fund with year-end information to 31 March each year in an approved format no later than 30 April or the next working day.</p> <p>The information should be accompanied by a final statement; balancing the amounts paid during the year with the total amounts on the year-end return data file together with a compliance statement both duly signed by an appropriate officer.</p> <p>To provide any additional information that may be requested for the production of Annual Benefit Statements for service up until the 31st March in each particular year by the 30 April each year.</p> <p>To provide the Fund with up to date and correct information as requested in accordance with agreed timescales and the regulations.</p> <p>To ensure that all errors highlighted from the annual contribution and pensionable pay posting exercise are responded to and corrective action taken promptly.</p>	<p>To process employer year end contribution returns within three months of receipt i.e. 30th April, or within three months of receipt of the information if later.</p> <p>To produce annual benefit statements for all active members by 31st August and to provide Annual Allowance information by the 5th October each year.</p> <p>Statements will also be produced for deferred members, but no information from employers will be required. Employers must ensure that all leavers are notified to the pension's team.</p> <p>To provide data to the Fund Actuary and Government Actuary's Department to enable employer contribution rates to be accurately determined.</p> <p>To provide an electronic copy of the valuation report and contributions certificate to each employer.</p>



## CHANGES IN CIRCUMSTANCES FOR ACTIVE MEMBERS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To ensure that the Fund is informed of any changes in the circumstances of employees on the agreed monthly return or on the appropriate form within four weeks of the change. Guidance can be found in the Employers Guide at: <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p> <p><b>CHANGES INCLUDE:</b>  <b>Personal Information:</b></p> <ul style="list-style-type: none"> <li>• Change of Name</li> <li>• Marital Status</li> <li>• National insurance Number</li> </ul> <p><b>Conditions of employment affecting pensions:</b></p> <ul style="list-style-type: none"> <li>• Contractual Hours (mandatory for members who meet the underpin requirements only)</li> <li>• Any remuneration changes due to promotion and down grading - pre April 2014 members only</li> <li>• Full-time equivalent pensionable pay according to the Pre 2014 definition</li> <li>• Actual pensionable pay (including overtime/additional hours) in 100/100 and 50/50 Schemes according to the Post 2014 definition (CARE).</li> <li>• Employees Contribution Rate</li> <li>• Employee Number and/or Post Number</li> <li>• Date Joined Scheme (if adjusted)</li> <li>• Confirmation of 50/50 or 100/100 scheme entry</li> </ul> <p>NB. An Employee can easily exceed HMRC Annual Allowance if their pay increases. You therefore are asked to inform the Fund of:</p> <ul style="list-style-type: none"> <li>• Augmentation,</li> <li>• Honorariums</li> <li>• AVC contributions</li> </ul> <p>Further information is available from the fund on this issue or visit the page on 'Monthly returns' on the website <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p> <p><b>Absence</b>            During periods of reduced or nil pay as a result of sickness, injury or relevant child related leave (i.e. ordinary maternity, paternity or adoption leave or paid shared parental leave and any paid additional maternity or adoption leave) Assumed Pensionable Pay (APP) should be applied for pension purposes.</p> <p>Employer contributions should be deducted from pay and any APP. If the employee receives no pay the employer contributions should still be deducted from APP.</p> <p>Should an employee wish to purchase Additional Pension Contribution (APC) or Shared Cost (SCAPC) contract to buy back the pension 'lost' during the absence, the APP amount will need to be calculated and provided to the members employer. Employers must bring to the attention of the member before a period of absence that they can buy back the 'lost' pension. Employers should also direct members to the website <a href="http://www.lgpsmember.org">www.lgpsmember.org</a> so they can calculate the cost to buy back the 'lost' pension.</p> <p><b>Types of absences include:</b></p> <ul style="list-style-type: none"> <li>• Maternity, Paternity and Adoption</li> <li>• Paid &amp; Unpaid leave of absence</li> <li>• Industrial Action (SCAPC not available)</li> <li>• Any other material/authorised period of absence</li> </ul> <p><b>See section 'ADDITIONAL PENSION CONTRIBUTIONS (APCs) and SHARED COST APC's' for further information.</b></p>	<p>To provide template forms and spreadsheets for recording any key changes in circumstance and to provide advice on the secure submission of data electronically.</p> <p>To accurately record and update member records on pension administration systems within four weeks of notification or any shorter period as requested by the employer with regard to specific requirements.</p> <p>To highlight annually if an individual has exceeded their Annual Allowance.</p>

## RETIREMENT, TRANSFER, DIVORCE ESTIMATES / OUT SOURCINGS ETC

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To submit a request using forms PEN010 by post or attaching it to an e-mail.</p> <p>For larger bulk estimates, requests can be made in alternative agreed formats.</p> <p>To provide pay and other relevant data as requested and provided in the format requested at the time either on an individual or group basis for;</p> <ul style="list-style-type: none"> <li>• Employee requests e.g. Transfer requests, divorce requests, retirement.</li> <li>• Actuary Requests e.g. Triennial Valuation, FRS17/IAS 19</li> <li>• Staff transfers e.g. Outsourcings etc.</li> </ul>	<p>To issue the individual quotations within seven working days of receiving the request or by separate agreed timescales for bulk requests.</p> <p>To provide large employers links to the appropriate software to produce retirement estimates without the resource of Fund staff. (Employers should note there is a charge for this access).</p>

## ACTUAL RETIREMENTS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To submit the appropriate PEN007 form to the Fund as soon as the information is available. The PEN007 form must be completed fully as it confirms the information required to enable the benefits to be calculated and the employer's decision as to the type of benefit is to be paid to member. Evidence of the calculation of final pensionable pay is preferred so the Pensions Team can check the accuracy of the pay provided. If not provided the PEN007 form would be returned if it appeared to be incorrect.</p> <p>Further information can be found in the Employers Guide via <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p>	<p>To issue the member with a letter and benefits information within seven days of employer's notification.</p> <p>To make payment of any lump sum within seven working days of receipt of all relevant forms and certificates from the member, if later than retirement date.</p> <p>To pay any pension payment on the 29th of each month into the bank, following retirement, unless this falls on a weekend or bank holiday when the payment will be made on the last working day before.</p>

### ILL HEALTH RETIREMENTS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To determine whether an ill health award is to be made, based on medical evidence and the criteria set in the current LGPS regulations after obtaining an opinion from a Fund approved Independent Medical Registered Practitioner (IMRP) on the appropriate certificate. If an award is made, to then determine which tier 1, 2 or 3 is to be awarded.</p> <p>Arrange for completion of the PEN007 and then submit to the Fund with all related paperwork.</p> <p>To keep a record of all Tier 3 ill health retirements, particularly in regard to arranging the 18 month review. Arranging if necessary with an (IMRP) approved by the Administration Authority for a further medical certificate. To recover any overpayment of pension benefits following a discovery of gainful employment and notify the Fund, where appropriate.</p> <p>To review all Tier 3 ill health retirement cases prior to discontinuance at three years. Further information on Ill health retirements can be found on the employers pages on our website <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p>	<p>To calculate and pay required benefits in line with actual retirement timescales.</p> <p>To assist the employer in performing their legislative responsibility to review Tier 3 ill health cases at eighteen months.</p>

### MEMBERS LEAVING EMPLOYMENT BEFORE RETIREMENT

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To notify the Fund using the Leavers Form PEN007 form of the employee's date and reason for cessation of membership and all other relevant information on approved forms within four weeks of the event at the latest.</p>	<p>To accurately record and update member records on the pension administration system.</p> <p>To inform members who leave the Scheme, who are not entitled to immediate payment of benefits, the options available and deferred benefit entitlement within one month of receiving all relevant information.</p>

### FORMER MEMBERS WITH DEFERRED BENEFITS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To keep adequate records of the following for members who leave the Scheme with deferred benefits as early payment of benefits may be required:</p> <ul style="list-style-type: none"> <li>• Name &amp; Last known address</li> <li>• National Insurance Number</li> <li>• Payroll Number</li> <li>• Date of Birth</li> <li>• Last job including job description</li> <li>• Salary details</li> <li>• Date and reason for leaving</li> </ul> <p>To determine, following an application from the former employee to have their deferred benefits paid early, as to whether or not they are eligible for early payment on ill health grounds in line with the criteria set in the relevant regulations and after seeking a suitable medical opinion from an (IMRP) approved by the Administering Authority or to determine whether benefits should to be released early and in some cases any actuarial reduction waived on compassionate grounds.</p>	<p>To record and update member records on pension administration system.</p> <p>To provide former members, where possible, an annual benefit statement of their deferred benefits updated by accrued annual pensions increase awards.</p> <p>To provide estimates of benefits that may be payable and any resulting employer costs within seven days of request.</p>

### DEATH IN SERVICE & TERMINAL ILLNESS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To inform the Fund immediately on the death of an employee, or when a member is suffering from a potentially terminal illness and provide details of next of kin.</p> <p>Further information can be found on the employers pages of our website <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p>	<p>To assist employers, employees and their next of kin in ensuring the pension options are made available and that the payment of benefits are expedited in an appropriate and caring manner.</p>

### FINANCIAL OBLIGATIONS

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To pay the Fund all contributions deducted from payroll (not including AVCs) of its employees and employer contributions and any deficit Lump Sum payments due on a monthly basis, no later than the 19th day of the month following the period of deductions. Further information can be found in the Employer Guide via <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p> <p>Each payment must be accompanied by the agreed monthly statement providing;</p> <ul style="list-style-type: none"> <li>• the breakdown of the payment, at employee level (if not using iConnect).</li> <li>• Employee 100/100 (main scheme) contributions</li> <li>• Employee 50/50 scheme contributions</li> <li>• Employee additional contributions</li> <li>• Employer contributions</li> <li>• Employer SCAPC contributions</li> <li>• Deficit payment</li> </ul> <p>To pay all rechargeable items to the Fund on receipt of the invoice. Benefits will not commence until the invoice is paid.</p>	<p>To allocate the received contributions to each employers record.</p> <p>Interest may be charged for late payment in the following circumstances;</p> <ul style="list-style-type: none"> <li>• Employer contributions (including deficit payment) are overdue if they are received a month later than the due date specified.</li> <li>• All other payments are overdue if they are not received by the due date specified.</li> </ul> <p>Inform each employer of any new contribution bandings tables.</p> <p>Inform employers of any rechargeable items as they become due.</p>

**ADDITIONAL PENSION CONTRIBUTIONS (APCS) AND SHARED COST APC'S (SCAPCS)**

EMPLOYERS' RESPONSIBILITY	FUND'S RESPONSIBILITY
<p>To communicate to employees regarding the option of SCAPC's to cover periods of 'lost pension' and the timeframe they must elect to purchase a SCAPC. Members must elect within 30 days of returning to work following the absence but employers have the discretion to extend this period.</p> <p>To calculate and collect from the employee payroll contributions and to arrange the prompt payment to the Fund, according to the published schedule and to be no later than the 19th of the month following deduction. More information can be found in the Employers Guide on <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a></p>	<p>To provide information on APCs to members/employers through <a href="http://www.shropshirecountypensionfund.co.uk">www.shropshirecountypensionfund.co.uk</a> where a modeller can be found.</p>

**Standards of data**

**Overriding Legislation in performing the role of administering the LGPS, The Fund and Employers will comply with the overriding legislation, including:**

- the Occupational Pensions Schemes
- (Disclosure of Information) Regulations 2015;
- The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015
- the Pensions Act 1995, 2004 and 2014;
- any Transitional Regulations currently in place;
- the Discretionary and Compensation Regulations 2006;
- the Data Protection Act 1998;
- the Freedom of Information Act 2000;
- the Disability Discrimination Act 1995;
- the Age Discrimination Act 2006;
- the Finance Act 2004;
- Health and Safety legislation;
- Employment Rights Act 2010;
- HMRC Legislation and Current GAD Guidance
- Public Service Pensions Act 2013

**and any future amendments to the above legislation.**

**Data Protection**

To protect any personal information held electronically the Administering Authority is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund. Members who wish to apply to access their data on data protection grounds should contact the Data Protection Officer on: (01743) 252774

Shropshire Council is the Administering Authority for the Shropshire County Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.

Your information is processed for the sole purpose of administering your pension and your personal details will be retained.

The Fund may, if it chooses, pass certain details to a third party, where the third party is carrying out an administrative function of the Fund or where we are legally obliged to do so.

Members who wish to see a copy of information held about them by the Shropshire County Pension Fund should make a subject access request under the Data Protection Act 1998 to the Information Governance Team at Shropshire Council. For details:

**Tel:** 01743 252774 or 01743 252179

**Email:** [governance@shropshire.gov.uk](mailto:governance@shropshire.gov.uk)

**Visit the website:** [www.shropshire.gov.uk](http://www.shropshire.gov.uk)

**Secure Data Transfer**

The Fund will follow Shropshire Council's data security guidelines when sending any personal data in bulk, including its published data sharing policy. This means that if data is shared:

- We will agree an authentication process and confirm that it is an appropriate person and contact number in the receiving organisation.
- Encryption software will be used, which will be self-extracting, and allow the recipient to open the file,
- Without the need for the software, it should be password protected and we will follow delivery guidelines if the data is sent by courier.
- The appropriate agreed person will confirm the data has been received, request the password and confirm the file is successfully opened.

The full guidelines can be made available on request.

## 8. Fund administration performance measures

PERFORMANCE MEASURE	TARGET (WORKING DAYS)
Payment of retirement benefits	7 DAYS
Payment of monthly pensions on the appropriate day of the month	1 DAY
Payment of transfer values	7 DAYS
Provision of inward transfer quotes	10 DAYS
Notification of deferred benefits	30 DAYS
Respond to members general postal / email/ telephone enquiries	5 DAYS

All these measures start from the date of receipt of all relevant information. The annual figures for the Fund's performance measures across all employers are recorded in the Annual Report.

### Audit

The Fund is subject to an annual audit of its processes and internal controls. Employers are expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations will be considered and where appropriate implemented with Employing authority cooperation.

### Benchmarking

The Fund will regularly monitor its costs and service performance by benchmarking with other administering authorities. Details of the costs of administration, quality measures and standards of performance will be published in the Annual Report.

## 9. Employer performance reporting

As part of this Pensions Administration Strategy the Fund will develop, with employer consultation, arrangements for quarterly reporting on key performance measures as contained in section 6 of this document

This approach to reporting will facilitate early engagement with employers and also provide a mechanism for service level review and recognition of best practice.

### Poor Performance

The Fund will seek, at the earliest opportunity, to work closely with employers in identifying areas of poor performance, provide the necessary training and development and to put in place appropriate processes to improve the level of service in the future.

In the event of continued poor performance and a

lack of any evidence of any measures being taken to achieve improvement by an employing authority, the Fund will seek to recover any additional costs arising.

Any third party costs or regulatory fines incurred by the Fund as a consequence of administrative failures or poor performance by the employing authority will be recovered from the employer. These may include fines imposed by the Courts, the Pensions Ombudsman or the Pensions Regulator and additional charges in respect of actuarial fees, third party computer charges and additional printing and distribution costs.

In dealing with poor performance the Fund will:

- write to the employer setting out the area (s) of poor performance;
- meet with the employing authority, where possible, to discuss area(s) of poor performance and how these can be addressed;
- issue formal written notice, where no improvement is demonstrated by the employing authority or where there has been a failure to take agreed action by the employing authority;
- Make claim for cost recovery, taking account of time and resources in resolving the specific area(s) of poor performance.
- Will report any claim for the cost of recovery to the Pension Committee at the next available meeting and may form part of the administration report in the Fund's published Annual Report.

### Reporting Breaches

The Fund has a procedure to be followed by certain persons in relation to reporting breaches of the law to the Pensions Regulator. The breaches procedure applies, in the main to;

- all members of the Shropshire Pension Board;
- all officers involved in the management of the Pension Fund including members of the Treasury Team and Pensions Administration Team, and the Head of Finance, Governance and Assurance (Section 151 Officer);
- any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Shropshire County Pension Fund who are responsible for Local Government Pension Scheme matters.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

If a breach needs occurs the breaches policy must be followed. The most up to date breaches policy can be found on the Funds website.

If a breach occurs by an employer the Fund will notify the employer to ensure improvements are made and will record and monitor the breach. If this failure to comply with the regulations is likely to be of material

## ■ 10. Associated policy statements

**The statement outlines the Fund's policy on:**

- Information to members, representatives and employers;
- The format, frequency and method of distributing such information;
- The promotion of the Scheme to prospective members and their employing authorities

### **Governance Policy**

Shropshire Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the scheme of delegation and the terms of reference, structure and operational procedures of the delegation. It also includes information on how it will exercise certain discretions provided by the scheme.

### **Employer Discretions**

**Since 1997, the LGPS Regulations have required every employing authority to:**

- issue a written policy statement on how it will exercise the various discretions provided by the Scheme;
- keep it under review;
- revise as necessary.

A list of the Employer discretions can be found on [www.lgpsregs.org](http://www.lgpsregs.org)

The Fund has purchased a template to assist employers when making their policy. A copy of the template can requested from the Pensions Team.

## ■ 11. Regulations Extracts

### **Local Government Pension Scheme Regulations 2013: Regulation excerpts related to Exchange of information**

#### **80. — (1) A Scheme employer must —**

- a. Inform the appropriate administering authority of all decisions made by the employer under regulation 72 (first instance decisions) or by an adjudicator appointed by the Scheme employer under regulation 74 (applications for adjudication of disagreements) concerning members; and
- b. give that authority such other information as it requires for discharging its Scheme Functions

#### **(2) If—**

- a. (a)an administering authority makes any decision under regulations 72 (first instance decisions), 75 (decisions of the adjudicator) or 76 (reference of adjudications to administering authority) about a person for whom it is not the Scheme employer; and
- b. (b) information about that decision is required by the person's Scheme employer for discharging that employer's Scheme functions, that authority must give that employer that information if asked to supply it.

#### **(3) Within three months of the end of each Scheme year, each Scheme employer must give a statement to the appropriate administering authority giving the following details in respect of each employee who has been an active member during the Scheme year —**

- a. the employee's name and gender;
- b. the employee's date of birth and national insurance number;
- c. a unique reference number relating to each employment in which the employee has been an active member; and (d) the information relating to the employee for the Scheme year in question for each employment which is specified in paragraph (4).

#### **(4) The information required by paragraph (3)(d) is —**

- a. the dates of active membership;
- b. the pensionable pay received and employee contributions deducted while regulation 9 (contributions) applied;
- c. the pensionable pay received and employee

- contributions deducted while regulation 10 (temporary reduction in contributions) applied;
- d. any contributions by the employer in relation to the employee's pensionable pay;
- e. any contributions by employee or employer under regulation 16 (additional pension contributions);
- f. any contributions by employee or employer under regulation 17 (additional voluntary contributions).

**Local Government Pension Scheme Regulations 2013: Regulation excerpts related to Pension administration strategy**

**59. — (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.**

**(2) The matters are —**

- a. procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
- b. the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—
  - i. the setting of performance targets,
  - ii. the making of agreements about levels of performance and associated matters, or
  - iii. such other means as the administering authority considers appropriate;
- c. procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- d. procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- e. the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance

- in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- f. the publication by the administering authority of annual reports dealing with—
  - the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
  - such other matters arising from its pension administration strategy as it considers appropriate; and
- g. such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

**(3) An administering authority must —**

- a. keep its pension administration strategy under review; and
- b. make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

**(4) In preparing or reviewing and making**

revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

**(5) An administering authority must publish—**

- a. its pension administration strategy; and
- b. where revisions are made to it, the strategy as revised.

**(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.**

**(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.**

**(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.**

# Funding Strategy Statement

Appendix

**03**

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Agreed by Pensions Committee on 20 March 2014

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This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (the “Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Appendices

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- 67. Appendix 01**  
Governance Compliance Statement
- 79. Appendix 02**  
Administration Strategy Statement
- 89. Appendix 03**  
Funding Strategy Statement
- 107. Appendix 04**  
Investment Strategy Statement
- 117. Appendix 05**  
Communications Policy Statement
- 127. Appendix 06**  
Reporting Breaches Policy Statement
- 135. Appendix 07**  
Training Policy Statement

## > Executive summary

Ensuring that the Shropshire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Shropshire County Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

**The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Shropshire County Pension Fund.**

**It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.**

Given this, and in accordance with governing legislation, all interested parties connected with the Shropshire County Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

### ■ **The Fund’s objective**

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

### ■ **Solvency and long term cost efficiency**

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Local Government Pension Scheme (the “LGPS”) so far as relating to the Fund.

### ■ **Deficit recovery plan and contributions**

As the solvency level of the Fund is 84% at the valuation date i.e. the assets of the Fund are less



than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may, in certain circumstances at the discretion of the Administering Authority, also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (including any indexation in deficit payments over the recovery period). Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the target recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation the employer may, at the Administering Authority's discretion, be permitted to step-up their total contributions over a period of 3 years.

### ■ Actuarial assumptions

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets allowing for the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.35% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

### ■ Employer asset shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

## ■ Fund policies

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

### 1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

### 2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is determined by the Fund's admission policy. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

### 3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

### 4. Insurance arrangements

The Fund may consider whether ill health retirement costs can be insured either through a third party insurer or by setting up an internal captive insurance arrangement which pools these risks for eligible employers. If such an arrangement is implemented the relevant employer contribution rates will be adjusted accordingly.

## ■ 1. Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Shropshire County Pension Fund (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

### **Benefits**

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Average Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

## **Employer contributions**

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

### **Primary rate**

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

### **Secondary rate**

The “Secondary rate” is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

## ■ 2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

### ■ 3. Aims and purpose of the fund

**The aims of the Fund are to:**

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

**The purpose of the Fund is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the

2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

### ■ 4. Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

#### **Key parties to the FSS**

**The Administering Authority should:**

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

### **The Individual Employer should:**

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

### **The Fund actuary should:**

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

## **5. Solvency funding target**

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

### **Solvency and long term efficiency**

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

### **Determination of the solvency funding target and deficit recovery plan**

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix A. The Employer Deficit Recovery Plans are set out in Appendix B. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future;
- and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be

applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B). These principles have resulted in an target recovery period of 16 years being adopted across all Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit
- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, if the Administering Authority agrees then the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.
  - On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.
  - In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

### **Funding for non-ill health early retirement costs**

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund.

## 6. Link to Investment Policy and the Investment Strategy Statement

The results of the 2016 valuation show the liabilities to be 84% covered by the current assets, with the funding deficit of 16% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

ASSET CLASS	ALLOCATION	CONTROL RANGES
<b>Total Equity</b>	<b>52.0</b>	<b>47.0-57.0</b>
Unconstrained Global Equity	24.0	20.0-28.0
Passive Equity (100% Hedged to GBP)	8.0	5.5-10.5
UK Alternatives	20.0	16.0-24.0
<b>Total Alternatives</b>	<b>23.0</b>	<b>18.0-28.0</b>
European (Inc UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
<b>Total Bonds</b>	<b>25.0</b>	<b>20.0-30.0</b>
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

The investment strategy and return expectations set out above equate to an overall best estimate average expected return of around 3.25% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

## 7. Identification of risks and counter measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

### Financial

The financial risks are as follows:

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses

- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

## Demographic

### The demographic risks are as follows:

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.** Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

## Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

## Regulatory

### The key regulatory risks are as follows:

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,

- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

### Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.



## ■ 8. Monitoring and review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

## > Appendix A

### Method and assumptions used in calculating the funding target

#### Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

#### Financial assumptions - solvency funding target

##### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.35% per annum above CPI inflation i.e. a real return of 2.35% per annum, equating to a total discount rate of 4.55% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

### **Inflation (Consumer Prices Index)**

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

### **Salary increases**

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In the shorter term, the long term salary increase assumption has been replaced by an assumption of 1.0% per annum for the period to 2019/20, reflecting expected short term pay restraint in the public sector over this period.

### **Pension increases/Indexation of CARE benefits**

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

### **Demographic Assumptions**

#### **Mortality/Life Expectancy**

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary.

Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### **Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

### **Other Demographics**

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

### **Expenses**

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

### **Discretionary Benefits**

The costs of any discretion exercised by an employer in order to enhance benefits for a

member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

### Method and assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum, giving a total discount rate of 4.95% per annum.

### Employer asset shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional

individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

### Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “primary rate”) for the 2016 actuarial valuation

LONG-TERM YIELDS	
Market implied RPI inflation	3.2% p.a.
SOLVENCY FUNDING TARGET FINANCIAL	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
FUTURE SERVICE ACCRUAL FINANCIAL ASSUMPTIONS	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

### Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	BASE TABLE	IMPROVEMENT	ADJUSTMENT (M / F)
<b>Current pensioners:</b>			
Normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	115% / 93%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96%
<b>Current active / deferred:</b>			
Active normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
Deferred	S2PA	CMI_2015 [1.5%]	95% / 83%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96%

Other demographic assumptions are set out in the Actuary’s formal report.

# > Appendix B

## Employer deficit recovery plans

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund’s objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority’s view of the employer’s covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum (either on annual basis or a one-off payment). This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

CATEGORY	TARGET DEFICIT RECOVERY PERIOD	DERIVATION
Fund Employers	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Open Admitted Bodies	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Closed Employers	Minimum of 16 years and the future working lifetime of the membership	Determined by the future working life of the membership, and to ensure contributions do not reduce versus those expected from the existing plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in deficit payments over the recovery period).

### Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an

evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need

to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

## ➤ Appendix C

### Glossary

**Actuarial Valuation:** an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

**Administering Authority:** the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**Admission bodies:** A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

**Benchmark:** a measure against which fund performance is to be judged.

**Best Estimate Assumption:** an assumption where the outcome has a 50/50 chance of being achieved.

**Bonds:** loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

**Career Average Revalued Earnings Scheme (CARE):** with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

**CPI:** acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

**Covenant:** the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have

difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

**Deficit:** the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

**Deficit recovery period:** the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**Discount Rate:** the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

#### **Employer's Future Service Contribution**

**Rate:** the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**Employing bodies:** any organisation that participates in the LGPS, including admission bodies and Fund employers.

**Equities:** shares in a company which are bought and sold on a stock exchange.

**Fund / Scheme Employers:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

**Funding or solvency Level:** the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**Funding Strategy Statement:** this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

#### **Government Actuary's Department (GAD):**

the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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

**Investment Strategy:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**Letting employer:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**Liabilities:** the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

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

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

**Minimum risk basis:** an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

**Orphan liabilities:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**Percentiles:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**Phasing/stepping of contributions:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**Pooling:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**Prepayment:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**Present Value:** the value of projected benefit payments, discounted back to the valuation date.

**Profile:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**Prudent Assumption:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**Rates and Adjustments Certificate:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**Real Return or Real Discount Rate:** a rate of return or discount rate net of (CPI) inflation.

**Recovery Plan:** a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**Scheduled bodies:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Section 13 Valuation:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**Solvency Funding Target:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**Valuation funding basis:** the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 Scheme:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.



# Investment Strategy Statement

Appendix

# 04

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Agreed by Pensions Committee on March 2017

## Appendices

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Governance Compliance Statement

**79. Appendix 02**

Administration Strategy Statement

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Funding Strategy Statement

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Investment Strategy Statement

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## ■ 1. Introduction

The Local Government Pension Scheme (“LGPS”), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement (“ISS” or “Statement”). Regulation 7 of The LGPS (Management and Investment of Funds) Regulations 2016 governs the requirements of this Statement. The Shropshire County Pension Fund (the “Fund”) has complied with these requirements.

Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.

Shropshire Council (the “Authority”) is the Administering Authority for the Fund.

This ISS has been prepared by the Fund’s Pension Committee (the “Committee”), following advice received from the Fund’s consultant, Aon Hewitt.

The document takes account of the Fund’s:

### **Approach to pooling**

- the Authority’s approach to the pooling of investments, including the use of collective investment vehicles and shared services.

### **Asset allocation and risk**

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the Authority’s assessment of the suitability of asset classes;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- to include the Authority’s approach to risk, the assessment of risks and how they are to be managed.

### **Policies regarding investments**

- the Authority’s policy on how social, environmental and corporate governance

considerations are taken into account in the selection, non-selection, retention and realisation of investments;

- the Authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

A copy of this ISS will be made available on request to any interested party.

## ■ 2. Governance

Shropshire Council has delegated responsibility for the management of the Fund to the Pension Committee. The Pension Committee has responsibility for establishing investment policy and ongoing implementation.

The Pension Committee is made up of nine members comprising both elected councillors and a non-voting employee and pensioner representative.

Members of the Pension Committee recognise that they have a fiduciary duty to safeguard, above all else, the financial interests of the Fund’s beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), other stakeholders being local Council Tax Payers.

Decisions affecting the Fund’s investment strategy are taken with appropriate advice from the Fund’s advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension Committee will ensure they receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.

The Committee receives independent investment advice from the following sources:

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt (the Investment Consultant) - analysis and advice of a technical nature in relation to all investment related aspects of the Fund.

The Fund's Scheme Administrator has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

### **Local Pensions Board**

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of adherence to statutory duties.

The Board consists of 2 employer and 2 member representatives.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

### **Investment Principles**

Details to the extent to which the Pension Committee complies with the six Myners principles and the extent to which management and investment arrangements at Shropshire comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply, are set out in Appendix A.

## **3. Approach to Pooling**

The Fund is a participating member of the LGPS Central Pool. The proposed structure and basis on which the LGPS Central Pool (the "Pool") will operate was set out in the July 2016 submission to Government.

### **Assets to be Invested in the Pool**

The Fund's intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

It is expected that the majority of the Fund's liquid assets will be transferred to the Pool on 1st April 2018, although it will take some time for the Pool to restructure the assets into appropriate sub-funds within the Pool. These sub-funds are likely to be set-up over a period of 2 – 3 years, with the timing being dependent on market conditions and operational circumstances, and until such time

as the appropriate sub-fund is set up the assets transferred into the Pool will be overseen by LGPS Central on behalf of the Fund. It is not expected that any significant decisions (e.g. replacement of a manager) will be taken on the assets transferred over to the Pool without prior consultation with the Fund, unless it is part of the process that leads to the setting up of a sub-fund.

At present it is expected that any transitory cash will be held outside the Pool (but not strategic cash holdings), and it is possible that currency management will continue to be carried out at an individual fund level.

### **Structure and Governance of the LGPS Central Pool**

The eight administering authorities of LGPS Central will all be equal shareholders of the company. A Shareholders' Forum, comprising of one elected member from each administering authority, will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively and in the best interests of the funds.

A Joint Committee, also comprising one elected member from each administering authority, will be formed that will hold the company to account on all investment-related issues. The Joint Committee will have no decision making powers and all actions that are felt to be appropriate will ultimately require approval at an individual fund level.

A Practitioners' Advisory Forum, comprising of Officers of the administering authorities, will also be set up. The intention of this forum is to provide support and guidance to elected members on some of the practical issues, and to act as a conduit between the Joint Committee and the Committees of individual funds.

## **4. Asset allocation and risk**

### **Strategic Asset Allocation**

The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Committee retains direct responsibility for this decision which is made on the advice of their investment adviser with input from their Fund actuary and in consultation with the employers within the Fund.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

The Committee formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments;
- the suitability of particular investments and types of investment;
- ensuring that asset allocation strategies are sufficiently diversified.

The Committee will consider a full range of investment opportunities including:

- quoted and unquoted equity;
- government and non-government bonds;
- Liability Driven Investment (“LDI”);
- property and infrastructure;
- hedge funds and other alternative investments.

The Committee further considers the legality of all investments for compliance with the LGPS.

### **Investment Beliefs**

The following investment beliefs are taken into account when agreeing an asset allocation policy:

- A long term approach to investment will deliver better returns.
- The long term nature of the Fund’s liabilities is well suited to a long term approach to investment.
- Asset allocation policy is the most important driver of long term return.
- Risk premiums exist for certain types of asset and taking advantage of these can help to improve investment returns.
- Markets can be inefficient, and sometimes ‘mispriced’ for long periods of time, and there is a place for both active and passive investment management.

- Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

### **Asset-liability Study and Expected Returns**

The Committee determines the strategic asset allocation policy after considering projections of the Fund’s assets and liabilities which are calculated by the Fund’s investment adviser, in liaison with the Fund Actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund’s objectives.

The asset-liability study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund’s benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (for example index-linked gilts) is more closely

linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the current 10 year annualised nominal return assumptions from Aon Hewitt at 31 December 2016 (as used in the Asset-Liability Modelling study carried out at that time).

ASSET CLASS	31 DECEMBER 2016	
	EXPECTED RETURN %	VOLATILITY %
UK Equities	7.8%	19.2%
Global Unconstrained Equities	8.7%	21.2%
Global Passive Equities	7.1%	20.2%
Property	6.3%	12.7%
UK Index-Linked Gilts (Over 5 year duration)	0.5%	10.2%
Unconstrained Bonds	4.3%	5.2%
Global Fund of Hedge Funds	2.7%	9.3%
Global Private Equity	8.2%	27.6%
Infrastructure	5.7%	18.6%
Inflation (CPI)	2.1%	1.1%

### Investment Strategy and Control Ranges

The Fund's strategic asset allocation was agreed by Pensions Committee in September 2015 as follows:

ASSET CLASS	ALLOCATION	CONTROL RANGE
<b>Total Equities</b>	<b>52.0</b>	<b>47.0 – 57.0</b>
Unconstrained Global Equities	24.0	20.0 – 28.0
UK Equities	8.0	5.5 – 10.5
Passive Equities (100% Hedged to GBP)	20.0	16.0 – 24.0
<b>Total Alternatives</b>	<b>23.0</b>	<b>18.0 – 28.0</b>
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
<b>Total Bonds</b>	<b>25.0</b>	<b>20.0 – 30.0</b>
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

**Note:** the Fund is disinvesting from the multi-strategy hedge fund and temporarily increasing the allocation to fund of hedge funds and unconstrained bonds.

### Rebalancing Policy

Officers will review the position of the Fund quarterly to ensure the assets are within the control ranges listed above, and will rebalance as appropriate.

### Risk

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, to minimise this risk so far as is possible. The Fund's Risk Register has more information.

In particular, in arriving at the investment strategy and the production of this Statement, the Committee have considered the following key risks:

- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk;
- custody risk.

### Asset Allocation Mismatch

The LGPS (the "Scheme") is a defined benefit pension scheme which provides benefits related to the salary of members. The Scheme is a contributory defined benefit arrangement, with active members and employing authorities contributing to the Scheme.

The value of the Fund's ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund's investment policy are:

- the rate of return on assets;
- salary escalation and price inflation for active members;
- price inflation for deferred members;
- price inflation for pensioners.

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset-liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies. Consideration

is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

### **Cash-flow Risk**

The Fund remains open to new members and new accruals. Contributions are received from both active members and employers within the Fund. Active members contribute on a tiered system. Contributions from employers within the Fund are determined based on advice from the Fund Actuary based on the triennial valuation.

The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge Funds, Private Equity, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.

### **Investment Risk**

The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that asset class for taking on active manager risk.

Active manager risk is then diversified through the use of different investment managers and pooled funds.

The Committee also avails of passive management where they believe the extra risk and costs of active management would not benefit the Fund and to manage overall risk.

The Fund's assets are invested in portfolios managed by external investment managers shown in appendix B. They are benchmarked against the indicated indices. Based on expert advice (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool), investment managers may be replaced at any time and this list may not always be current.

The performance targets for the investment manager(s) are shown in appendix B. Shropshire Council recognises that these targets will not be

met in all periods under consideration, but expects that they will be met in the vast majority of long-term periods under consideration.

Each investment manager appointed by the Committee (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool) is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents.

Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

### **Concentration Risk**

The split between asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.

To ensure that asset allocation is sufficiently diversified the Committee considers a full range of investment opportunities including those available through the LGPS Central Pool. In addition investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance.

Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

### **Currency and Counterparty Risk**

Passive equity investments are fully currency hedged by the investment manager.

Some investment managers may take active currency positions based on their mandates.

The Committee has delegated responsibility for the counterparty risk to the investment manager(s) (unless the assets are invested in LGPS pooled

arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

### **Custody Risk**

The Committee regards the safekeeping of the Fund's assets as of paramount importance and has appointed Northern Trust company as global custodian and record-keeper of the Fund's assets.

### **Stock Lending**

The Fund reactivated its security lending policy with Northern Trust in February 2011, having temporarily paused the lending activity in the period after the collapse of Lehman Brothers. The collateral arrangements for the lending programme have been tightened on advice from Aon Hewitt, and the programme restarted.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool).

### **Monitoring**

The Committee monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the Fund and asset classes together with supporting analysis.
- The performance of the total Fund is also measured against the strategic benchmark, which is comprised of the asset class benchmarks weighted by the strategic allocations, and against agreed outperformance targets.
- The performance of the Fund in each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

The Officers, in conjunction with the Investment Consultant, will regularly review the allocation of assets between the different asset classes.

### **Service Provider Monitoring**

The Committee reviews from time to time the services provided by the investment adviser and

other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

### **Investment Manager Fees**

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements or pooled fund documentation (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

## **5. Policies regarding investments**

### **Social, Environmental and Corporate Governance Considerations**

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

Shropshire Council is aware of the UK Stewardship Code and is working towards becoming signatories to the Stewardship Code (the "Code"). Although it has not yet formally signed up to the Code it aims to abide by the principles of the Code where appropriate.

The principles of the UK Stewardship Code are included in Appendix C for information. BMO (formerly F&C) provides a responsible engagement overlay on the Fund's UK equity portfolios. BMO enters into constructive discussions with companies on the Fund's behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

In addition the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

## The Exercise of the Rights Attaching to Investments

The Committee has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance (unless the assets are

invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool). Only direct investments in traded equity shares carry such voting rights.

## Appendix A

### Myners Principles for Institutional Investment Decision Making

PRINCIPLE	COMPLY OR EXPLAIN	COMMENT/EXAMPLES
<b>1. Effective decision making</b> <ul style="list-style-type: none"> <li>Administrating authorities should ensure that:</li> <li>decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</li> <li>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest</li> </ul>	Comply	Pension Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pension Committee members, substitute members and Officers participate in an annual training day, attend educational seminars and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.
<b>2. Clear Objectives</b> <ul style="list-style-type: none"> <li>An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers</li> </ul>	Comply	A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process.  Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.
<b>3. Risk and liabilities</b> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk</li> </ul>	Comply	Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. If required, the actuarial funding position can be reported to the Pensions Committee on a quarterly basis, using information provided by Aon Hewitt.
<b>4. Performance assessment</b> <ul style="list-style-type: none"> <li>Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors</li> <li>Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members</li> </ul>	Comply	The Officers have an independent performance measurer in place. They also receive regular updates from Aon Hewitt regarding managers and the Officers meet regularly with their managers and advisors to review their performance. The Fund has recently assessed its effectiveness as a decision-making body and aims to spend more time on strategic level and asset allocation decisions compared to meeting managers going forwards.
<b>5. Responsible ownership</b> <ul style="list-style-type: none"> <li>Administrating authorities should</li> <li>Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</li> <li>Include a statement of their policy on responsible ownership in the statement of investment principles</li> <li>Report periodically to scheme members on the discharge of such responsibilities</li> </ul>	Comply	The Investment Strategy Statement includes a statement on responsible ownership. An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's investment managers.



PRINCIPLE	COMPLY OR EXPLAIN	COMMENT/EXAMPLES
<b>6. Transparency and reporting</b> <ul style="list-style-type: none"> <li>• Administrating authorities should</li> <li>• Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</li> <li>• Provide regular communication to scheme members in the form they consider most appropriate</li> </ul>	Comply	<p>A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published.</p> <p>Stakeholders are also invited to attend the annual meeting of the Fund.</p>

## > Appendix B

### Investment manager mandates

INVESTMENT MANAGER	ASSET CLASS	BENCHMARK	TARGET
<b>ACTIVE PORTFOLIOS</b>			
PIMCO Europe Ltd	Unconstrained bonds	1 month Sterling LIBOR	+4% p.a.
BlackRock	Unconstrained bonds	3 month USD LIBOR	+ 4-6% p.a.
GAM	Unconstrained bonds	3 month Sterling LIBOR	+ 3-5% p.a.
BMO	Liability Driven Investment (LDI)	Hedge Benchmark (based on FTSE over 5 yrs Index Linked Gilt Index)	Outperform the benchmark
Majedie Asset Management	UK Equities	FTSE All Share	+2% p.a. over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+1% p.a. over rolling 3 year periods
Investec Asset Management	Global Equities	MSCI All Country World NDR	+ 3-5% p.a. over rolling 3 year periods
Harris Associates	Global Equities	MSCI World	+ 2-3% p.a. over 3 to 5 years
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% p.a.
Global Infrastructure Management	Infrastructure	n/a	RPI +5% p.a.
Aberdeen Property Investors	European (incl UK) Property	Composite of INREV VA Europe Index, vintage 2005 – 2008 and IPD UK All Balanced Funds Index	RPI +4% p.a.
Brevan Howard	Multi-Strategy Hedge Fund	3 month Sterling LIBOR	+6.0% p.a.
BlackRock	Fund of Hedge Funds	3 month Sterling LIBOR	+5.0% p.a.
<b>INDEXED (PASSIVE) PORTFOLIOS</b>			
Legal & General Investment Management	Global Equity	FTSE Developed World – GBP Currency Hedged	Match benchmark

## > Appendix C

### Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.



# Communications Policy Statement

Appendix

**05**

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**Agreed by Pensions Committee on 26 June 2015**

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This statement has been prepared by Shropshire Council (the Administering Authority) to set out the communications strategy for the Shropshire County Pension Fund (the scheme), in accordance with Regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013.

## Appendices

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- 67. Appendix 01**  
Governance Compliance Statement
- 79. Appendix 02**  
Administration Strategy Statement
- 89. Appendix 03**  
Funding Strategy Statement
- 107. Appendix 04**  
Investment Strategy Statement
- 117. Appendix 05**  
Communications Policy Statement
- 127. Appendix 06**  
Reporting Breaches Policy Statement
- 135. Appendix 07**  
Training Policy Statement

Shropshire Council, in its capacity as an Administering Authority deals with over 120 employers and approximately 15,000 scheme members, 13,000 deferred members and 10,000 pensioners in relation to the Local Government Pension Scheme (LGPS). The delivery of benefits involves communication with the membership and a whole range of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

This statement is effective as of 26 June 2015 and the membership details were correct as of that date.

Any enquiries in relation to this Communications Policy Statement should be made to:

**Debbie Sharp**

**Pensions Administration Manager**

Shropshire Council, Shirehall, Abbey Foregate  
Shrewsbury, SY2 6ND

■ **1. Introduction**

**1.1** The principal aim of the Shropshire County Pension Fund is to provide secure pensions, effectively and efficiently, administered at the lowest cost to the contributing employers.

**1.2** The Fund is committed to providing comprehensive information to all stakeholders, through the most appropriate communication methods. Effective communication cannot be left to chance and this document outlines the ways in which the Fund aims to meet this objective.

**1.3** The Shropshire County Pension fund has experience of using innovative communication techniques and intends to continue using a wide variety of communication tools in the future.

**1.4** The Fund is now part of a Joint Communications Group with neighbouring Local Government Pension Fund Authorities.

Thus the funding and resourcing of elements or our communication service is shared, such as the development and production of newsletters and Annual Benefit Statements. This has already, and will continue to, provide Fund efficiency savings.

1.5 The Fund Officers will endeavour to ensure that value for money and quality of service is obtained from sourcing both imaginative, cost effective designers and reliable printing departments.

■ **2. Principles of communication**

**2.1** The Fund has adopted five key principles that support all of its communication. The Fund is committed to ensuring that:

- Communication is factual and presented in plain language
- Communication is designed in a manner appropriate to its audience
- Communication is looked upon as involving a dialogue with others
- Communication takes on the developments and improvements in new technology and different channels.
- Communication is planned, Co-ordinated and evaluated

**2.2** The Fund will make every effort to make communication materials available in large print, Braille, audio tape and different languages if requested.

**2.3** The local Government Pension Scheme is a useful tool in attracting employees to work in local government. For Employers it is a key part of their recruitment and retention package. Pension Services are also the last, and often the only, link between former staff members and their employers. The Fund therefore has an important role in ensuring that it communicates effectively with all its stakeholders.

**2.4** Pension Services work to maintain a thorough knowledge of the regulations in order to retain the confidence of its members. Pension Services should always be the first place staff members turn for pension information during their working life and in retirement.

**2.5** Pension Services are committed to responding promptly to members' requests for information, whether it's by face to face communication, email or by letter. Information is provided within set timescales. Our turnaround time for dealing with requests is normally ten days.

### ■ **3. How does the Fund communicate with stakeholders?**

#### **3.1 Printed /Electronic Literature**

Any paper or electronic based communications is produced using the Fund branding, be that newsletters, guides or individual letters.

#### **3.2 Drop in Service**

For those members who prefer 'face to face' communication the Fund's office is situated at the Shirehall and is easily accessible by public transport from all areas of Shropshire.

Appointments can be made to discuss specific pension options or problems, but generally this is not necessary as members of the team are available during office hours. If members do drop in, appointments held are confidential and private.

#### **3.3 Telephone**

All Fund communications have a published telephone number. The number may be the general helpdesk number (01743) 252130 or the direct telephone number of the staff member responsible for carrying out the individual request.

#### **3.4 Website**

The Fund has a website ([www.shropshirecounty-pensionfund.co.uk](http://www.shropshirecounty-pensionfund.co.uk)) that is extremely popular amongst members and other stakeholders as a source of information. Electronic copies of Fund Literature, policies and reports are available for download: such as this Communications Policy Statement.

The Fund provides a secure area on the site which allows Scheme members to access their own records, calculate benefit estimates, projections and to update home address information. This is called Member Self Service or MSS.

#### **3.5 Contacting the Fund by post or email**

For general communications, the Fund has an email account and postal address. These details can be found on the back cover of this statement.

#### **3.6 Email alerts**

The Fund asks all new members for an email address and has made efforts to capture the email addresses of deferred and pensioner members.

This is so all members can be sent out email notifications when there has been a significant update to the website or an upcoming event.

#### **3.7 Presentations and courses**

The Fund delivers standard or tailored presentations on a wide range of subjects for both employers and their staff. These presentations are provided at the request of employers at geographically convenient locations by Fund staff and other specialists.

Presentations are held around the county to keep members informed of any changes that may alter their benefits.

#### **3.8 Roadshows and Member Consultations**

The Fund organises events on a consultation/surgery basis with time slots for members and prospective members. This is particularly useful for employers with small numbers of staff.

Fund membership is dispersed over a large rural area and therefore these consultations are an ideal way to reach members. These consultations are generally held after Annual Benefit Statements have been sent.

#### **3.9 Newsletters**

'Pension update' is the Fund's in-house newsletter and is sometimes produced in conjunction with our Joint Communications Group. This in-house newsletter is issued periodically. With an audience of Scheme and eligible non-members the newsletter aims to provide topical news, articles and the latest information about the Scheme and pensions in general.

InTOUCH is the Funds in-house newsletter for retired members. Published twice a year, the newsletter proves to be a useful way of providing updates on relevant changes in legislation, topical news, competitions and member's articles.

Deferred members also receive a newsletter, normally sent with their Annual Benefit Statements. These newsletters are sent when information needs to be communicated to them, again providing updates on relevant changes in legislation, topical news and reminding the member to keep the Fund notified of any future changes in address.

Newsletters or email bulletins are also issued to Scheme Employers frequently. These provide legislation, operational items and technical updates and support. They also advertise upcoming training and events.

### **Annual Report, Accounts & Meeting**

The Annual report is a financial reporting document showing the Funds accounts over the previous twelve months, along with details on both investments and administration performance.

The report and accounts are the main focus of the Annual Meeting held in November.

All retired, active and deferred members are invited to attend the Annual Meeting. The meeting gives members the opportunity to meet the Pension Committee and the members of staff who administer the Scheme on a one to one basis. Also, the Funds management team provide updates on the latest Fund news. The Fund is committed to making the meeting widely accessible to the membership and ensuring its content is of both interest and relevance. The Annual Meeting regularly covers scheme benefit changes, valuation position and investments in an interesting and informative manner.

## **4. Who are the stakeholders of the Fund and what is provided to them?**

### **4.1 Active & Deferred Scheme Members Certificate of Membership**

Within thirteen weeks of joining the Fund, each member receives a Statutory Notification detailing the information recorded on the Pension Administration System about them, such as date they joined the Scheme and whether or not they have transferred service into the Fund from elsewhere. A new notification is issued every time a member's record is amended.

### **Annual Benefit Statement**

An Annual Benefit Statement is provided to all active and deferred members. The statements include various pension details such as the current value of benefits, how they are calculated, and when they become payable. The format of the statements is continually being developed to provide members with the information they require in a clear and concise manner.

### **Scheme Literature**

A large range of literature, including scheme guidance and frequently asked questions, is produced by the Fund and is made available to both Employers and Scheme members.

A different guide is available for councillors to whom different rules apply. Councillor members of the scheme also have a different section of the Funds website.

### **Retirement Booklet**

All active members on reaching retirement receive a comprehensive booklet providing information on the Scheme and the retirement process.

### **4.2 Prospective Scheme Members Scheme Booklet**

The Fund produces a Brief Scheme Guide on the Local Government Pension Scheme. This should be provided by Scheme Employers to all new employees as part of their letter of employment, terms and conditions – some employers choose to email this to new employees.

### **Scheme Website**

The Fund's website contains specific information on joining the Scheme and the benefits of membership.

### **Promotional Campaigns**

Periodically the Fund produces dedicated marketing literature that is sent to those who choose not to join or opt to leave the Scheme. This literature promotes the benefits of having an occupational pension and gives an option to join the Scheme to members who have opted out.

### **Corporate Induction Courses**

Officers of the fund are invited to attend or to contribute to Corporate Inductions (including e-learning) for prospective members.

### **Other Employer Communications**

The increasing role of communication within all organisations means that more employers have staff newsletters, intranets and other communication facilities. The Fund actively works to provide their employees with the best information and opportunities in regard to the Scheme and often provides information to be made available on intranets and websites.

### **4.3 Retired Members Pay Advices**

The Fund issues a pay advice slip to scheme pensioners only when net pension payments vary by £5 or more from the previous month.

#### **Online access to Payslips and P60s**

Members can view P60's and payslips by logging onto a secure area on the Fund website.

#### **Combined P60 Payslip and P.I.**

Every retired member and/or their dependents will receive a P60, Payslip and P.I. notification normally at the end of April.

The pension increase notification informs them of the inflation increase on their pension, if any.

#### **Retired Members Meeting**

Every summer a dedicated meeting is held for retired members. These include a presentation from an outside speaker on a non-pension related subject and an update on the latest pensions news.

#### **Cards & Flowers**

The Fund sends Birthday Cards and Flowers to all our retired members' age 100 years and over.

#### **Validation - Retired Members Living Abroad**

The Fund undertakes a regular exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

### **4.4. Employing Authorities Employer Meetings & Training Sessions**

Meetings and training sessions are arranged for employers on a regular basis. They are used to communicate issues with employers, specifically benefit regulation changes, any administration changes, employer contribution rates and the funding level of the Shropshire Fund.

#### **Employers' Guide**

An Employers' Guide is available to all employers, detailing the processes, procedures and forms required to effectively discharge their pension administration responsibilities. The employers guide is held on the employers area of the website [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

### **Employers Bulletins**

Regular email bulletins are periodically sent out to all employers. These aim to inform employers on latest news, issues, events and regulatory changes. The bulletin is also used to communicate any consultations in regard to policy and regulations.

#### **Monthly returns and end of year procedure**

There is data that employers must submit to the Pensions Team in respect of Scheme members on a monthly basis to ensure their pension record is accurate. The monthly return template can be found in the employers pages of the pension's website and the notes on completion are contained within the spreadsheet. The spreadsheet should be securely sent to the Pensions Team to update member records each month.

Each year employers are required to submit a year end return. Employers are emailed towards the end of the financial year with the year-end template and instructions for completion.

Some employers in the Fund are using a "middleware" facility called I-Connect that assists the fund and employers by improving the flow of member data between the two parties. It is equipped for the 2014 CARE scheme requires and addresses automatic enrolment obligations together with minimizing the risk of fines from the Pension Regulator. The main cost of this system falls on the Pension Fund with a small cost to the employer.

### **4.5 Pension Committee & Fund Staff Pensions Committee**

The Committee is comprised of 9 members representing the principal employing authorities, trade union representatives representing the Fund employees and a retired member representative. The Fund has an ongoing training programme for Members and Officers to ensure that decision making is on an informed basis.

Knowledge building and training is provided via the Fund's Officers, advisors and external training courses. An annual training day is held for all Pension Committee Members and their substitutes.

Pension Committee reports are available on the council's website [www.shropshire.gov.uk](http://www.shropshire.gov.uk) and by following the link for 'Committees, meetings and decisions' and on the 'Pension Committee' page or at: [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

### **Pensions Board**

In accordance with the LGPS Governance Regulations 2015, a Pension Board has been introduced from 1 April 2015 to ensure effective governance and administration of the Scheme.

The Local Pension Board is be responsible for assisting Shropshire Council, the Scheme Manager, to:

Secure compliance with:

- The Local Government Pension Scheme Regulations;
- Any other legislation relating to the governance and administration of the Scheme, and;
- Requirements imposed by The Pensions Regulator in relation to the Scheme, and; to ensure the effective governance and administration of the Scheme.

From the date of its set up on the 1st April 2015 the Board will be an oversight body and not decision making. It does not replace existing governance arrangements in place in the Shropshire County Pension Fund in respect of the administration of the Local Government Pension Scheme.

The Pension Board shall consist of 4 voting members and be constituted as follows:

- 2 employer representatives
- 2 scheme member representatives

Pension Board reports will be available on the council's website [www.shropshire.gov.uk](http://www.shropshire.gov.uk) and by following the link for 'Committees, meetings and decisions' and on the 'Pension Board' page or at [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

### **Service Management Team**

The Scheme Administrator (s 151 officer) is responsible for the Pensions Administration and Pension Investment Teams. The Pensions Management Team meets on a monthly basis to discuss items in relation to the running of the team and regulation changes. It comprises the Pensions Administration Manager and Team Leaders. A

similar monthly meeting is held between the Head of Treasury & Pensions, the Pensions Administration manager and investment staff. Any items raised from such meetings can be escalated to the Scheme Administrator.

### **Team Meetings**

Team Meetings involving all staff are held on a monthly basis. Notes of all meetings and items arising from such meetings are passed through to the Head of Treasury & Pensions and to the Scheme administrator if necessary.

### **Training**

The Fund seeks to continually improve the ability of staff to communicate effectively and to understand the importance of good communication. Both general and pension-specific training is provided to all staff as part of the Fund's commitment to staff development. The Fund conducts performance appraisals for its entire staff.

### **Intranet and E-Mail**

Each member of staff has access to e-mail and the storage drive which contains electronic copies of many of the Key documents, manuals, minutes and circulars.

### **Local Authority Pensions Web**

All senior members of the pension's team have access to the Local Authority Pensions Web where information can be exchanged with other Local Authority Pension colleagues.

### **4.6 Communication with Other Bodies Mercer (Pension Fund Actuary)**

The Fund performs and Actuarial Valuation every three years as required by the Regulations. Mercer also deals with Interim valuations when required and information and advice on a range of issues affecting the Fund, such as new employers, bulk transfers and regulatory changes.

### **Legal Advice**

The Fund obtains legal advice from Shropshire Council as appropriate on benefits administration and investment matters. External legal advice is also obtained as and when required.

### **DCLG**

The Fund communicates with the Department of Communities and Local Government (DCLG) while



in consultation on proposals for change to the scheme and with regard to providing information under disclosure regulations.

### **Trade Unions**

Trade Unions are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pension Scheme's availability are brought to their member's attention and assist in negotiations under TUPE, in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

### **Press & Media**

The Fund in conjunction with the Council's Communications Unit, actively engages with the press and other media organisations in order to ensure clarity, facts and fair representation.

### **Shrewsbury Regional Pension Officer's Group (SPOG)**

The Shropshire County Pension Fund (SCPF) hosts the Shrewsbury Pension Officers Group which meets on a quarterly basis. The group which comprises a number of local authority funds discuss technical queries and legislation matters of common interest.

### **Joint working with other pension funds**

To reduce costs the Fund leads on collaborative working with other pension funds.

Representatives from each fund meet quarterly to discuss communications issues.

### **Investment Practitioner Group**

The Fund has an active involvement in the Investment Practitioner Group for the region where common investment issues between Funds are discussed.

### **Software Provider Group**

Members of the team attend meetings with the pension's administration software provider, to ensure the computerised administration system is able to deal with regulation changes when they occur.

### **4.7 Measure of Successful Communication Service Quality Questionnaire**

A questionnaire is issued to members with various correspondences, including retirements and

benefit quotes. This allows the fund to evaluate the service provided. Survey responses are collated and reviewed twice a year.

### **Employer Satisfaction Survey**

A survey is issued to employers, periodically to allow the fund to evaluate the service and methods of communication provided to employers. The responses are collated and used to identify any employer requirements and possible areas for improvement.

### **Compliments, Complaints and Comments**

Any compliments, complaints or comments made in letter, e-mail or verbal format are recorded on a monthly basis. The fund aims to always learn from the feedback received and continue to make improvements to the service provided.

## **5. Confidentiality**

To protect any personal information held on computer the Administering Authority is registered under the data Protection Act 1988. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the party is carrying out an administrative function of the Fund.

Members who wish to apply to access their data on Data Protection Grounds should contact the Data Protection Officer on: (01743) 252774.

## **6. Information governance**

### **Data Agreement**

To protect any personal information held electronically the Administering Authority is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund.

Members who wish to apply to access their data on data protection grounds should contact the Data Protection Officer on: (01743) 252774

Shropshire Council is the Administering Authority for the Shropshire County Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.

Your information is processed for the sole purpose of administering your pension.

The Fund may, if it chooses, pass certain details to a third party, where the third party is carrying out an administrative function of the Fund or where we are legally obliged to do so.

Members who wish to see a copy of information held about them by the Shropshire County Pension Fund should make a subject access request under the Data Protection Act 1998 to the Information Governance Team at Shropshire Council.

**For details ring:** 01743 252774 or 01743 252179  
**Email:** [information@governance@shropshire.gov.uk](mailto:information@governance@shropshire.gov.uk)  
**Or visit the website at:**  
[www.shropshire.gov.uk/access-to-information/](http://www.shropshire.gov.uk/access-to-information/)

### Protecting Information Staff Training

Information is vital to the work undertaken by the Pension Funds administrators and each member of staff is responsible for safeguarding information

held by the Fund. Staff who come into contact with, or use, personal information about members of the public are required complete a formal data handling training on an annual basis. This training helps to ensure personal information is handled appropriately and every member of the pensions team completes this training once a year.

### Freedom of Information Requests

The Freedom of Information Act (FOI) means that members of the public and organisations have new rights of access to information held by public bodies. Upon request we must tell individuals if we hold information and if so, provide it within 20 working days.

For requests of information under the Freedom of Information Act or similar legislation, please forward your request to:  
[information.request@shropshire.gov.uk](mailto:information.request@shropshire.gov.uk)

## 7. Further information

### Further information can be obtained from:

**Pensions Helpline:** (01743) 252130

**Email:** [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

**Web:** [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

FUND PUBLICATIONS AND COMMUNICATIONS				
COMMUNICATION DOCUMENT	WHEN ISSUED	AVAILABLE TO	FORMAT	WHEN REVIEWED
Brief Scheme Guide	Upon commencing employment/ when requested	Prospective/Active/Deferred/ Retired Members/Dependents	Paper/ PDF on Website	As regulations change
Topical Booklets	When required	Active/Deferred/ Retired Members/ Dependents	Paper/ PDF on Website	As regulations change/ new leaflets introduced regularly
Benefit Statements	Annually by 31st August (rolling programme)	Active/Deferred Members/ Pension Credit	Paper /online via Member	Annually
Encouraging New Members Campaign	When Required	Prospective Members	Paper-Flyer	When required
Members Newsletter	As Required	Active/Deferred Members	Paper/PDF	As regulations change/as required
Pension Consultations	As Required	Active Members	Face to face	As required
Retirement Process Booklet	To Retiring Members	Prospective/Active/Deferred/ Retired Members on website	Paper/PDF on website	As regulations change/as required
Service Quality Survey	Continually	Active/Deferred/ Retired Members	Paper/email	As required
Presentations	As Required	Prospective/Active Members	Presentation/ Face to face	As required
Induction Presentations	When requested by employer	Prospective/Active Members	Face to face	As required
Statutory notification	When member record changed	Active Members	Paper	As regulations change/as required

FUND PUBLICATIONS AND COMMUNICATIONS				
COMMUNICATION DOCUMENT	WHEN ISSUED	AVAILABLE TO	FORMAT	WHEN REVIEWED
Website	Continually	All Members/ Employers/Fund Managers/ Non Scheme Members	Website	Monthly
Annual Meeting	Annually (November)	All Members/ Employers/Fund Managers	Presentation/ Face to face/film	Annually
Annual Report	Annually	All Members/ Employers/Fund Managers	Paper/ Website/ Intranet	Annually
Helpdesk	Continually (within Office Hours)	All Members/ Employers/Fund Managers	Face to face/ Telephone/ Paper/E-mail	As required
Correspondence	Continually (within Office Hours)	All Members/ Employers/Fund Managers	Face to face/ Telephone/ Paper/E-mail	As required
Payslip	Monthly	Pensioner Members/ Dependents	Paper/ MyView	Paper copy issued when £5 variation in net pay
P60	Annually (April)	Pensioner Members	Paper/ MyView	Annually
Pensions Increase Notification	Annually (April)	Pensioner Members	Paper	Annually
InTouch- Pensioner Newsletter	Biannually (April/ October)	Pensioner Members	Paper/ Website	Biannually
Retired Members Meeting	Annually (June)	Pensioner Members	Invites by Paper/Face to face/ Website	Annually
Age 100 Pensioners	As Required	Pensioner Members	Paper/Gift	As required
Pensioners Living Abroad	Annually	Pensioner Members	Paper	Annually
Employers Guide including PEN forms	As Required	Employers	Held on Pensions Website	As regulations change/as required
Employers Bulletin	As Required	Employing Authorities	Email alerts	As regulations change/as required
Employer Meetings and Training	As Required	Employing Authorities	Face to face/ Training videos on website	As regulations change/as required
Pension Administration Strategy	Annually and as required	Employing Authorities	PDF on website	Annually
Employer Satisfaction Survey	As Required	Employing Authorities	Paper/ Online survey	Annually
iconnect	As Required	Employing Authorities	Electronic	As required
Data Transmission	As Required	Employing Authorities	Electronic	As required
Annual Report and Accounts	Annually (October)	All Members	Paper/Website/Intranet/ Email	Annually
Valuation Report	Every three years	Employing Authorities/ all Stakeholders	Paper/	Website (Overview)/ AGM Every three years
Statement of Investment Principles (SIP)	Annually	All Members/ Stakeholders	Website	As required
Governance & Compliance Statement	Quarterly	All Members	Website	Quarterly
Pension Committee Training Day	Annually	Committee Members/Fund Staff	Face to face	Annually
Other body Communications inc. SPOG, NIF, Media/ Press, Trade Unions, Joint Communication meeting	As Required	All Relevant Bodies	Paper/ Website/ Face to face	As required
Fund Staff Training and Meetings	Monthly/ as required	Fund Staff	Face to face/ Paper	As regulations change/as required
Email alerts	As required when there is a significant website update / event/ regulation change	All members	Email	As required



# Reporting Breaches Policy Statement

Appendix

**06**

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Agreed by Pensions Committee on 27 November 2015

## Appendices

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Administration Strategy Statement

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Training Policy Statement

## 1. Introduction

**1.1** This document sets out the procedures to be followed by certain persons involved with the Shropshire County Pension Fund, the Local Government Pension Scheme managed and administered by Shropshire Council, in relation to reporting breaches of the law to the Pensions Regulator.

**1.2** Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

**1.3** This Procedure document applies, in the main, to:

- all members of the Shropshire Pension Board;
- all officers involved in the management of the Pension Fund including members of the Treasury Team and Pensions Administration Team, and the Head of Finance, Governance<sup>3</sup> and Assurance (Section 151 Officer);
- any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Shropshire County Pension Fund who are responsible for Local Government Pension Scheme matters.

## 2. Requirements

**2.1** This section clarifies the full extent of the legal requirements and to whom they apply.

### 2.2 Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational

or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

- i. a legal duty relating to the administration of the scheme has not been or is not being complied with, and
- ii. the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

### 2.3 The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

### 2.4 Application to the Shropshire County Pension Fund

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Shropshire County Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

## 3. The Shropshire County Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Shropshire County Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations,

avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

### 3.1 Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: [www.legislation.gov.uk/ukpga/2004/35/contents](http://www.legislation.gov.uk/ukpga/2004/35/contents)
- Employment Rights Act 1996: [www.legislation.gov.uk/ukpga/1996/18/contents](http://www.legislation.gov.uk/ukpga/1996/18/contents)
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): [www.legislation.gov.uk/uksi/2013/2734/contents/made](http://www.legislation.gov.uk/uksi/2013/2734/contents/made)
- Public Service Pension Schemes Act 2013: [www.legislation.gov.uk/ukpga/2013/25/contents](http://www.legislation.gov.uk/ukpga/2013/25/contents)
- Local Government Pension Scheme Regulations (various): [www.lgpsregs.org/timelineregs/Default.html](http://www.lgpsregs.org/timelineregs/Default.html) (pre 2014 schemes) [www.lgpsregs.org/index.php/regs-legislation](http://www.lgpsregs.org/index.php/regs-legislation) (2014 scheme)
- The Pensions Regulator's Code of Practice: [www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx](http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx)  
In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Finance Governance & Assurance (s151 Officer) and Monitoring Officer, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

### 3.2 Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate

to check with the Head of Finance Governance & Assurance, the Monitoring Officer, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

### 3.3 Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

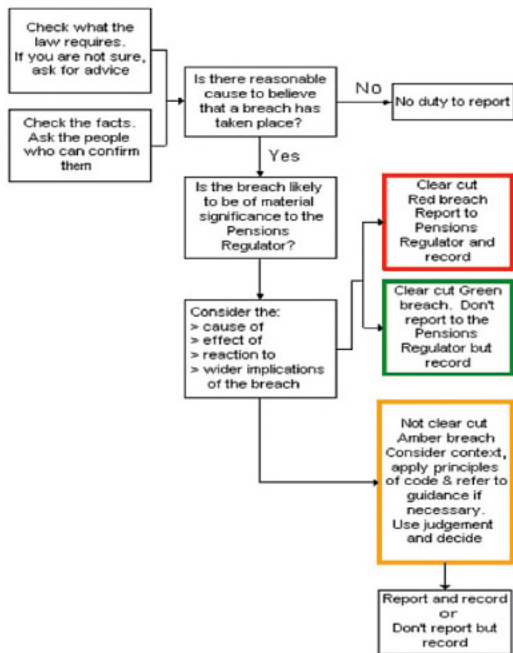
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

**3.4** A decision tree is provided overleaf to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

### Decision-tree: deciding whether to report



### 3.5 Referral to a level of seniority for a decision to be made on whether to report

Shropshire Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Head of Finance Governance & Assurance or the Head of Treasury & Pensions at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter’s thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone

call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

### 3.6 Dealing with complex cases

The Head of Finance Governance & Assurance or Monitoring Officer may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LGA Group - <http://www.lgpsregs.org/>). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

### 3.7 Timescales for reporting

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

### 3.8 Early identification of very serious breaches

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

### 3.9 Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example



it may reveal a systemic issue). Shropshire Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Head of Finance Governance & Assurance. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

### **3.10 Reporting a breach**

Reports must be submitted in writing via The Pensions Regulator's online system at [www.tpr.gov.uk/exchange](http://www.tpr.gov.uk/exchange), or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name  
(Shropshire County Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Shropshire Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (10051249); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

### **3.11 Confidentiality**

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

### **3.12 Reporting to Pensions Committee and Pension Board**

A report will be presented to the Pensions Committee and the Pension Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

### **3.13 Review**

This Reporting Breaches Procedure was originally developed in November 2015. It will be kept under review and updated as considered appropriate by the Head of Finance Governance & Assurance. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

## Further Information

If you require further information about reporting breaches or this procedure, please contact:

### Justin Bridges

Head of Treasury & Pensions

Email: justin.bridges@shropshire.gov.uk

Telephone: 01743 252072

### Debbie Sharp

Pension Administration Manager

Email: debbie.sharp@shropshire.gov.uk

Telephone: 01743 252192

**Shropshire County Pension Fund,  
Shropshire Council, Shirehall, Abbey Foregate,  
Shrewsbury, SY2 6ND**

### Designated officer contact details:

**1) Head of Finance Governance & Assurance –  
James Walton**

Email: james.walton@shropshire.gov.uk

Telephone: 01743 255011

**2) Monitoring Officer – Claire Porter**

Email: claire.porter@shropshire.gov.uk

Telephone: 01743 252763

## > Appendix A

### Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

#### The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

#### The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being
- prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.

- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time.
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

### The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

### The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

**It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated next:**

## > Appendix B

### Traffic light framework for deciding whether or not to report

#### > Red

Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

**These must be reported to The Pensions Regulator.**

**Example:** Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

#### > Amber

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

**Example:** Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members.



# Training Policy Statement

Appendix

# 07

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Agreed by Pensions Committee on 18 March 2016

## Appendices

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- 117. Appendix 05**  
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- 127. Appendix 06**  
Reporting Breaches Policy Statement
- 135. Appendix 07**  
Training Policy Statement

## ■ Introduction

This is the Training Policy of the Shropshire County Pension Fund, which is managed and administered by Shropshire Council. The Training Policy is established to aid all to whom this Policy applies in having the sufficient knowledge and understanding ensuring that all decisions, actions and other activities are carried out in an informed and appropriate way. This means that advice and guidance from external bodies can be challenged and tested appropriately and that the Funds operational and strategic direction is in accordance with best practice and guidance. The Training Policy has the ultimate aim of ensuring that the Shropshire County Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

## ■ Aims and objectives

Shropshire Council recognises the importance of its role as Administering Authority to the Shropshire County Pension Fund on behalf of its stakeholders which include:

- Over 40,000 current and former members of the Fund
- Over 140 employers

In relation to training, the Administering Authority's objectives are to ensure that:

- Those persons charged with the financial management and decision-making with regard to the LGPS Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them;
- Those persons responsible for the day-to-day administration and running of the Fund are appropriately equipped with the knowledge and skills required to discharge their duties and responsibilities in relation to the Fund;
- Those persons responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based, and to manage any potential conflicts of interest

All to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the Fund will aim to comply with:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) knowledge and skills frameworks;
- Section 248a of the Pensions Act 2004 (as amended by the knowledge and skills requirements of the Public Service Pensions Act 2013);
- The Pensions Regulator's (TPR) Code of Practice No 14, Governance and Administration of Public Service Pension Schemes 2015

By adhering to a Training Policy the Fund will be able to demonstrate a high level of governance and standards, and report against peer group Funds in the Scheme Advisory Board KPI program.

## ■ To whom this Policy applies

This Training Policy applies to all individuals that take on a decision making, scrutiny or oversight role in the Fund. This includes:

- Officers of the administering authority involved in the management and administration of the Fund
- Members of the Pension Fund committee, including scheme member and employer representatives
- Members of the pension board, including scheme member and employer representatives.

## ■ CIPFA knowledge and skills framework

The CIPFA knowledge and skills framework identifies eight areas of knowledge and skills as the core technical requirements for those working in public sector pensions finance.

They are:

- Pensions legislation
- Public sector pensions governance
- Pensions administration
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and product knowledge
- Actuarial methods, standards and practices

James Walton (Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator)

at Shropshire Council is the Fund's designated named individual responsible for ensuring that the this Training Policy is implemented. This is in line with principle five of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge.

## ■ **Shropshire County Pension Fund Training Plan**

The Fund recognises the importance of training in ensuring pension fund committee members, pension board members and officers attain, and then maintain, the relevant knowledge and skills.

The Funds approach to training will be supportive with the intention of providing pension fund committee members, pension board members and officers with regular sessions that will contribute to their level of skills and knowledge. The Fund will develop a rolling Training Plan, which takes account of the following:

### **Individual training needs**

A training needs analysis will be developed for committee members, pension board members and officers to identify the key areas in which training is required. This evaluation will be undertaken on an annual basis. Training on the identified areas will be provided as necessary and on an ongoing refresher basis.

### **Topic based training**

The need for appropriately timed training in relation to current topics, such as when decisions are required in relation to complex issues or in new areas not previously considered will be provided as required.

### **General awareness**

There is an expectation on those to which this policy applies that they should maintain a reasonable knowledge of ongoing developments and current issues, and have a good level of general awareness of pension related matters appropriate for their roles.

### **How training will be provided**

Training will be delivered through a variety of methods including:

- in-house training days provided by officers and/or external providers;
- shared training with other LGPS Funds or framework arrangements

- training at meetings (e.g. committee or pension board) provided by officers and/or external advisers;
- external training events, such as those organised by the Local Government Association (LGA), CIPFA, or Pensions and Lifetime Saving Association (PLSA), previously NAPF.
- attendance at seminars and conferences offered by industry-wide bodies, such as those organised by the LGA, LGC Pension Investment Seminars, CIPFA, Local Authority Pension Fund Forum or PLSA
- circulation of reading material, including Fund committee reports and minutes from attendance at seminars and conferences;
- attendance at meetings and events with the Fund's investment managers and advisors
- links to on-line training such as that provided by the TPR;
- the Funds website [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk) and national LGPS websites where Scheme information is available.
- fund policies and documents such as the Annual Report and the Governance Compliance Statement

### **Induction process**

An evaluation will be undertaken in the form of a short self-assessment questionnaire to develop an appropriate individual training plan.

## ■ **Monitoring knowledge and skills**

In order to identify whether the objectives of this policy are being met, the fund will maintain a training log which records attendance at training and compare this to the Training Plan.

## ■ **Key risks**

The key risks to the delivery of this Policy are outlined below. The pension fund committee members, with the assistance of the Pension Board and Officers, will monitor these and other key risks and consider how to respond to them.

- Changes to the committee and/or pension board membership and/or officer's potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by committee members, pension board members

and/or other officers resulting in a poor standard of decision making, administration and/or monitoring.

- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided not being of an acceptable standard.

### ■ Success measures

Knowledge gaps will be identified in annual assessment with success measured against the previous year and whether the knowledge gap has been fulfilled. A training log which records attendance at training throughout the year will also be kept.

### ■ Reporting

A report will be presented to the committee and the pension board on an annual basis setting out:

- the training provided/attended in the previous year at an individual level;
- commentary on how this compares to the Training Plan; and
- any actions required, such as a review of the Training Plan.

This information will also be included in the Fund’s Annual Report and Accounts.

The Funds committee members and pension board members will be provided with details of forthcoming seminars, conferences and other relevant training events.

### ■ Costs

Where there is a cost involved in providing the training this will be met directly by the Fund. However, Investment Managers and some of the training events are provided at no cost.

### ■ Degree of knowledge and understanding required

To ensure all individuals to whom this policy applies work towards what is required a knowledge matrix has been developed, shown below. The matrix determines the level of knowledge required of the eight core technical areas highlighted by the CIPFA guidance for officers, committee and the pension board. The core areas listed below have been identified as the key skills that lie at the core in the training for those involved in public sector pension’s finance. The knowledge matrix is not exhaustive

and other technical or non-pensions related skills will be identified on an individual basis within job descriptions or via annual assessment.

### ■ Knowledge Matrix

CORE TECHNICAL AREA	OFFICERS (JOB DESCRIPTION)	PENSIONS COMMITTEE	PENSION BOARD
Pensions Legislation LGPS Regulations	C	BK	BK / C*
Public Sector Pensions Governance	C	BK	C*
Pensions Administration	E	BK	C*
Pensions Accounting and Auditing Standards	E	C	C
Financial services procurement and relationship management	E	C	BK
Investment performance and risk management	E	C	BK
Financial Markets and Product Knowledge	C	C	BK
Actuarial methods, Standards and Practices	C	C	BK

- BK** = Basic knowledge
- C** = Conversant (i.e. working knowledge)
- E** = Expert

\*Statutory requirement (Paragraphs 34-36 of the Pensions Regulator’s Code of Practice state that: A member of the Pensions Board of a public sector pension scheme must be conversant with the rules of the scheme, any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme and must also have a knowledge and understanding of the law relating)

### ■ Further information

For further information about anything in or related to in this policy please contact:

**Rebecca Purfit,**  
**Communications Officer,**  
 Pension Services,  
 Shropshire County Pension Fund,  
 Shirehall,  
 Abbey Foregate,  
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**SY2 6ND**

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# Shropshire County Pension Fund

## Further Information

If you can read this but know someone who can't, please contact the Pensions Helpline so we can provide this information in a more suitable format.

## Pensions Helpline:

(01743) 252130

## E-mail:

[pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

## Administered by:

Pension Services, Shropshire Council,  
Shirehall, Abbey Foregate, Shrewsbury,  
SY2 6ND



# Agenda Item 6



<u>Committee and Date</u>
Pensions Committee
22 September 2017
10.00am

<u>Item</u>
Public

## CORPORATE GOVERNANCE MONITORING

**Responsible Officer** Ed Roberts  
e-mail: [ed.roberts@shropshire.gov.uk](mailto:ed.roberts@shropshire.gov.uk)

Tel: (01743) 252078

### 1. Summary

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> April 2017 to 30<sup>th</sup> June 2017.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.
- 3.4 There are no direct Equalities or Community consequences.

### 4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

### 5. Background

- 5.1 The Shropshire County Pension Fund has been actively voting for over fifteen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all equity portfolios.

5.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. BMO Global Asset Management provide this responsible engagement overlay on the Fund's UK equities portfolio.

## 6. Manager Voting Activity

6.1 Details of managers voting activity during the quarter relating to equity portfolios are attached (Appendix A).

## 7. Responsible Engagement Activity

7.1 During the last quarter BMO Global Asset Management have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B in the REO Activity report.

### **List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Corporate Governance Monitoring report, Pensions Committee 23 June 2017

#### **Cabinet Member**

N/A

#### **Local Member**

N/A

#### **Appendices**

The appendices to the report will be published as a supplementary pack and will only be sent electronically. Hard copy will be available in the Members Library with the other papers for the meeting

A. Manager Voting Activity Reports.

B. BMO Global Asset Management Responsible Engagement Overlay Reports.



Committee and Date
Pensions Committee
22 September 2017
10.00am

Item
Public

## IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II)

**Responsible Officer** Justin Bridges

e-mail: [justin.bridges@shropshire.gov.uk](mailto:justin.bridges@shropshire.gov.uk)

Tel: (01743) 252072

### 1. Summary

- 1.1 The report outlines the impact of the implementation of the European Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3 January 2018. It recommends that the Committee agree that elections for professional client status are made on behalf of the Shropshire County Pension Fund, as soon as possible.

### 2. Recommendations

That the Pensions Committee:

- 2.1 Notes the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.
- 2.2 Agrees to the immediate commencement of applications for elected professional client status with all the Fund's current investment and financial service providers in order to ensure it can continue to implement an effective investment strategy.
- 2.3 In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached at Appendix 1.
- 2.4 Agrees to approve delegated responsibility to the Head of Finance Governance & Assurance and Scheme Administrator for the purposes of completing the applications and determining the basis of the application as either full or single service.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Failure to opt up to professional client status would put the authority at risk of not being able to access the wide range of assets needed to implement an effective, diversified investment strategy.

#### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

#### **5. Background**

- 5.1 Under the current UK regulatory framework, local authorities are automatically categorised as 'professional' clients for investment purposes, both in terms of their treasury management and pension fund administration functions.
- 5.2 Following the introduction of the European Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, local authorities will lose the automatic right to be categorised as professional clients. Financial service providers such as banks, investment fund managers, brokers and advisors will have to treat them as retail clients, unless they are 'opted up' to professional client status. The criteria for 'opting up' in the UK are specified by the Financial Conduct Authority (FCA). They require an assessment of quantitative factors (relating to the nature and scale of the client's business); and qualitative factors (relating to the expertise, experience and knowledge of key decision makers).
- 5.3 The aim of the assessment is to demonstrate whether, in the light of the nature of the transactions or services envisaged, the client is capable of making its own investment decisions and understanding the risks involved. It is for the service provider to determine whether or not, based on the information submitted by clients, the appropriate 'opting up' criteria are met.

#### **6. Potential Impact**

- 6.1 If, as administering authority for the Shropshire County Pension Fund, Shropshire Council does not successfully opt up to professional client status; the Fund's investment managers and advisers will have to treat it in the same way as non-professional clients, private individuals and small businesses. That includes providing a raft of protections to ensure the suitability of investment products, and evidence that all the risks and product features have been explained. This provides a higher standard of protection for the client but it also involves more work (and higher costs) for both the service provider and the investor and additional obligations in terms of satisfying the regulator that all such requirements have been met.
- 6.2 The Fund would not also, be able to access a range of products and financial instruments which are deemed unsuitable for retail investors, and would have fewer options in terms of which financial institutions or fund managers it could appoint, as many who currently deal with local authorities, are not licensed for retail business, and may not wish to incur the costs involved in seeking additional regulatory permissions.

- 6.3 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited and would exclude many of the asset classes currently included in LGPS fund portfolios including Shropshire's. In many cases managers will no longer be able to even discuss certain asset classes with the authority as a retail client.
- 6.4 In electing for professional client status, the Fund would effectively, forego the protections afforded to retail clients (the details of which are set out in Appendix 1), although the Committee should note that these protections are not currently enjoyed by the Fund with the associated risks being mitigated through a range of different controls, including:-
- Access to independent actuarial and investment advice
  - The LGPS investment regulations themselves
  - The Fund's own governance and policy framework,
  - The Council's constitution and financial procedure rules
  - Access to professional networks
  - Experienced and well qualified officer team

## **7. Opting Up to professional client status**

- 7.1 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
- 7.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the opt up test better suited to the unique situation of local authorities.
- 7.3 The latest guidance recognises the status of LGPS administering authorities as providing a 'pass' in terms of the quantitative test, and now allows for the qualitative criteria to be assessed on a collective rather than an individual basis. A summary of the new tests and relevant extracts from the FCA policy statement is set out in Appendix 2.
- 7.4 The election to professional status must be completed with all financial service providers prior to the change of status on 3 January 2018. Failure to do so would result in providers having to take 'appropriate action' in accordance with their own internal compliance procedures, which could include termination of their relationship with the Fund.
- 7.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process, including supporting information templates and pro-forma correspondence. This should enable a consistent approach to assessment and avoid authorities having to submit different information, in different formats to the various different financial institutions they use. A summary of the process is set out in the flow chart in Appendix 3.

- 7.6 Applications for professional client status can be made in respect of either all of the services offered by the provider (irrespective of whether they are currently used) or just for particular services only. Given that all future procurement will be undertaken by LGPS Central Ltd on the Fund's behalf, it may make sense to limit applications to cover only those services currently used, particularly if this is likely to speed up the assessment process. It is recommended that the Head of Finance Governance & Assurance & Scheme Administrator determines the most appropriate basis of the application, either via full or single service.
- 7.7 Authorities will not be required to renew their elections on a regular basis but they will be required to review the information provided in the opt-up process and notify providers of any material changes in circumstance which could affect their status.

## 8. LGPS Pooling

- 8.1 LGPS pools, including LGPS Central will be professional investors in their own right so will not need to opt up with the external institutions they use. Individual partner funds will however, need to opt up with their pool Operator in order to access the full range of services and sub-funds on offer.
- 8.2 Elections to professional status will however, be required for every financial institution that the Fund uses outside of the pool. This will include investment managers who are retained to manage legacy assets pending their transition into the pool.

## 9. Next steps

- 9.1 It is proposed that opting up applications are submitted to all the Fund's current investment and financial service providers as soon as possible, so that professional client status is maintained. This will avoid any potential disruption to the delivery of the Fund's Investment Strategy and ensure compliance with the new regulatory provisions which take effect from 3 January 2018.
- 9.2 The Committee are asked to grant the necessary delegation to the Head of Finance Governance & Assurance & Scheme Administrator to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p>
<p>N/A</p>
<p><b>Cabinet Member</b></p>
<p>N/A</p>
<p><b>Local Member</b></p>
<p>N/A</p>
<p><b>Appendices</b></p>
<p>1. Retail client protections</p>



2. Summary of FCA policy statement
3. Opt up process flow chart

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## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

#### **5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

#### **6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

#### **7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

#### **8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

#### **9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

#### **10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

#### **11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

**12. Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

**13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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## FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

**Highlights** (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

### Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

### **Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)**

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

### **Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter**

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

### **Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position**

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.



We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

## Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.<sup>47</sup>

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

## Page 74 Our response on transitional arrangements

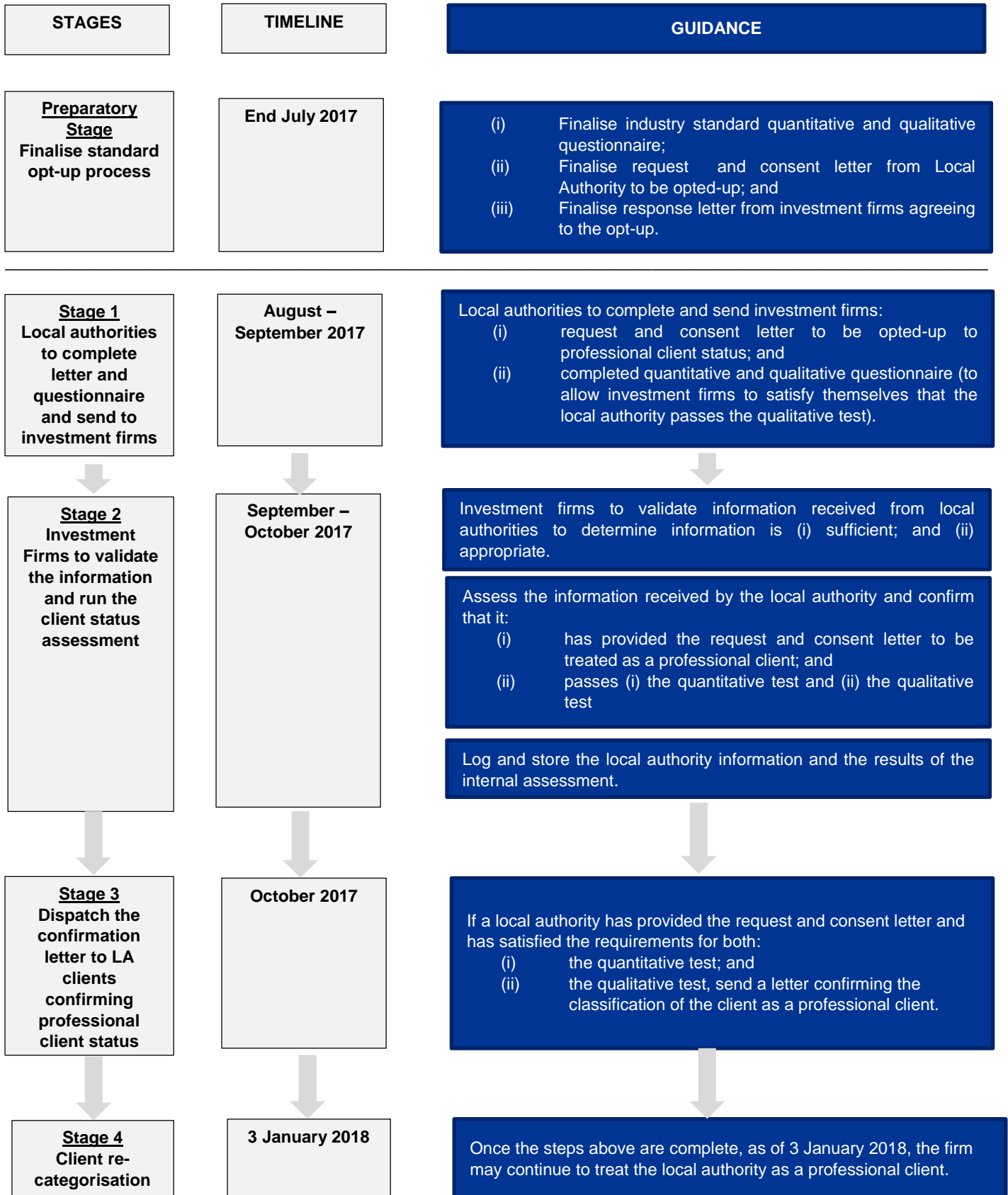
MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

**UK Local Authority Client Opt-Up Process**



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<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
22 September 2017	
10 am	Public

## INVESTMENT STRATEGY STATEMENT

**Responsible Officer** Justin Bridges  
e-mail: [justin.bridges@shropshire.gov.uk](mailto:justin.bridges@shropshire.gov.uk) Tel: (01743) 252072

### 1. Summary

- 1.1 Members have previously approved the Investment Strategy Statement in March 2017. The statement has been updated to include details of the equity protection strategy agreed at the June Pension Committee.

### 2. Recommendations

- 2.1 Members are asked approve the updated Investment Strategy Statement at Appendix A.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Regular monitoring against the published Investment Strategy Statement will give early warning of areas of difficulty.

### 4. Financial Implications

- 4.1 There are no financial implications to consider in this report.

## **5. Background**

- 5.1 For many years Local Government Pension Funds have been required to maintain a Statement of Investment Principles (SIPs). In broad terms this document laid out the things that were considered by the Fund when making investment decisions and included the types of investments that could be held, how the various risks were taken into account and what the Fund's objectives were.
- 5.2 The requirement for LGPS administering authorities to prepare an Investment Strategy Statement was brought in under the new Local Government Pension Scheme (LGPS) Investment Regulations which became effective on 1 November 2016. These Regulations removed the restrictions on investments that were formerly in place for the LGPS and, in effect, allowed individual Funds complete discretion about where and how to invest.
- 5.3 The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement. The Investment Strategy Statement has been prepared in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## **6. Statutory Background**

- 6.1 The Investment Strategy Statement (ISS) must include;-
- A requirement to invest money in a wide variety of investments;
  - The authority's assessment of the suitability of particular investments and types of investments;
  - The authority's approach to risk, including the ways in which risks are to be measured and managed;
  - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 6.2 The pension fund should have flexibility to be able to take into account changes in the market in order to be able to enhance or protect returns. Within Shropshire there is clearly defined governance around the setting of the strategic asset allocation for the Fund by the Pension Committee, with this strategy being implemented based on decisions agreed at Pension Committee.

6.3 Members previously approved the Investment Strategy Statement in March 2017. Appendix A to this report is the updated Investment Strategy Statement which has been amended following the decision at the last Pension Committee in June to implement an equity protection strategy. Members are asked to approve the updated Investment Strategy Statement.

## 7. Monitoring and Review

7.1 The ISS is subject to review if there are any material changes to any aspects of the Fund.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee, March 2017, Investment Strategy Statement.

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A – Investment Strategy Statement

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## 1. Introduction

The Local Government Pension Scheme (“LGPS”), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement (“ISS” or “Statement”). Regulation 7 of The LGPS (Management and Investment of Funds) Regulations 2016 governs the requirements of this Statement. The Shropshire County Pension Fund (the “Fund”) has complied with these requirements.

Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.

Shropshire Council (the “Authority”) is the Administering Authority for the Fund.

This ISS has been prepared by the Fund’s Pension Committee (the “Committee”), following advice received from the Fund’s consultant, Aon Hewitt.

The document takes account of the Fund’s:

### Approach to pooling

- the Authority’s approach to the pooling of investments, including the use of collective investment vehicles and shared services.

### Asset allocation and risk

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the Authority’s assessment of the suitability of asset classes;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- to include the Authority’s approach to risk, the assessment of risks and how they are to be managed.

### Policies regarding investments

- the Authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the Authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

## **INVESTMENT STRATEGY STATEMENT – September 2017**

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A copy of this ISS will be made available on request to any interested party.

### **2. Governance**

Shropshire Council has delegated responsibility for the management of the Fund to the Pension Committee. The Pension Committee has responsibility for establishing investment policy and ongoing implementation.

The Pension Committee is made up of nine members comprising both elected councillors and a non-voting employee and pensioner representative.

Members of the Pension Committee recognise that they have a fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), other stakeholders being local Council Tax Payers.

Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension Committee will ensure they receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.

The Committee receives independent investment advice from the following sources:

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt (the Investment Consultant) - analysis and advice of a technical nature in relation to all investment related aspects of the Fund.

The Fund's Scheme Administrator has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

#### **Local Pensions Board**

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of adherence to statutory duties.

The Board consists of 2 employer and 2 member representatives.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

#### **Investment Principles**

Details to the extent to which the Pension Committee complies with the six Myners principles and the extent to which management and investment arrangements at Shropshire comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply, are set out in Appendix A.

### **3. Approach to Pooling**

The Fund is a participating member of the LGPS Central Pool. The proposed structure and basis on which the LGPS Central Pool (the “Pool”) will operate was set out in the July 2016 submission to Government.

#### **Assets to be Invested in the Pool**

The Fund’s intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

It is expected that the majority of the Fund’s liquid assets will be transferred to the Pool on 1st April 2018, although it will take some time for the Pool to restructure the assets into appropriate sub-funds within the Pool. These sub-funds are likely to be set-up over a period of 2 – 3 years, with the timing being dependent on market conditions and operational circumstances, and until such time as the appropriate sub-fund is set up the assets transferred into the Pool will be overseen by LGPS Central on behalf of the Fund. It is not expected that any significant decisions (e.g. replacement of a manager) will be taken on the assets transferred over to the Pool without prior consultation with the Fund, unless it is part of the process that leads to the setting up of a sub-fund.

At present it is expected that any transitory cash will be held outside the Pool (but not strategic cash holdings), and it is possible that currency management will continue to be carried out at an individual fund level.

#### **Structure and Governance of the LGPS Central Pool**

The eight administering authorities of LGPS Central will all be equal shareholders of the company. A Shareholders’ Forum, comprising of one elected member from each administering authority, will fulfil the shareholders’ role in ensuring that the company is managed efficiently and effectively and in the best interests of the funds.

A Joint Committee, also comprising one elected member from each administering authority, will be formed that will hold the company to account on all investment-related issues. The Joint Committee will have no decision making powers and all actions that are felt to be appropriate will ultimately require approval at an individual fund level.

A Practitioners’ Advisory Forum, comprising of Officers of the administering authorities, will also be set up. The intention of this forum is to provide support and guidance to elected members on some of the practical issues, and to act as a conduit between the Joint Committee and the Committees of individual funds.

### **4. Asset allocation and risk**

#### **Strategic Asset Allocation**

The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Committee retains direct responsibility for this decision which is made on the advice of their investment adviser with input from their Fund actuary and in consultation with the employers within the Fund.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

The Committee formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments;
- the suitability of particular investments and types of investment;
- ensuring that asset allocation strategies are sufficiently diversified.

The Committee will consider a full range of investment opportunities including:

- quoted and unquoted equity;
- government and non-government bonds;
- Liability Driven Investment ("LDI");
- property and infrastructure;
- hedge funds and other alternative investments;
- derivatives, including equity options

The Committee further considers the legality of all investments for compliance with the LGPS.

#### Investment Beliefs

The following investment beliefs are taken into account when agreeing an asset allocation policy:

- A long term approach to investment will deliver better returns.
- The long term nature of the Fund's liabilities is well suited to a long term approach to investment.
- Asset allocation policy is the most important driver of long term return.

## **INVESTMENT STRATEGY STATEMENT – September 2017**

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- Risk premiums exist for certain types of asset and taking advantage of these can help to improve investment returns.
- Markets can be inefficient, and sometimes 'mispriced' for long periods of time, and there is a place for both active and passive investment management.
- Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

### Asset-liability Study and Expected Returns

The Committee determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund Actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund's objectives.

The asset-liability study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (for example index-linked gilts) is more closely linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the current 10 year annualised nominal return assumptions from Aon Hewitt at 31 December 2016 (as used in the Asset-Liability Modelling study carried out at that time).

## INVESTMENT STRATEGY STATEMENT – September 2017

Asset Class	31 December 2016	
	Expected Return %	Volatility %
UK Equities	7.8%	19.2%
Global Unconstrained Equities	8.7%	21.2%
Global Passive Equities	7.1%	20.2%
Property	6.3%	12.7%
UK Index-Linked Gilts (Over 5 year duration)	0.5%	10.2%
Unconstrained Bonds	4.3%	5.2%
Global Fund of Hedge Funds	2.7%	9.3%
Global Private Equity	8.2%	27.6%
Infrastructure	5.7%	18.6%
Inflation (CPI)	2.1%	1.1%

### Investment Strategy and Control Ranges

The Fund's strategic asset allocation was agreed by Pensions Committee in September 2015 as follows:

Asset Class	Allocation	Control Ranges
<b>Total Equities</b>	<b>52.0</b>	<b>47.0 – 57.0</b>
Unconstrained Global Equities	24.0	20.0 – 28.0
UK Equities	8.0	5.5 – 10.5
Passive Equities (100% Hedged to GBP)*	20.0	16.0 – 24.0
<b>Total Alternatives</b>	<b>23.0</b>	<b>18.0 – 28.0</b>
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds**	5.0	n/a
<b>Total Bonds</b>	<b>25.0</b>	<b>20.0 – 30.0</b>
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

\* The Fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term. The strategy protects £280m of equities with £140m of protection expiring in June 2018 and £140m expiring in December 2018. The protection targeted is such that when expected dividend income is allowed for, total losses over the terms of the protection will be no greater than 3%, unless the extent of price losses are sufficiently large to result in total returns losses exceeding 23%, in which case the protection structure reduces the total return losses by 20%. The strategy was funded by selling upside returns on the equity protected with the amount retained varying by region.\*\*The Fund is disinvesting from the multi-strategy hedge fund and temporarily increasing the allocation to fund of hedge funds and unconstrained bonds.

### Rebalancing Policy

Officers will review the position of the Fund quarterly to ensure the assets are within the control ranges listed above, and will rebalance as appropriate.

### **Risk**

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, to minimise this risk so far as is possible. The Fund's Risk Register has more information.

## **INVESTMENT STRATEGY STATEMENT – September 2017**

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In particular, in arriving at the investment strategy and the production of this Statement, the Committee have considered the following key risks:

- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk;
- custody risk.

### Asset Allocation Mismatch

The LGPS (the “Scheme”) is a defined benefit pension scheme which provides benefits related to the salary of members. The Scheme is a contributory defined benefit arrangement, with active members and employing authorities contributing to the Scheme.

The value of the Fund’s ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund’s investment policy are:

- the rate of return on assets;
- salary escalation and price inflation for active members;
- price inflation for deferred members;
- price inflation for pensioners.

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset-liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies. Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

### Cash-flow Risk

The Fund remains open to new members and new accruals. Contributions are received from both active members and employers within the Fund. Active members contribute on a tiered system. Contributions from employers within the Fund are determined based on advice from the Fund Actuary based on the triennial valuation.

The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge Funds, Private Equity, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.



## **INVESTMENT STRATEGY STATEMENT – September 2017**

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### Investment Risk

The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that asset class for taking on active manager risk.

Active manager risk is then diversified through the use of different investment managers and pooled funds.

The Committee also avails of passive management where they believe the extra risk and costs of active management would not benefit the Fund and to manage overall risk.

The Fund's assets are invested in portfolios managed by external investment managers shown in appendix B. They are benchmarked against the indicated indices. Based on expert advice (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool), investment managers may be replaced at any time and this list may not always be current.

The performance targets for the investment manager(s) are shown in appendix B. Shropshire Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of long-term periods under consideration. In addition, the return generated on the passive equities is constrained by the equity protection strategy the Fund has in place with Legal & General.

Each investment manager appointed by the Committee (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool) is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents.

Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

### Concentration Risk

The split between asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.

To ensure that asset allocation is sufficiently diversified the Committee considers a full range of investment opportunities including those available through the LGPS Central Pool. In addition investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance.

Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

## **INVESTMENT STRATEGY STATEMENT – September 2017**

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### Currency and Counterparty Risk

Passive equity investments are fully currency hedged by the investment manager.

Some investment managers may take active currency positions based on their mandates.

The Committee has delegated responsibility for the counterparty risk to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

Legal & General shall manage the Fund's margin or payment requirements arising in respect of the equity protection strategy.

### Custody Risk

The Committee regards the safekeeping of the Fund's assets as of paramount importance and has appointed Northern Trust company as global custodian and record-keeper of the Fund's assets.

### Stock Lending

The Fund reactivated its security lending policy with Northern Trust in February 2011, having temporarily paused the lending activity in the period after the collapse of Lehman Brothers. The collateral arrangements for the lending programme have been tightened on advice from Aon Hewitt, and the programme restarted.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool).

### **Monitoring**

The Committee monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the Fund and asset classes together with supporting analysis.
- The performance of the total Fund is also measured against the strategic benchmark, which is comprised of the asset class benchmarks weighted by the strategic allocations, and against agreed outperformance targets.
- The performance of the Fund in each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

The Officers, in conjunction with the Investment Consultant, will regularly review the allocation of assets between the different asset classes.

### Service Provider Monitoring

## **INVESTMENT STRATEGY STATEMENT – September 2017**

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The Committee reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

### Investment Manager Fees

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements or pooled fund documentation (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

### **5. Policies regarding investments**

#### **Social, Environmental and Corporate Governance Considerations**

Shropshire Council is aware of the UK Stewardship Code and is working towards becoming signatories to the Stewardship Code (the “Code”). Although it has not yet formally signed up to the Code it aims to abide by the principles of the Code where appropriate.

The principles of the UK Stewardship Code are included in Appendix C for information.

BMO (formerly F&C) provides a responsible engagement overlay on the Fund’s UK equity portfolios. BMO enters into constructive discussions with companies on the Fund’s behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

In addition the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

#### **The Exercise of the Rights Attaching to Investments**

The Committee has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool). Only direct investments in traded equity shares carry such voting rights.

## Appendix A

### Myners Principles for Institutional Investment Decision Making

Principle	Comply or explain	Comment/Examples
<p>1. Effective decision making</p> <ul style="list-style-type: none"> <li>Administrating authorities should ensure that:</li> <li>decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</li> <li>Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest</li> </ul>	Comply	<p>Pension Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pension Committee members, substitute members and Officers participate in an annual training day, attend educational seminars and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.</p>
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> <li>An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers</li> </ul>	Comply	<p>A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process.</p> <p>Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.</p>
<p>3. Risk and liabilities</p> <ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for local tax payers, the strength</li> </ul>	Comply	<p>Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. If required, the actuarial funding position can be reported to the Pensions Committee on a quarterly</p>

## INVESTMENT STRATEGY STATEMENT – September 2017

<p>of the covenant for participating employers, the risk of their default and longevity risk</p>		<p>basis, using information provided by Aon Hewitt.</p>
<p>4. Performance assessment</p>		
<ul style="list-style-type: none"> <li>▪ Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors</li> <li>▪ Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members</li> </ul>	<p>Comply</p>	<p>The Officers have an independent performance measurer in place. They also receive regular updates from Aon Hewitt regarding managers and the Officers meet regularly with their managers and advisors to review their performance. The Fund has recently assessed its effectiveness as a decision-making body and aims to spend more time on strategic level and asset allocation decisions compared to meeting managers going forwards.</p>
<p>5. Responsible ownership</p>		
<ul style="list-style-type: none"> <li>▪ Administrating authorities should</li> <li>▪ Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</li> <li>▪ Include a statement of their policy on responsible ownership in the statement of investment principles</li> <li>▪ Report periodically to scheme members on the discharge of such responsibilities</li> </ul>	<p>Comply</p>	<p>The Investment Strategy Statement includes a statement on responsible ownership.</p> <p>An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's investment managers.</p>
<p>6. Transparency and reporting</p>		
<ul style="list-style-type: none"> <li>▪ Administrating authorities should</li> <li>▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</li> <li>▪ Provide regular communication to scheme members in the form they consider most appropriate</li> </ul>	<p>Comply</p>	<p>A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published.</p> <p>Stakeholders are also invited to attend the annual meeting of the Fund.</p>

# INVESTMENT STRATEGY STATEMENT – September 2017

## Appendix B

### Investment manager mandates

Investment Manager	Asset class	Benchmark	Target
<b>Active portfolios</b>			
PIMCO Europe Ltd	Unconstrained bonds	1 month Sterling LIBOR	+4% p.a.
BlackRock	Unconstrained bonds	3 month USD LIBOR	+ 4-6% p.a.
GAM	Unconstrained bonds	3 month Sterling LIBOR	+ 3-5% p.a.
BMO	Liability Driven Investment (LDI)	Hedge Benchmark (based on typical pension fund's liability profile)	Outperform the benchmark
Majedie Asset Management	UK Equities	FTSE All Share	+2% p.a. over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+1% p.a. over rolling 3 year periods
Investec Asset Management	Global Equities	MSCI All Country World NDR	+ 3-5% p.a. over rolling 3 year periods
Harris Associates	Global Equities	MSCI World	+ 2-3% p.a. over 3 to 5 years
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% p.a.
Global Infrastructure Management	Infrastructure	n/a	RPI +5% p.a.
Aberdeen Property Investors	European (incl UK) Property	Composite of INREV VA Europe Index, vintage 2005 – 2008 and IPD UK All Balanced Funds Index	RPI +4% p.a.
Brevan Howard	Multi-Strategy Hedge Fund	3 month Sterling LIBOR	+6.0% p.a.
BlackRock	Fund of Hedge Funds	3 month Sterling LIBOR	+5.0% p.a.
<b>Indexed (Passive ) Portfolios</b>			
Legal & General Investment Management	Global Equity	FTSE Developed World – GBP Currency Hedged	Match benchmark*

\* The Fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term.

## **Appendix C**

### **Principles of the UK Stewardship Code**

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.





Committee and date  
Pensions Committee

22 September 2017

10.00am

Item

Public

## PENSIONS ADMINISTRATION MONITORING REPORT

**Responsible Officer** Debbie Sharp

Email: Debbie.sharp@shropshire.gov.uk

Tel: 01743 252192

Fax: N/A

### 1. Summary

- 1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

#### 3.1 Risk Management

Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

#### 3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

#### 3.3 Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

#### 3.4 Financial Implications

Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. However, it must be noted that the introduction of the 2014 LGPS and the increased governance introduced by the Public Services Pension Act 2013 has increased the resources required by the administration team. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct

cost for the Fund but if this is not undertaken the Fund risks taking on financial liabilities it didn't need to and having its data called into question by the Fund Actuary. LGPS having to fully index GMP's will increase costs for the Fund going forward. Further compliance with TPR code has highlighted areas where further costs could be incurred.

#### 4. Performance and Team Update

- 4.1 The team's output and performance level to the end of **July 2017** is attached at **Appendix A**. The chart shows that numbers of outstanding procedures at the end of the month has remained at a constant level. However, the number processed on time has improved and is at a much higher level than earlier in the year. This is down to improved workflow processes now being measured against set target dates and good output from the team. It is also worth noting that all work on year end data processing and checking together with work on Annual Benefit Production is not reflected in these figures as these particular projects are not individually tasked through workflow.
- 4.2 It was reported to June committee that the systems team had been working closely with those employers who were not yet live on the iConnect service. It can now be reported that all scheme employers do now use this system which means that all data is submitted electronically directly into the Pension Administration System.

#### 5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number.

	May 2017	June 2017	July 2017
Telephone calls received	798	764	644
Queries dealt with by helpdesk at first point of contact %*	92.79%	91.39%	92.40%
Users visiting the Website	2,609	2,263	2,463

\* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team.

#### 6. Communications and Governance

- 6.1 This year's Annual Benefit Statements have been issued to all active members as at 31 March 2017 and were issued by the regulatory deadline of the 31 August. The statements for both active and deferred

members were issued electronically this year via the Funds secure website area 'My Pension Online'. Any member who has opted out of electronic communication received a hard copy of the statement. Only 279 active members and 357 deferred members requested a paper statement.

6.2 As at the 31 July the Fund had 35.9% of active members and 27.6% deferred members registered for 'My Pension Online'. It has been reported in the pension's media by Hymans Robertson Ltd that a 20% member sign up rate is average across Pension companies. Further work is planned throughout the Autumn to target the Fund employers with low member sign up rates.

6.3 An employers meeting has been organised for 9<sup>th</sup> October 2017. The agenda is still being finalised but employers have been notified of the event and to request any topics that they would like to be covered in the training.

## **7. Scheme Advisory Board**

7.1 On 26 May, the Scheme Advisory Board commenced a survey to test the effectiveness and operational efficiency of the new governance arrangements, with particular emphasis on the role and function of local pension boards and interaction with their administering authority.

7.2 This survey was circulated to the chairs of the pension board and the pension committee as requested. The survey deadline date has been extended to 29<sup>th</sup> September 2017. This Scheme Advisory Board have reminded administering authorities that both the administering authority, on behalf of their section 101 pension's committee, and their local pension board are invited to complete the survey independently.

## **8. Data Accuracy**

8.1 The results of the Pension Regulator's 2016 governance and administration survey of public service pension schemes were reported to committee in June 2017. The Fund has previously highlighted that it is working to meet the requirements set out in The Pensions Regulator's (TPR) Code of Practice 14, by undertaking a compliance review. The results of the Regulator's 2016 governance and administration survey of public service pension schemes highlighted that TPR expect all schemes to undertake an annual data review and put an improvement plan in place (if required). TPR will consider enforcement action where scheme managers fail to demonstrate that they are taking appropriate steps to improve their records where gaps had been identified.

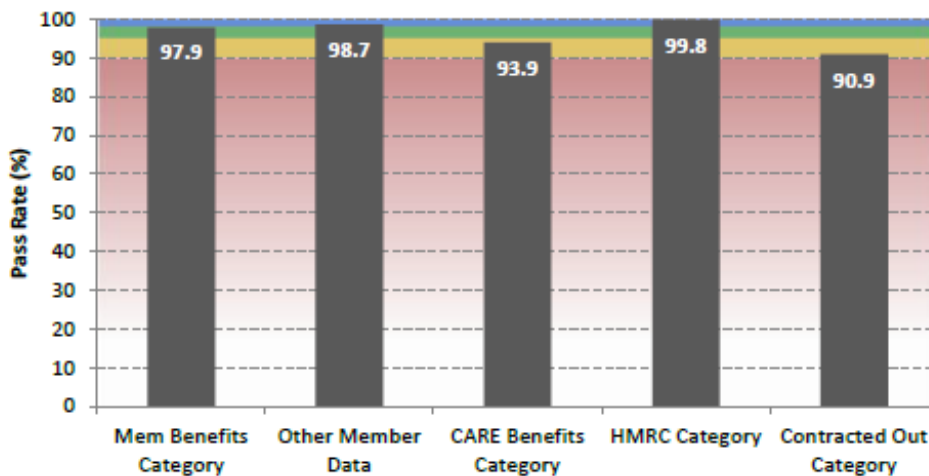
8.2 To meet the requirements set out by the regulator the Fund has joined with the Fund's Administrator Software Provider to pilot a Data Quality Review. The exercise has provided a detailed report on the quality of the Funds data and benchmarked against TPR common and

conditional data guidelines. It has also provided a suggested high level correction plan.

8.3 The pilot is now completed and the Fund has been provided with the results. As part of the exercise, two data review reports were run; a common data report and a conditional data report. The specific targets set for data deemed as 'common' are set by the Pensions Regulator. The Pensions Regulator also outlines the targets for the 'conditional' data but does not set prescriptive targets as the data is deemed to be scheme-specific. The Summary of both conditional and common data reviews can be found in 8.7 and 8.8 below.

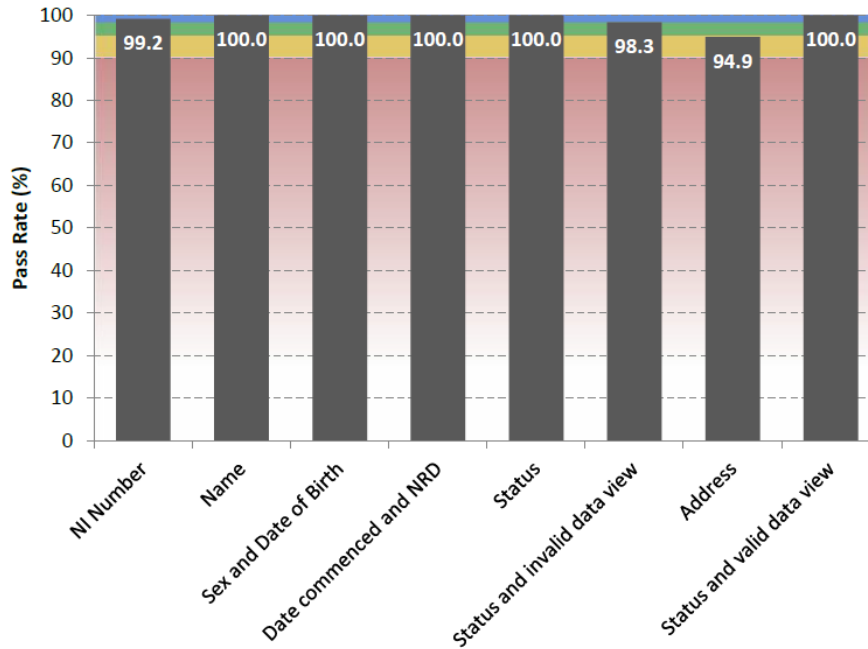
8.4 **Summary of Conditional Data Results**

The graph below shows the Fund's performance against each data category looked at as part of the conditional data review. The results presented are generated from data extracted from the Fund records on the 17th July 2017.



8.5 **Summary of Common Data Results**

The graph below shows the Fund's performance against each data category looked at as part of the common data review. The results presented are generated from data extracted from the Fund records on the 14th June 2017. TPR have set targets of 100% accuracy for data created after June 2010 and 95% accuracy for data created before this date. The review the Fund undertook measured data as a whole as updates for many members are continuous and alter the last updated date on the system.



8.6 The results from both the common and conditional data reviews are currently being analysed and a data improvement plan will be put in place which will be reported to members at a future committee meeting.

## 9. GMP Reconciliation Update

9.1 The Fund is due to contract with a Third Party Provider to complete the Contracted Out Reconciliation and Rectification exercise. This will be procured by calling off from a National LGPS Framework. This will

ensure that the Shropshire Fund has completed its reconciliation and Rectification by December 2018. The deadline set by HMRC.

- 9.2 Rectification of Pensioners pension payments will follow guidance from the LGA. This includes non-collection of any overpayment due to the fact that the pensioner is unlikely to have known the payment was wrong because of the complex nature of pension increases due to the Guaranteed Minimum Pension complexities.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee Meeting 23 June 2017 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

NA

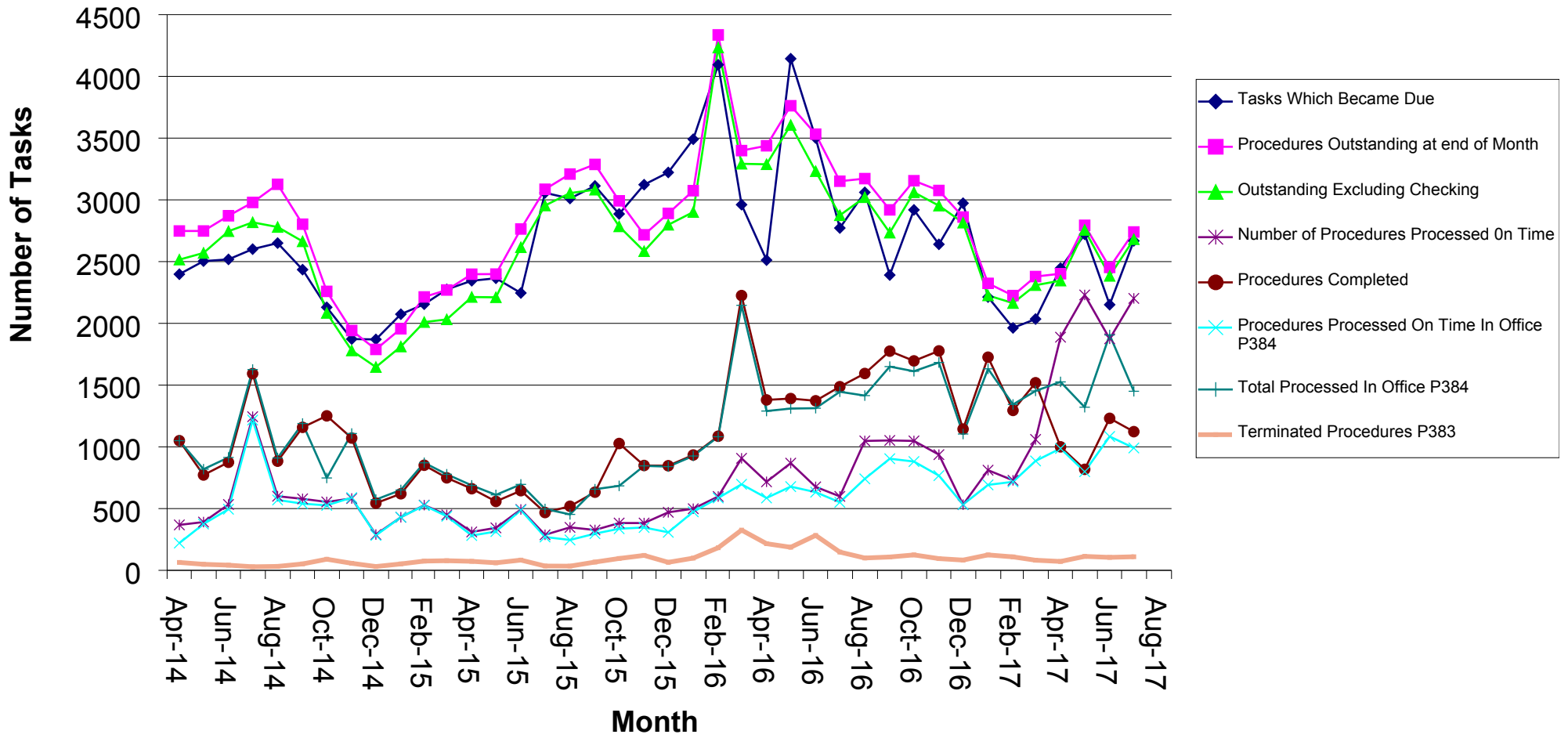
**Appendices**

Appendix A – Performance Monitoring

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### Task Statistics



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