Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: Friday, 23rd September, 2022
Time: 2.00pm
Venue: Council Chamber - Guildhall, Bath

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn, Chris Dando and Paul May

Co-opted Voting Members: Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), Charles Gerrish (Academies), William Liew (HFE Employers), Richard Orton (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Co-opted Non-voting Members: Wendy Weston (Trade Unions), Michael Rumph (Trade Unions) and Cllr John Goddard (Parish and Town Councils)

Chief Executive and other appropriate officers

Press and Public

Mark Durnford
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NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

The Council will broadcast the images and sounds live via the internet www.bathnes.gov.uk/webcast. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Public Speaking at Meetings**

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full working days before the meeting. This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday.

Further details of the scheme can be found at:

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are signposted. Arrangements are in place for the safe evacuation of disabled people.

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee - Friday, 23rd September, 2022

at 2.00pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 5.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

   (a) The agenda item number in which they have an interest to declare.

   (b) The nature of their interest.

   (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

   Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 24TH JUNE 2022 (Pages 7 - 24)

8. FUNDING STRATEGY STATEMENT 2022 (Pages 25 - 90)

The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The Committee approved a draft FSS at its meeting on 24 June 2022 which has been circulated to the employing bodies for comment. An updated draft FSS is attached as Appendix 1 which, after consideration by Fund Officers and the Actuary, takes into account the comments received from the employing bodies following the consultation period.

9. ANNUAL EMPLOYER AND COVENANT UPDATE (Pages 91 - 100)

This report provides the Committee with a summary of the employer base of the Fund, changes, current issues and covenant work. This is to be considered in the context of employer risk.

10. BRUNEL PRESENTATION - RESPONSIBLE INVESTING

The Committee will receive a presentation on this item at the meeting.

11. ANNUAL RESPONSIBLE INVESTING REPORT (TO FOLLOW)

12. INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 JUNE 2022) (Pages 101 - 152)

This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level, policy and operational aspects of the Fund.

13. UPDATE ON LEGISLATION (Pages 153 - 156)

The purpose of this report is to update the Pension Fund Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

14. WORK PLANS (Pages 157 - 170)

Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 24th June, 2022, 2.00 pm

Bath and North East Somerset Councillors: Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn and Paul May

Co-opted Voting Members: Charles Gerrish (Academies) and Richard Orton (Trade Unions)

Co-opted Voting Members (virtually): Councillor John Cato, Councillor Steve Pearce, William Liew, Shirley Marsh-Hughes, Pauline Gordon and Wendy Weston

Advisors:
Laura Chappell, Brunel (in person), Paul Middleman, Mercer (virtually) and Steve Turner, Mercer (virtually)

1 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting and reported that, due to the planned rail strike the meeting was being held in a hybrid format to enable as many members of the Committee as possible to take part. He confirmed that in accordance with legislation, only the following quorum of members that were present in person would be able to vote: Cllr Shaun Stephenson-McGall, Cllr Paul May, Cllr Bruce Shearn, Charles Gerrish and Richard Orton.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Cllr Paul Crossley, Cllr Chris Dando, Cllr John Goddard, John Finch and Michael Rumph.

3 DECLARATIONS OF INTEREST

There were no declarations of interest.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

1. Update on Staffing
   Jeff Wring introduced himself as the Service Director for OneWest and updated that he would be temporarily leading on pensions pending the appointment of a dedicated Head of Pensions. He confirmed the recruitment process was ongoing and interviews would be held by a stakeholder panel including the chair and vice chair of the Committee. In response to questioning, he confirmed the new post would be an employee of Bath and North East Somerset Council.

2. Shirley Marsh-Hughes
   The Chair reported that it was the last meeting of Shirley Marsh-Hughes, independent member. The Committee thanked Shirley for her work supporting the Avon Pension Fund Committee and Board.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

The Committee received two questions from Elaine Ashley who was in attendance to ask the questions as follows:

1. How were the present committee members appointed, who (specifically) they were nominated by and when were they appointed?

2. I was one of the recipients of the recent survey on ethical investment. I know a lot of members who did not receive it and did not know why and it was difficult at the time to find out how recipients had been chosen. They were denied the opportunity to express their views. I see in the recent newsletter that it was sent to those members for whom you had an email - which suggests that you don't have an email for a large number of members. Please advise what your plan is to ensure that you obtain an email for a much larger number of members so that you can engage effectively with more of us in the future and what your targets are within this plan?

The Chair responded as follows:

1. The Committee forms part of B&NES constitution. B&NES council only appoints the 5 B&NES councillors. The other Committee members who represent a scheme employer(s) or scheme members are appointed by the body or group of employers/scheme members they represent. The 3 independent members are appointed by the Fund on the basis of their relevant expertise to strengthen the decision making of the committee. The committee term is the same as B&NES electoral cycle (4 years) so this committee term commenced in June 2019.

2. This was the first survey we have done on our investment strategy, and we wanted to time it with COP26. Unfortunately, it didn’t coincide with our member newsletter cycles and it was not practical to issue an extra newsletter via post so not all members were included. We had a good response to the survey which was really positive and in future we want to get better coverage of all members by co-ordinating a survey with other member communications where we can. As part of our digitalisation initiative, we are encouraging members to provide email addresses on an ongoing basis and in the 2022/23 business plan there is a target to have 50% of members signed up for Member Self Service by the end of 2023 which will increase the number of members we can contact by email.

6 ITEMS FROM COUNCILLORS AND OTHER MEMBERS

There were no items.

7 MINUTES: 25TH MARCH 2022 (PUBLIC), 25TH MARCH 2022 (EXEMPT) AND

28TH MARCH 2022

Wendy Weston stated that she had been in attendance at the 25 March meeting but had been omitted from the list of members

RESOLVED that the minutes of the following meetings be confirmed as a correct record and signed by the Chair.

1. Avon Pension Fund Committee – 25 March 2022, subject to Wendy Weston being marked as present.
2. Avon Pension Fund Committee (exempt) – 25 March 2022, subject to Wendy Weston being marked as present.
3. Avon Pension Fund Committee – 28 March 2022.

8 PENSION BOARD MINUTES: 9TH JUNE 2022

RESOLVED that the minutes be noted.

9 BRUNEL CORPORATE UPDATE

The Committee received a presentation on the Brunel Corporate Update from Laura Chappell, Chief Executive Officer. She recommended that the Committee also read the detailed outcomes report.

She responded to questions as follows
1. In relation to the private markets case study at Bristol Castle Park, she noted that Cllr Steve Pearce had not been aware of this as a local member and responded that Brunel were working up a plan to ensure that such information was better publicised.
2. The criteria for the Castle Park project were that the project needed to fulfil investment returns and add environmental, social or governance impact. The project had undergone due diligence.
3. In terms of data quality metric, Brunel was developing a balanced scorecard to include data quality.
4. Brunel had approached Bath University to undertake research about a biodiversity audit and students had come back with proposed options.

The following comments were raised:
1. There needed to be more emphasis on social and governance investment issues as well as environmental issues.
2. Brunel Partnership had been working with universities to talk to students about careers in investment management and also to talk to Trade Unions and Sustainability Board about the role of the partnership in the sustainability agenda.
3. In addition to biodiversity, there were issues such as soil health and access to water. It was important to align with UN Sustainability Goals.
4. Diversity was also an important issue to consider.

RESOLVED that the presentation be noted.

10 BRUNEL PENSION PARTNERSHIP - UPDATE

The Group Manager, Funding Investments and Risk introduced the report and confirmed that the Board meeting in June had considered a detailed presentation from Brunel about strategic priorities.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED that the information set out in the report and appendices be noted.

11 FUND GOVERNANCE FRAMEWORK

The Governance and Risk Adviser introduced the report and drew attention to the following issues arising from the annual review of governance arrangements:

1. Membership of the investment panel had been updated to reflect best practice and to ensure there was a full range of independent expert advice.
2. Some of the Section 151 delegations had been changed to the Director of OneWest. The Head of Pensions role would be the Senior LGPS officer, which was in line with the requirements of the scheme and in accordance with the recommendations of the Good Governance Review.
3. A Representation Policy had been drafted which would become an appendix to the compliance statement.
4. There was now a fund specific Conflicts of Interest policy.
5. The Committee was asked to agree an independent member representative on the Brunel Working Group, a substitute for the Brunel Oversight Board and nominations for the Local Authority Pension Fund Forum.

It was agreed that the second paragraph of the Representation Policy would be amended to clarify the voting arrangements in relation to administering and non-administering authorities.

RESOLVED that
1. The roles and responsibilities of the members, advisors and officers be noted.
2. The Terms of Reference of the Committee and Investment Panel be approved.
3. The Scheme of Delegation be approved.
4. The Governance Compliance Statement, including draft Representation Policy be approved.
5. The Conflicts of Interest Policy be approved.
6. The Training Strategy Policy be approved.
7. The decision-making matrix be noted.
8. Pauline Gordon be agreed as the independent member representation of the Brunel Working Group be approved.
9. The Vice Chair of the Avon Pension Fund Committee (Cllr Shaun Stephenson-McGall) be agreed as the substitute of Brunel Oversight Board.

10. The members to represent the fund on the Local Authority Pension Fund Forum be agreed as Cllr Shaun Stephenson-McGall, Cllr Steve Pearce and Richard Orton.
11. The drafting of the Annual Report to Council be delegated to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

12 DRAFT FUNDING STRATEGY STATEMENT 2022

The Group Manager, Funding, Investments and Risk introduced the report which asked the Committee to approve a draft Funding Strategy Statement (FSS) for consultation with employers, following which it would be reported back to the Committee in September to approve the final FSS. It was noted that the FSS had been discussed in detail at a workshop on the 17 June 2022.

The Actuary confirmed that the focus of the FSS was geopolitical events and cost of living increases which had been the central building block around the assumptions for the draft statement and asked the Committee to note that climate change risks and analysis and impact from a valuation perspective would be more open within the FSS.

In response to questions the Group Manager, Funding, Investments and Risk advised:

1. Small employers were closely monitored in relation to issues such as the impact of a highly paid employee retiring early.
2. In relation to the lack of reference to existing employers with a guarantee in Appendix B, this would be addressed in advance of the September meeting.

RESOLVED that

1. The draft Funding Strategy Statement as set out in Appendix 1 be approved for wider consultation, subject to the insertion of information which could only be included when the actuarial valuation and consultation processes were complete.
2. Authority be delegated to officers, having taken advice from the Actuary, to amend the draft FSS as new legislation or guidance was issued as appropriate.

13 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 31 MARCH 2022)

Steve Turner, Mercer, gave an update on the Avon Pension Fund Committee Investment Report (Appendix 2) as follows:

1. The markets had been volatile in the year to date due to the impact of rising inflation and rising interest rates and that was starting to increase concerns regarding slowing growth.
2. Since March last year, the situation had escalated, in particular falls in equity market values.
3. In terms of how the assets performed in Q1, there had been benefits to the diversified strategy. The areas that had been weakest were as expected - equities and multi asset credit. Other asset classes such as property

infrastructure and private debt security income had held up well and had positive performance.
4. The one anticipated change since end Q1 was the kicking in of the extra protection that would have started to cushion the falls in equity markets.
5. In terms of how some of the funds performed, the Brunel Sustainable Equity and Global High Alpha had a challenging period recently in line with the overall investment style.
6. The equity stocks that had performed well this year were high carbon emitting sectors such as energy, mining and oil but these areas did not align well with the Fund's long term climate ambitions.
7. This was the first time where it had been difficult to outperform and also progress on lower carbon goals.

In response to questions, it was confirmed that there wasn't a strategy to exit the hedging strategy, but the situation was monitored regularly and would be reviewed if there were extreme falls in the equity market. It was important to ensure that decision making was not around short-term trends, and the investment strategy was set up to meet long term demands. However, Mercer was in regular dialogue with officers and if necessary, it was possible to make changes to the investment strategy.

Steve Turner, Mercer gave an update on Analytics for Climate Transition (Appendix 3).

He responded to questions as follows:

1. The emerging market Weighted Average Carbon Intensity (WACI) was still being monitored.
2. Avon Pension Fund was currently on track in meeting its climate goals.
3. In relation to the decarbonisation target, there was one part of the equity portfolio that was invested on an index tracking strategy that was targeting a Paris aligned benchmark so there was a high level of certainty that the fund would achieve decarbonization on that part of the portfolio.
4. Where the funds were managed actively, the fund was dependent on Brunel as the source to future success.
5. It was recommended not to have too many objectives as this would increase complexity, but the Committee could consider new objectives.
6. It was recommended that the baseline was reset for the analysis to be in line with emerging best practice. (i.e. 2019 rather than 2020 which the Fund currently used).
7. In terms of the objective of having 30% of total assets in sustainable and transitional aligned investments, this had been achieved ahead of schedule.

The Investments Manager confirmed that the baseline would be changed to be more aligned with the IGCC and therefore consistent with other funds. In response to a question about the TCFD report, she confirmed the metrics would be aligned with whatever baseline was being used at the time and so it was an issue of timing as to whether it would be the old or new baseline.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, RESOLVED, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED that

1. The progress made against climate commitments in the Analytics for Climate Transition Analysis be noted.
2. The feedback on the questions asked in Exempt Appendix 4 about Brunel's current Climate Policy be noted.
3. Authority be delegated to officers and the Chair and Vice Chair to draft responses to the questions in Exempt Appendix 4 following the meeting.
4. The information set out in the report and appendices be noted.

14 UPDATE ON LEGISLATION

The Pensions Manager introduced the report and drew the Committee's attention to the table which summarised the changes relating to pension legislation.

RESOLVED that the current position regarding the developments that could affect the administration of the fund be noted.

15 PENSION FUND ADMINISTRATION

The Pensions Manager introduced the report and responded to Committee questions as follows:

1. The team was looking at alternative reporting in the future with Altair Insights and this would help analyse backlogs separately.
2. In relation to the risk register, there were items of concern, but all risks were managed appropriately, and mitigations were in place.
3. The team was looking to make reporting clearer which give more of a detailed background about the different risks.
4. Performance fees were approximately £4m but were not forecast in the budget as it would make numbers volatile.

RESOLVED that the following be noted:
1. Fund performance for the three months to 31st March 2022.
2. The current Risk Register.
3. The updated cashflow forecast.

16 ANNUAL EMPLOYER AND COVENANT UPDATE

The Chair reported that, due to time constraints, this item would be postponed until a future meeting.

17 WORK PLANS

The Governance and Risk Advisor gave an update on work plans and reminded the Committee to complete training modules 1, 2 & 4 by the end of June and advised that any members who had not completed the modules would be contacted to ensure they had the relevant login details. She also reminded members to contact the team if there was a problem accessing exempt papers.

It was suggested that an item be included on change management in view of geopolitical events and the impact on the pension fund.

RESOLVED that the Committee & Investment Panel workplans and training programme be noted.

The meeting ended at 4.39 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 SEPTEMBER 2022**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING STRATEGY STATEMENT 2022**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Funding Strategy Statement Appendix 2 – Comments from Employing Bodies Appendix 3 – CIPFA guidance checklist		

1 THE ISSUE

1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Administering Authority. The Committee approved a draft FSS at its meeting on 24 June 2022 which has been circulated to the employing bodies for comment.

1.2 An updated draft FSS is attached as Appendix 1 which, after consideration by Fund Officers and the Actuary, takes into account the comments received from the employing bodies following the consultation period. The Actuary will attend the meeting to discuss the comments and any changes to the draft FSS.

1.3 As the body responsible for agreeing the Funding Strategy, the Committee must consider the FSS within the regulatory framework;

a) Ensure that the benefits paid out in the future will be reasonably met (the Solvency Objective)

b) That the amount paid in annually covers the current cost of the pension benefit accrued

c) That current pension debt is not deferred for future generations to fund (the Long-Term Cost Efficiency Objective).

1.4 Given the FSS includes regulatory/legal matters that are yet to be confirmed, delegated authority is requested for Officers to finalise before 31/03/22 having taken advice from the Actuary.

1.5 Individual employer results will be disseminated from late October. Meetings will be held with employers to explain the outcome as required.

2 RECOMMENDATION

The Committee:

2.1 **Notes the feedback responses received, and the proposed amendments to the FSS.**

2.2 **Approves the FSS as set out in Appendix 1, subject to**

- **(i) the insertion of information which can only be included when the actuarial valuation is complete and**
- **(ii) confirmation from the Pension Board that the FSS complies with LGPS regulations and CIPFA guidance**

2.3 **Delegates the refinement and finalisation of the FSS to Fund Officers, with assistance of Fund Actuary.**

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2022 actuarial valuation fee and is provided for in the 2022/23 budget.

4 THE REPORT

4.1 The LGPS regulations require each administering authority to prepare and publish an FSS. The key points of the regulation for the FSS are as follows:

- After consultation with all employing bodies, the administering authority must prepare and publish their funding strategy
- In preparing the FSS, the administering authority must have regard to:
  - (i) FSS guidance issued by CIPFA
  - (ii) The Investment Strategy Statement (ISS) under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2016
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles/ISS.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

4.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund.

4.3 Procedurally, the Fund's actuary cannot finalise the valuation until the FSS has been approved by the Committee.

4.4 There are outstanding regulatory /legal matters that will need to be included in the FSS which may affect the contributions and /or funding policy (e.g. McCloud remedy, potential classification of certain employer groups and the requirement to undertake climate change scenario analysis). These may not be resolved until after the valuation is completed. As these are regulatory in nature, it is recommended that Officers are given delegated powers to finalise the FSS having received full advice from the Actuary, should there need to be any changes as a result of further development on these or similar matters. As noted at in the previous committee report, the Officers are working with the Fund Actuary regarding the update for outstanding technical information e.g. climate change risks, final design features/formatting of the FSS, to the extent this will improve the usability of the document.

4.5 Given the proposed changes to the regulations, it is reasonable to assume that the FSS will be reviewed before the next valuation in 2025. Any revisions will be brought to Committee for full consideration.

4.6 The draft FSS was circulated to the employing bodies with comments required by 24 August 2022. Those comments which have been received are summarised in Appendix 2.

4.7 The Pension Board was due to review the draft FSS for compliance with the LGPS regulations and CIPFA guidance at their meeting on 13 September 2022. However this was cancelled due to the national mourning period and a new date is yet to be confirmed. Therefore approval of the FSS by the Committee is subject to the Pension Board's feedback which will be provided to Committee at the December meeting. The Fund's checklist of compliance is provided in Appendix 3.

4.8 The comments received via the consultation were considered carefully and it has been concluded that no fundamental changes to the draft are required (other than to update the technical information as the valuation progresses) as it was felt that the framework covered the issues raised and there was sufficient flexibility within the FSS to address the points raised where appropriate.

4.9 The draft FSS for approval is attached as Appendix 1, estimates of certain information that can only be confirmed once the valuation and associated analysis has been completed. Once the valuation is finalised, the FSS will be updated and published. For admissions and exits, the 2022 FSS actuarial assumptions will be effective from 1 April 2023. This is consistent with our current policy.

5 COMMENTS ON RESPONSES FROM EMPLOYING BODIES

5.1 The consultation asked specifically for comments about:

a) The appropriateness of the assumptions and in particular those that relate to them e.g. the pay increases expected to award over the next few years?

b) In relation to the affordability of contributions and in particular whether there is any particular year over 2023/2026 which will be more challenging. This will help us form a view on any further flexibility required.

c) Whether the level of detail was sufficient and whether employers need anything further in terms of information to understand the content and implications

5.2 The responses are summarised by employer in Appendix 2. They highlight the severe funding pressures in the public sector given the higher costs all employers will need to meet over the valuation period. The main themes are summarised below with a response from the Fund to each:

a) Given the cost pressures facing the employers, maximum flexibility is needed for them to manage their costs especially since there has as yet been no increase in funding for public sector bodies

Officers and the Actuary are fully aware of the cost pressures facing all employers and the uncertainty of funding /support from government. The FSS builds in flexibility and officers have discretion to flex the funding plans further within the 3 year valuation period at the employer level.

b) What the assumptions for short term pay should be for the next 3 years given what employers have in their budgets

The valuation is using an average of 4% p.a. for the 3 years as the short term pay assumption for the Fund as a whole. Feedback from employers suggest that this may be on the low side initially but may be overstating by year 3 of the valuation period. We have experienced a decade of very low inflation and interest rates. It is not inconceivable (and maybe markets are indicating) that we may now experience a period of higher interest rates and inflation. Therefore an average of 4% over the 3 years seems reasonable but where an employer demonstrates a material deviation is likely this can be allowed for within reasonable bands.

c) **Has the level of prudence in the discount rate assumptions increased and why given the funding level has improved?**

When considering the assumptions to adopt the Actuary takes into account all available information (including the market outlook after the valuation date) in order to achieve a funding plan which balances affordability of contributions versus the long-term sustainability of contributions at future valuations. Ultimately the objective is to protect the financial health of the Fund in the long term. The primary reason for adjusting the assumptions is due to the material shift in the market outlook over the medium term since the valuation date and that the likelihood of a more persistent stagflationary environment (higher inflation and low asset growth) has increased. The intention of this is to provide more sustainability in contribution rates into the future. The Actuary has advised that this represents a reasonable balance to support the stability in contributions for the Fund and takes into account the risk management strategies implemented by the Fund that provide some protection. More prudent adjustments were considered to reflect a prolonged stagflationary environment. The discount rate agreed upon in the FSS appropriately balances the current environment with contribution affordability.

d) **The rationale for reducing the deficit recovery period to 12 years and by 3 years?**

At the last valuation the medium-term deficit recovery period was 12 years which is retained at this valuation. The actuary has to take long term cost efficiency into account which essentially means we cannot push the burden of the deficit onto future taxpayers. Given the open nature of the scheme, we think the medium-term target of 12 years is reasonable to achieve this objective and also aids stability of contributions where shorter periods would mean small changes in the funding position would have a material effect on contributions. In general, the 3 year reduction in the recovery period relates to the natural reduction over a valuation cycle to achieve full funding at the same end point.

e) **How will the Fund use any improvement in funding levels – to reduce contributions or to create a buffer for possible deterioration during this valuation period?**

We currently face a very uncertain economic and market environment which could be detrimental to the financial health of the Fund, especially if high levels of inflation persist in the long term which is not matched by investment returns. Furthermore, even if the economy recovers by the next valuation there is a significant risk that funding in the public sector is severely restricted due to the level of government debt from the pandemic and cost of living crisis. Therefore our approach is to have a buffer to protect employers against any deterioration at a time when they will still experience significant funding pressure. For tax raising bodies the use of a surplus to reduce contributions in the near term is equally a consideration for prudential management of current and future budgets. The discussion with employers on the final contribution rates will consider this and the FSS provides a framework to achieve this. Also where an employer's covenant is weak or the employer is expecting to exit the Fund, holding a buffer (for all or part of any surplus) means that is reduces the risk to the Fund of unpaid or unaffordable contributions.

f) Why should the HFE bodies have different deficit recovery periods to the tax raising bodies?

The recovery period for HE/FE employers depends in part on decisions regarding the recovery period made by the employer in the past and progression of the employer funding plans between valuations. This was in part dependent on the affordability of contributions as well as the covenant of each HE/FE employer. When compared to tax raising bodies, the HE/FE covenant is not as secure as it is not backed by the taxpayer (and there is a divergence of covenant strength between HE/FE bodies); therefore it is desirable to reach full solvency as quickly as possible (to reduce the risk of underfunding) having taken in account the impact on contribution payments. The recovery period will be kept under review in light of changing circumstances and discussed with the HE/FE employers at the appropriate time.

g) Has the investment strategy been changed given current economic environment and market volatility?

The investment strategy is long term in its outlook and as a result is diversified across assets and return drivers to help withstand financial market volatility. We also have hedging strategies in place to protect (to a degree) against equity losses and rising inflation. However, the investment strategy and returns achieved are a critical part of the funding strategy as it reduces the costs to the employers. The Actuary takes into account the risk management strategies when considering the valuation assumptions and allows a higher discount rate to be adopted (all other things equal) given the hedging strategies in place. The investment strategy is being reviewed in line with the valuation and a key question being considered is whether it should target a higher return albeit this will also increase investment risk. We are confident that the current strategy can deliver the return required in the funding strategy at an acceptable level of risk; however, if we can increase the expected risk adjusted return, the funding position will be improved at the next valuation, everything else being equal.

6 PRELIMINARY WHOLE FUND RESULT

6.1 The final actuarial outcome will be reported to Committee at March 2023 meeting. The preliminary whole Fund results (based on the proposed assumptions to assess solvency and future service plus updated demographic assumptions) are set out below:

	£m
Assets	5,822
Liabilities	6,020
Deficit	198
Average Funding Level	97%
Average Employer future service contribution rate	18.5% p.a.

These results will be subject to change as the valuation is completed for each employer – in particular any changes in the assumption for short term pay award (the results above assume an average pay award of 4% for the next 3 years) and the impact of the any employers moving into the lower risk investment strategy. The impact of McCloud and GMP indexation has been allowed for based on the proposed remedies. This has reduced the finding level by c1% at a whole Fund level and has no effect on the future service rate.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Paris Aligned Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee. As part of the valuation the Actuary will report on the potential impact of climate change risks in his final valuation report in line with best practice.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with actuary Responses to FSS from employing bodies
Please contact the report author if you need to access this report in an alternative format	

FUNDING STRATEGY STATEMENT

AVON PENSION FUND

[DATE]

BATH AND NORTH EAST SOMERSET COUNCIL

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Avon Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

Note - Square brackets indicate areas which are yet to be finalised. These will be completed before the FSS is formally signed off in March 2023.

A glossary of the key terms used throughout is available at the end of this document [here]

This Funding Strategy Statement has been prepared by Bath and North East Somerset Council (the Administering Authority) to set out the funding strategy for the Avon 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).

1
GUIDE TO THE FSS AND POLICIES

The information required by overarching guidance and Regulations is included in Sections 2 and 3 of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)
The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, are set out [here].

2. Deficit Recovery and Surplus Offset Plans (Appendix B)
The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [here].

3. Employer Types and Admission Policy for New Employers (Appendix C)
Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [here].

4. Termination Policy for Exiting Employers (Appendix D)
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 former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here].

5. Review of Employer Contributions between Valuations (Appendix E)
In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here].

6. Employers Moving between Investment Strategies (Appendix F)
The Fund currently operates two investment strategies for employers (the higher and lower risk investment strategies) and this policy sets out the conditions upon which employers can move between these investment strategies and circumstances when the Fund may instigate a move. The policy can be found [here].

7. New Academy Conversions and Multi-Academy Trusts (Appendix G)
Current Fund policy regarding the treatment of local authority maintained schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit at the point of its conversion. Further details on this and multi-academy trusts can be found [here].

8. Covenant Assessment and Monitoring Policy (Appendix H)

An employer's financial covenant is its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. This is a critical consideration in an employer's funding and investment strategy as it is the employers who underwrite the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces. Further details on how employer covenant is assessed and monitored by the Fund is set out [here].

9. Notifiable Events Framework (Appendix I)

Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of any material changes. This policy sets out when this may happen and the notifiable events process. More details are set out [here].

10. Ill Health Insurance Arrangements (Appendix J)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out [here].

2
BACKGROUND

Ensuring that the Avon Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Bath and North East Somerset Council). The Funding Strategy adopted by the Avon Pension Fund is critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy regarding how each Fund employer's pension liabilities are to be met.

Given this, and in accordance with governing legislation, all interested parties connected with the Avon Pension Fund have been consulted and given the opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

INTEGRATED RISK MANAGED STRATEGY

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 to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

THE REGULATIONS

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

THE SOLVENCY OBJECTIVE

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

LONG TERM COST EFFICIENCY

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, 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 two 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 Scheme so far as it relates to the Fund.

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.

3
KEY FUNDING PRINCIPLES

PURPOSE OF THE FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the 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 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 long-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.

THE AIMS OF THE FUND ARE TO:	THE PURPOSE OF THE FUND IS 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, mandatory, 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.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

KEY PARTIES TO THE FSS

The Administering Authority should:	The Individual Employer 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 Investment Strategy Statement ("ISS), both after proper consultation with interested parties • 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 scheme employer, and • 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.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable) • 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 scheme benefits and early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund. • understand the pensions impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality. • comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving / transferring employer).

The Fund Actuary should:	A Guarantor 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 its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of 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.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

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 pension liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

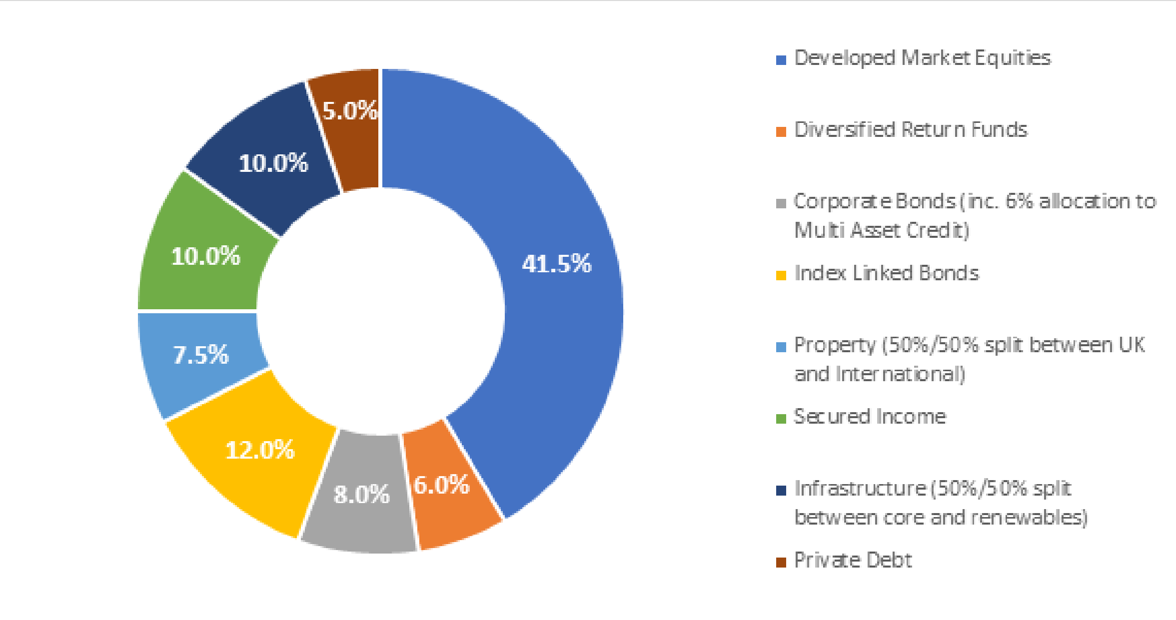
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2022 valuation show the liabilities to be [xx%] covered by the assets, with the funding [deficit] of [x%] 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 taking into account the investment strategy adopted by the Fund, as set out in the ISS.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below



RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a number of investment risk management techniques and these have been allowed for in the actuarial valuation calculations. In outline these are set out below (further information can be found in the ISS).

Equity Protection	The Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).
Liability Driven Investments (LDI)	The Fund has implemented an LDI strategy in order to hedge part of the Fund's assets against changes in liabilities for one or more employers.

Lower risk investment strategy	This strategy predominately uses corporate bond investment assets and is expected to reduce funding volatility for employers within it. In these circumstances, the discount rate is directly linked to the yields on the corporate bonds within the strategy. In addition, the strategy has exposure to the Liability Driven Investment ("LDI") portfolio to provide protection against changes in market inflation expectations. The implementation of a strategy constructed on this basis will better match the overall changes in the liabilities of those employers included in the strategy. All other things equal, this in turn would result in greater stability of the deficit and therefore the contributions for these employers.

The principal aim of these risk management techniques is to provide more certainty of real investment returns versus CPI inflation and/or protect against volatility in the termination position. In other words they are designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. The effect of these techniques has been allowed for in the actuarial valuation calculations and could have implications on future actuarial valuations and the assumptions adopted. Further details of the framework have been included in the ISS.

[CLIMATE CHANGE] (this section is subject to finalisation once the guidance has been provided)

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. 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 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. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL	DEMOGRAPHIC
The financial risks are as follows:- • Investment markets fail to perform in line with expectations • Protection and risk management policies 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 than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position. In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of the risk management framework will help to reduce the key financial risks over time.	The demographic risks are as follows:- • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers • Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy. Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.

GOVERNANCE	REGULATORY
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	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme, • Changes to national pension requirements and/or HMRC Rules • Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a

• 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 a bond which is not adequate. 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 (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.	large increase in the number of academies in the Fund due to Government policy. • Uncertainty about the Government's policy with regard to higher and further education bodies, with the result that the Fund is unsure about the security within which these bodies operate and may therefore be taking undue risk when setting contribution rates Membership of the Local Government Pension Scheme 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.

MONITORING AND REVIEW

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim 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 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 Scheme 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
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

FINANCIAL ASSUMPTIONS			
	2022 valuation assumption		Description
Investment return / discount rate	Higher Risk Strategy	[4.60% p.a. (past) and 5.10% p.a. (future)]	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of [1.5% p.a.] above CPI inflation (past) and [2.0% p.a.] above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Lower Risk Strategy	[2.55% p.a. (past and future for a very mature employer)]	Linked directly to the yields available for the assets within the lower risk investment strategy. The typical discount rate is equivalent to a return of [0.85% p.a.] above gilt yields as at 31 March 2022.
Inflation (Retail Prices Index)	[3.90% p.a.]		The investment market's expectation 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 whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	Higher Risk Strategy	[3.10% p.a. (includes an adjustment of [0.80% p.a.])]	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This varies for the higher and lower risk strategies, reflecting the degree of inflation hedging inherent in each strategy [and will reflect the duration of an employer's liabilities in the case of a lower risk strategy]. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
	Lower Risk Strategy	[3.60% p.a. (includes an adjustment of [0.30% p.a.] for a very mature employer)]	

Salary increases (long-term)	[4.60% p.a.]	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of [1.50% p.a.] over the inflation assumption as described above. This includes allowance for promotional increases.
Salary increases (short-term)	Where applicable this is [3%, 3.5% or 4%] p.a. until 31 March 2023. As set out on individual employer results schedule.	Allowance has been made for expected short term pay restraint for some employers. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

Within the next valuation cycle (i.e. prior to 31 March 2025), the Fund will consider the merits of implementing a medium risk investment strategy. This strategy will have a lower level of growth assets compared with the higher risk whole Fund strategy.

DEMOGRAPHIC ASSUMPTIONS (this section is subject to finalisation following completion of the demographic analysis)

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. 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) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the [2018] CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2018 projections and a long term improvement trend of [1.75]% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	23.1	[23.1]	25.2	[25.2]
Actives aged 45 now	24.6	[24.6]	27.2	[27.2]
Deferreds aged 45 now	23.2	[23.2]	25.9	[25.9]

For example, a male pensioner, currently aged 65, would be expected to live to age [88.1]. Whereas a male active member aged 45 would be expected to live until age [89.6]. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	[92% S3PMA_CMI_2018 [1.75%]] [87% S3PFA_M_CMI_2018 [1.75%]]
	Dependant	[119% S3PMA_CMI_2018 [1.75%]] [87% S3DFA_CMI_2018 [1.75%]]
	Ill Health	[113% S3IMA_CMI_2018 [1.75%]] [127% S3IFA_CMI_2018 [1.75%]]
	Future Dependant	[117% S3PMA_CMI_2018 [1.75%]] [106% S3DFA_CMI_2018 [1.75%]]
Active	Normal Health	[98% S3PMA_CMI_2018 [1.75%]] [88% S3PFA_M_CMI_2018 [1.75%]]
	Ill Health	[115% S3IMA_CMI_2018 [1.75%]] [138% S3IFA_CMI_2018 [1.75%]]
Deferred	All	[118% S3PMA_CMI_2018 [1.75%]] [105% S3PFA_M_CMI_2018 [1.75%]]
Future Dependant	Dependant	[124% S3PMA_CMI_2018 [1.75%]] [113% S3DFA_CMI_2018 [1.75%]]

OTHER DEMOGRAPHIC ASSUMPTIONS	
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 remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. 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.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding [0.6%] of pensionable pay to the contributions from participating employers. This 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.

Further details on the demographic assumptions are set out in the Actuary's formal report.

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 scheme 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. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. 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.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, 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 in the Fund.

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 Primary rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme 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 (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer in either the higher risk or lower risk strategy, a pro-rata principle is adopted. This involves applying the appropriate individual employer investment strategy to each employer unless this is varied by agreement 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. In addition, the asset shares maybe restated for changes in data or other policies.

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.

APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer 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.

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, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

EMPLOYER RECOVERY PLANS– KEY PRINCIPLES

The average recovery period for the Fund as a whole is [xx] years at this valuation which is [x] years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. 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 an annual basis or a one-off payment.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (flat or increasing year on year).

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

The key principles when considering deficit recovery and surplus offsets are as follows:

1. A medium term recovery period target has been set at 12 years which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest cost.

   The recovery period for tax raising bodies and academies will be set as follows:

   a. For employers whose 2019 recovery period exceeded the medium term recovery period of 12 years, the recovery period will reduce by 3 years, however this is subject to a minimum of 12 years.
   b. For employers whose 2019 recovery period was less than the medium term recovery period of 12 years, the recovery period will remain unchanged.

2. Employers without a guarantee and non tax raising bodies - Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by:
   a. At least 3 years (at this valuation when compared to the preceding valuation) for employers whose 2019 recovery period exceeded the medium term recovery period of 12 years. This is to target full solvency over a similar (or shorter) time horizon.
   b. Between 0 and 3 years (at this valuation when compared to the preceding valuation) for employers whose 2019 recovery period was equal to or less than the medium term recovery period of 12 years. The reduction will be at the Fund's discretion based on the covenant and affordability of each employer.

   This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit.

3. However, where an employer is expected to exit the Fund then in normal circumstances, the deficit would be recovered over the remaining period to exit (if shorter than the recovery period determined by points 1. and 2. above).

4. For closed employers, the deficit recovery period will be linked to the expected average future working lifetime of the active membership (if shorter than the recovery period determined by points 1. to 3. above).

5. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.

6. Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish.

7. 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.

8. Where there has been a significant increase in deficit, in exceptional circumstances, the Fund may allow an employer to extend their recovery period. The Fund will take into account affordability and covenant considerations when making the decision.

9. For new admitted bodies with a guarantee from the outsourcing Scheme employer the Administering Authority will discuss the appropriate deficit recovery period, where applicable, with the outsourcing Scheme employer. Generally the deficit recovery period will be the length of the commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If the Scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the Scheme employer's. The terms of the Scheme Employer's contract with the admission body may be a factor in these cases where this is made known to the Fund.

10. For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 12 year period in line with the medium term recovery period target for the whole Fund, subject to a total employer contribution minimum of zero. If an employer is expected to exit the Fund before this period,

contribution requirements will be set to target a nil termination deficit within reasonable expectations and subject to statutory constraints (subject to periodic review).

11. The applicable investment strategy for each employer will be reflected in the relevant employer's notional asset share, funding basis and contribution requirements.

12. The Fund's policy is not to allow the prepayment of employee contributions. The prepayment of primary contributions may be allowed at the Fund's discretion. A copy of the primary contribution prepayment policy can be provided by the Fund upon request.

13. Where increases in total employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, any increase in the primary contribution rate (from the rates of contribution payable in the year 2023/24) may be implemented in steps over a period of 3 years, depending on affordability of contributions as determined by the Administering Authority. The minimum step will be 0.5% of pay per annum (i.e. the increase in primary contribution rate must be at least 1.5% for this facility to apply). However, where total contributions (primary plus secondary) have reduced, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

14. The secondary contributions may be set with reference to a different funding target, subject to the discretion of the Fund.

15. For employers that do not have a financial year end of 31 March 2023 (e.g. 31st July 2023 or 31st August 2023), the Fund can, at the employer's request before 28th February 2023, allow the employer to continue to pay at their current contribution level (i.e. the 2022/23 contribution rate) until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 if the year-end is 31 July 2023).

16. 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.

17. 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 evidence-based affordable level of contributions for the organisation for the three years 2023/2026. 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.

18. For those bodies identified as having a relatively weak 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.

19. The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes as a result of any benefit costs being insured with a third party or internally within the Fund.

20. Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C – EMPLOYER TYPES AND ADMISSION POLICY

ENTRY TO THE FUND

MANDATORY SCHEME EMPLOYERS

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies including connected and controlled entities are not required under the Regulations to provide a guarantee. Apart from connected and controlled entities, these bodies usually have tax raising powers.

Connected entities and controlled entities, by definition, have close ties to a scheme employer given that they are either included in the financial statements of the scheme employer or owned/controlled by a scheme employer.

Although connected and controlled entities are “Designating Bodies” under the Regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the lower risk funding basis for calculating the liabilities will apply to all new connected and controlled entities unless a scheme employer provides a guarantee for their connected or controlled entity, in which case the higher risk valuation funding basis will be applied to value the liabilities.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the Administering Authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

1. They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies).
2. They provide some form of public service or their funding derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies). These “not for profit” organisations are a diverse group. Some are financially very secure to the extent that they receive funding from either the government or local authorities on a quasi-permanent

basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising.

Admitted bodies may now only join the Fund if they are guaranteed by a scheme employer (this has not always been the case – see next section). Therefore, these employers pose less financial risk to the Fund. In the case of admitted bodies with an outsourcing contract, when the agreement or service provision ceases, the Fund's policy is that the assets and liabilities of the admission body will in all cases revert to the outsourcing scheme employer or guaranteeing employer. Where there is an agreement in place whereby the admission body is required to make good any deficit which exists on termination, the Fund will, unless otherwise instructed by the outsourcing scheme employer or guarantor, seek to recover the amount due in the first instance; however, if it fails to do so, it will be a matter for outsourcing scheme employer or guarantor to enforce this agreement by instituting recovery procedures. Any sums recovered from outgoing admission bodies on termination must be paid into the Fund for the benefit of the outsourcing scheme employer or guarantor.

RISK MANAGEMENT OF "NOT FOR PROFIT" ADMISSION BODIES

For historical reasons, "not for profit" organisations (formerly known as Community Admission Bodies), which were admitted prior to 2004 have no guarantee and, as such, constitute a potential risk to the Fund. This is because they may cease operations with insufficient residual assets to meet their pension liabilities.

The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most of these bodies now have much greater liabilities relative to the covenant underpinning them.

The tools available to manage these risks are limited to using a more prudent valuation basis (such as the lower risk valuation basis) which minimises the deficit on exit; obtaining charges on assets in favour of the Fund; setting up escrow accounts or obtaining other security. The approach to agreeing the funding plans of these bodies will have regard to the financial strength of each individual body. The aim will be to achieve a balance between securing the solvency of the Fund and the sustainability of the organisation. For those with less secure income streams, the Fund will consider how it can manage contributions into the Fund in the short to medium term without compromising the financial stability of the organisation. Where there are assets or reserves, the Administering Authority will explore how these contingent assets could be used to assist in funding the liabilities or providing security to the Fund and its employing bodies.

Where there are no contingent assets, the policy is to move over time to the lower risk funding basis and to shorten the deficit recovery period. However, this will need to be weighed against the ability of that body to pay higher contribution rates.

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

Local education authorities have an obligation to provide Children's Centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running Children's Centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the Children's Centre. The extensive academisation programme in recent years has led to a number of Children's Centres being run by an Academy or Academy Trust.

As the staff cannot be employed directly by an Academy or Academy Trust, the Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the Fund, the Local Education Authority of the ceding Council and the body responsible for managing the Children's Centre (this could be an Academy Trust or private sector employer).

RELEVANT LEGISLATION

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. Best Value Authorities, principally the unitary authorities, are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they must have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting scheme employer is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor. These liabilities relate both to any staff whom it may be outsourcing for the first time and to any staff who may be transferring from one contractor to another having previously been employed by a scheme employer prior to the initial outsourcing.

A "Related Employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARAGRAPH 8

This legislation primarily concerns the protection which must be put in place for the benefit of the Fund in the case of "not for profit" organisations.

The Fund is protected from any losses arising from the failure of a commercial organisation to whom a service is outsourced through the application of Regulation 64(3)(a) so that the provision in paragraph 8 which requires the outsourcing Scheme Employer to provide a guarantee in such cases is effectively superfluous. Outsourcing employers can protect themselves from the failure of one of its contractors by requiring the contractor to put in place a bond under the terms of paragraph 7 of Schedule 2, Part 3 of the Regulations.

Paragraph 8 of Schedule 2, Part 3 of the Regulations provides as follows:-

“Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of, the admission body”.

In accordance with the above Regulations, the Fund requires a guarantee from the Related Employer in most instances. In exceptional circumstances the admission body may supply a bond. Separately from this, as indicated above, a Related Employer (the Outsourcing Scheme Employer) may seek a bond from the admitted body to protect itself taking into account the risk assessment carried out by the Fund actuary.

APPENDIX D - TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

EXITING THE FUND

TERMINATION POLICY

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an "exiting employer" under the Regulations. In this situation the Fund is 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 setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The Fund's policy for settling termination payments/credits is as follows:

1. The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). Further detail is set out below.

2. At the discretion of the Administering Authority, instalment plans over a defined period may be agreed but only when there are clear issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

The assumptions and approach used to assess the amount of a payment/credit payable upon termination will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date. With the following exceptions:

	Employers with no guarantor in the Fund/ only a guarantee of last resort	Employers with a guarantor
Financial assumptions	The lower risk funding basis unless the Administering Authority agrees otherwise, based on the advice of the Actuary. This basis provides some mitigation against financial market risks and protection for the Fund. In the event that the lower risk basis produces a higher discount rate than the higher risk valuation funding basis, the higher risk valuation funding basis will be used.	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body's liabilities, the Fund's policy is that the higher risk valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.
Demographic Assumptions	In line with the assumptions adopted for the 2022 valuation with the exception of a	In line with the assumptions adopted for the 2022 valuation for ongoing

	higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to [2.25% p.a.]. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
McCloud	[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]	
Additional Costs	The exit valuation costs on the Avon Pension Fund website and any additional costs incurred will be identified and notified to both exiting employer and outsourcing employer/guarantor and included in the exit valuation. These costs will be paid by the exiting employer unless the outsourcing Scheme employer or guarantor directs otherwise, in which case the costs will be borne by the outsourcing Scheme employer or guarantor. In the case of employers without a guarantor, there may also be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share.	
Default policy once the termination certificate has been provided	• In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). • In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.	The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute between the interested parties.

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on any representations from the interested parties (where applicable).

DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR)

This section is primarily concerned with the outsourcing of services by a scheme employer who then becomes the guarantor of the contractor's pension liabilities under the Regulations. Where there is an outsourcing there will also be a commercial contract between the outsourcing scheme employer and the admission body governing all aspects of the outsourcing. If properly drafted, the contract will make clear whether any deficit or surplus on termination will be the responsibility of the outsourcing scheme employer or the admission body. However, problems arise when the contract either overlooks this issue or fails to provide sufficient clarity.

The Fund will make a determination in all cases whatever the circumstances. Generally, where there is insufficient clarity or ambiguity exists within the contract the Fund's default in these cases is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor. This is because the Fund would assume that, had there been a deficit, this would have been the responsibility of the outsourcing scheme employer. Any determination made by the Fund with regard to the allocation of a surplus can be challenged by one or other of the interested parties who can make representations in accordance with the procedure set out in the Regulations (see below).In addition, where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor.

For the avoidance of doubt, where the outgoing employer is not responsible for any termination liability then the default position is that no exit credit will be paid provided that the guarantor provides the Fund with a copy of the commercial contract or provides other such reasonable evidence supporting the position.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

The Administering Authority will provide details of the information considered as part of their determination. An exit credit determination notice will be provided alongside the termination assessment from the Actuary in cases where there is an exit credit. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

DESIGNATING BODIES AND CONNECTED AND CONTROLLED ENTITIES

In the event of cessation:

- Designating bodies will be required to meet any outstanding liabilities valued in line with the "employers with no guarantor in the Fund" approach outlined above. Upon exit, the residual assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).
- Connected and controlled entities will be required to meet any outstanding liabilities valued in line with the approach outlined above for designating bodies. This applies unless a Scheme employer provides a guarantee, in which case the Determination Notices (Employers with a guarantor) above will apply. The assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit, where appropriate.

POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)

The default position for exit payments is that they are paid in full at the point of exit once the cessation assessment has been completed by the Actuary (adjusted for interest where appropriate).

Under the Regulations the Fund has complete discretion as to whether it agrees to put a DDA in place provided that it follows the procedure set out in the Regulations.

If an employer requests that an exit debt payment is recovered over a fixed period of time (e.g. via a Debt Spreading Agreement ("DSA")) or that they wish to enter into a Deferred Debt Arrangement (DDA) with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from the default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of the Fund (and therefore ultimately taxpayers) to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

For the avoidance of doubt, the Fund will not agree to a request for a DSA or DDA which arises because of a decision taken by an employer to exit the Fund prematurely. This applies unless it is clear that continued participation in the Fund puts the solvency of that employer at risk in the foreseeable future and therefore to do so is in the best interest of the Fund in terms of managing risks to the remaining employers and therefore the taxpayer. As part of the evidential requirements backing a DDA/DSA request by an employer (see below), the Fund will expect employers to be in a position to demonstrate that alternative flexibility with other existing and new sources of finance (including banks and funders) have also been explored and the reasons for why these are not viable.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and, depending on the employer's circumstances, will either be required as an upfront payment or included in the contribution plan or exit debt payment.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period via a DSA.

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information to use as part of their covenant review. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

7. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt upfront or via a DSA, an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This will only be considered when there are issues of affordability that risk the financial viability of the employer organisation and the ability of the Fund to recover the debt. Typically this will be relevant to small 'not for profit' organisations that constitute a potential risk to the Fund because they may cease operations with insufficient residual assets to meet their pension liabilities. A DDA would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund will agree to allow the employer to enter into such an arrangement:

1. The Administering Authority will request updated covenant data from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.

3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date (for example when the Employer's active membership has reduced below 5 members and it appears likely that termination could be triggered within the next [6-9] months).

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the

potential format of a DDA which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:

a. What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority will not enter into such an arrangement unless they are confident that the employer can support the arrangement in future. Provision of security may also result in a review of the recovery period and other funding arrangements.
b. The investment strategy that would be applied to the employer e.g. the lower risk strategy or otherwise which could support the arrangement.
c. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
d. What the updated secondary rate of contributions would be required up to the next valuation.
e. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
f. The advice of the Actuary, covenant, legal and any other specialists necessary.
g. The responsibilities that would apply to the employer while they remain in the Fund.
h. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
i. The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
j. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer, and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.

6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer as part of the arrangements and contribution requirements. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

APPENDIX E - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation although changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented.

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

- **Significant changes in the employer's liabilities**

  This includes but is not limited to the following scenarios:

  1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
     a. Restructuring of an employer
     b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
     c. A bulk transfer into or out of the employer
     d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
     e. Where the aggregation of member movements materially shortens the expected time horizon for continued participation in the Fund
  2. Two or more employers merging including insourcing and transferring of services
  3. The separation of an employer into two or more individual employers

  In terms of assessing the triggers under 1. above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

  Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

- **Significant changes in the employer's covenant**

  This includes but is not limited to the following scenarios:

  1. Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement or creditor (e.g. banks), which may impair the security provided to the Fund.
  2. Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
  3. Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

  In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances, employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix I.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where a contribution review is triggered by a significant change in employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy via the lower risk investment option.

In the case of an employer who may exit the Fund, 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.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and the Administering Authority will notify the employer of the intention to review contributions if a contribution review is deemed necessary. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer requests a review of the contributions and the employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

As well as revisiting the employer's funding plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the higher risk or lower risk) in line with this Funding Strategy Statement.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

APPENDIX F - EMPLOYERS MOVING BETWEEN INVESTMENT STRATEGIES

The Fund currently operates two investment strategies for employers:

- **The Higher Risk Investment Strategy –** This is the current overall Fund investment strategy, as set out in the Investment Strategy Statement and applies to the majority of employers currently.

  This is intended for employers that have a reasonable level of security (e.g. tax raising employers and employers with a guarantee).

- **The Lower Risk Investment Strategy –** This strategy exhibits a lower investment risk than the current whole fund strategy. It is predominately linked to corporate bond assets and is expected to reduce funding volatility for employers within it. In addition, the strategy has exposure to the Liability Driven Investment ("LDI") portfolio to provide protection against changes in market inflation expectations.

  This is generally intended for employers that do not have any security, particularly those with a weaker covenant or employers who are close to exiting the Fund. The Fund can move an employer to this strategy if they deem it appropriate (e.g. where there are concerns around employer covenant, where the employer is deemed to be close to exit based on the remaining active membership or it is clear that the employer intends to leave the Fund). However, an employer can also request to switch to this strategy subject to agreement with the Fund as discussed below.

The applicable investment strategy will be reflected in the relevant employer's notional asset share, funding basis and contribution requirements from the date they are deemed to have switched to that strategy.

CHOOSING TO MOVE TO ANOTHER STRATEGY

Each employer's current investment strategy will be shown on their valuation schedule. For new employers, they will be placed in the higher risk investment strategy unless informed otherwise.

If an employer would like to move to a different strategy (e.g. from the higher to the lower risk strategy) then the following will apply:

1. The employer must notify the Fund of their choice in writing
2. The Fund will need to consider whether it is appropriate to allow the change in strategy, considering all relevant factors
3. The employer will be notified of any change in contributions that will apply following the switch (e.g. a move to the lower risk strategy may lead to a significant increase in

future service and deficit contributions).

4. Assuming that both the Fund and employer are happy to proceed, the switch will take place from the quarter end following notification to switch by the employer to the Fund, (after the contribution changes have been confirmed). For example, if the decision is made on 1 February the switch will be made effective from 31 March. This is to allow the Fund to transition assets in a managed way as with any strategy change (subject to discretions below). Please note that the notification to switch must be provided at least 15 working days prior to the quarter end, otherwise the switch will be delayed to the next quarter end.
5. The revised contributions will be payable from the start of the quarter from which the switch is made.
6. Under normal circumstances, the employer will remain within that strategy for all future funding and contribution assessments (e.g. at each future actuarial valuation) whilst it continues to be an ongoing employer in the Fund with active members (further detail on when a subsequent change may be appropriate is set out below).

Employers that are considering moving between strategies can ask the Fund for regular funding updates if this would assist with any decision making.

OTHER CONSIDERATIONS

1. If an employer is:
   a. deemed to have a relatively weak covenant, or
   b. poses a higher risk in other areas, or
   c. is deemed to be close to exit based on the remaining active membership or other evidence such as a decision in principle by the employer.

   then the Fund reserves the right to automatically move the employer from the higher risk to the lower risk strategy where it is felt that that the investment risk being taken is too high irrespective of the timing considerations noted above (typically following discussions with the employer).

   This determination is based on:
   1. the type of employer, whether they have a guarantor in place and if so, the nature of the guarantee;
   2. current funding position on both the ongoing and termination basis; and
   3. the strength of covenant and the ability to improve this over time.

   This is to protect the Fund as a whole (ultimately the taxpayers) and all employers within it.

2. Once an employer has moved into the lower risk strategy, they will be unable to move back to the higher risk strategy unless they can provide sufficient security (e.g. a guarantee or evidence of a change in employer type). Any move would be at the sole discretion of the Fund.
3. There may be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually

via a deduction in the notional asset share.

IMPLEMENTING THE MOVE TO THE LOWER RISK STRATEGY

A further step will apply before any action is taken to avoid potential timing issues in switching strategy. If there has been a material shift in market conditions between the date of notification to switch by the employer and the following quarter end, the decision to move can be postponed:

- **By the employer** if they feel that market conditions have changed such that the move would be more detrimental to their funding position than initially thought at the time of notification
- **By the Fund** if the transition of assets would be too expensive based on the current financial conditions

In this case, an agreement will be reached as to when it will be appropriate to move in the future and triggers will be implemented to achieve this.

APPENDIX G - ACADEMIES / MULTI-ACADEMY TRUST POLICY

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit or surplus is calculated as the capitalised amount of the funding contributions relating to past service to the conversion date (based on the local authority recovery period) the school would have made to the Fund had it not converted to academy status. In the case of a deficit, it will be subject to a limit to ensure that the minimum asset share of the new academy is nil.

MULTI ACADEMY TRUSTS

Multi-Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool.

Within a MAT all academies are governed by one Trust and a Board of Directors. The MAT holds ultimate responsibility for all decisions regarding the running of the individual academies. However, the governing bodies of the individual academies remain in place and the MAT will need to decide the extent to which it delegates functions to these governing bodies to enable more focused local control.

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

APPROACH TO SETTING CONTRIBUTION RATES

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

The Fund will provide the MATs with the option of having a common Primary contribution rate for all the academies within the trust if the MAT is willing to settle for that approach, bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. However, the MAT can opt to have the deficits for all the academies within the trust aggregated for the purposes of the actuarial valuation report.

Any new academies joining an existing MAT pool in the Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

The Fund's current policy is in accordance with the Regulations requiring a separate admission agreement in respect of separate contracts.

Under Schedule 2, Part 3, paragraph 5. of the 2013 Regulations, if the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract. The Fund has developed a mechanism whereby this can be done, subject to certain conditions which must be agreed by the MAT.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The Scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the Scheme employer i.e. the Multi Academy Trust.

If academies are to comply with "new" Fair Deal guidance, employees carrying out a service on behalf of the Academies must be allowed continued access to the LGPS. This can be achieved by entering into an Admission Agreement with the Administering Authority, Multi Academy Trust and the contractor (admitted body).

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and, in accordance with Fund policy, the Trust becomes responsible for the assets and liabilities standing to the account of the admitted body. A cessation valuation can be provided by the Fund actuary should the Trust request it.

APPENDIX H – COVENANT ASSESSMENT AND MONITORING POLICY

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

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 undertaken~~.~~ The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

- Type of employer body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Whether there is a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation

The employer covenant will be assessed based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure. Research will be carried out into employers' backgrounds and, in addition, employers may be contacted to gather further information. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation and will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months.

In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately. The notifiable event requirements are set out in Appendix I.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent funding/investment approach (e.g. the lower risk basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX I - NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published ('A Guide for Administering Authorities') in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
    a. Restructuring of the employer involving significant changes in staffing
    b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)*
    c. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
    d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals*
    e. A decision which will restrict the employer's active membership in the future*
2. Two or more employers merging including insourcing and transferring of services*
3. The separation of an employer into two or more individual employers*
4. Concerns of fraudulent activity that may include pensions aspects

*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

2) Significant changes to the employer covenant

i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

a. An employer's forecasts indicate reduced affordability of contributions.
b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
c. Provision of security to any other party including lenders and alternative pension arrangements
d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
g. The employer has defaulted on payments
h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
j. An employer becomes insolvent

ii. A change in the employer's circumstances

This includes but is not limited to the following scenarios, where applicable:

a. A merger of the employer with another organisation

b. An acquisition by the employer of another organisation or relinquishing control
c. An employer commences the wind down of its operations or ceases to trade
d. A material change in the employer's business model
e. A change in the employer's legal status (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)
f. The employer becoming aware of material suspected / actual fraud or financial irregularity
g. The employer becoming aware of material legal or court action against them
h. There has been suspension or conviction of senior personnel
i. Regulatory investigation and/or sanction by other regulators
j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

a. No further action required
b. More detailed request for further information and ongoing monitoring
c. The Fund will review the documentation provided and respond on next steps
d. A review of employer contributions
e. A review of the recovery period used to calculate secondary contributions
f. A review of the employer's investment strategy
g. A review of the termination position and discussions with the employer as to how this may be addressed
h. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

APPENDIX J – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENT

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary and after considering potential alternative insurance arrangements) a captive insurance arrangement was established by the Administering Authority to cover ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2017. It applies only to ill-health retirements involving the early payment of pension and to the associated benefit costs.

The captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2023/26 is [1.00]% of pay per annum

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Academies
- Community related Admitted Bodies
- Contract related Admitted Bodies
- Town and Parish Councils
- Designating Bodies.

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where is it felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs are recovered from the employer, either at the next valuation or at an earlier review of the contributions due, including on termination of participation.

EMPLOYER RESPONSIBILITIES

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 ensure robust processes are in place to determine eligibility for ill health retirements.**

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

APPENDIX K - GLOSSARY OF TERMS

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 (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.

BENEFITS: The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

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 and the method of calculation is different. The CPI is expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

CONTINGENT ASSETS: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

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.

DEFERRED DEBT AGREEMENT (DDA): A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

DEFERRED EMPLOYER: An employer that has entered into a DDA with the Fund.

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.

DERIVATIVES: Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

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 i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

EARLY RETIREMENT STRAIN: the additional cost incurred by a Scheme Employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be 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. See also "Primary Rate" below.

EMPLOYING BODIES: Scheme employers that participate in the LGPS.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

EQUITY PROTECTION: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

EXIT CREDIT: the amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

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 which the Administering Authority is obliged to prepare and publish 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.

GUARANTEE OF LAST RESORT: for the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

HIGHER RISK 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 determined based on the expected long term return achieved on the Fund's investments. This is expressed as an expected return over CPI.

ILL HEALTH CAPTIVE: this is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

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.

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 those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, accumulated 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.

LONG TERM COST EFFICIENCY: this is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

LOWER RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the expected long term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

LOWER RISK INVESTMENT STRATEGY: an investment strategy which is predominately linked to corporate bond investment assets and is expected to reduce funding volatility for employers within it (as a minimum this will be reviewed following each actuarial valuation). In addition, the strategy has exposure to the Liability Driven Investment ("LDI") portfolio to provide protection against changes in market inflation expectations.

MANDATORY 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 Scheme Employers. For example, these include councils, colleges, universities and academies.

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.

MCCLOUD JUDGMENT: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

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 FUNDING 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 can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

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.

PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, 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. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

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 compared to 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 sufficiently 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.

SAB FUNDING BASIS OR SAB BASIS: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculated the Fund's solvency funding position and contribution outcomes for employers.

SCHEME EMPLOYERS: organisations that participate in the Avon Pension Fund.

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 Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SECONDARY RATE OF THE EMPLOYERS' CONTRIBUTION: an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate 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 that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

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.

STRAIN COSTS: the costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

SWAPS: a generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

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.

Appendix 2

Responses to Funding Strategy Statement (FSS)

(The views expressed are those of the employers themselves; in some cases they have been paraphrased. The intention has been to represent the comments concisely and as accurately as possible. Inevitably some of the detailed supporting material has had to be omitted.)

Employer	Comments
Bristol City Council	• Level of prudence in the discount rate has been increased. As the funding level of the Fund has improved over the inter-valuation period would like to understand the reasoning behind this. • Wish to see a breakdown of the RPI assumption, the inflation risk premium adopted, the margin below RPI before 2030 (when RPI reform is expected) and the margin below RPI after 2030. • Have budgeted for pay increases averaging 2.5% however recognise they may need to consider an estimated 4% increase for the next two years, dropping back to 2% after. • Request confirmation of the Fund's demographic analysis and the proposed assumptions to be adopted. • What allowance has been included for McCloud and GMP indexation and how is this changed since the 2019 valuation? • Would like to understand the rationale for reducing the deficit recovery period to 12 years. Is this in line with other employers in the Fund? Why not leave the recovery period at 15 years? • Would like to understand how any improvement in funding position will be used by the Fund on behalf of employers now and in future? E.g. reduce employer contributions, or de-risk, or to add a "buffer" against future adverse experience. How has the Fund come to this decision? • BCC's view is that any surpluses should be returned to the employer organisation. • Request confirmation of the target return of the investment strategy at both the 2019 and 2022 valuations, the value of the fund's assets at the valuation date, and information about how the Fund's assets have performed against target over the inter-valuation period. • How are drivers such as mortality rates considered? • Are investment opportunities sought as a result of the global financial pressures such as increased inflation, how are these being considered? • Can individual employers to request a bespoke investment strategy to better reflect their risk appetite and employer covenant? • How has post valuation experience been allowed for, e.g. Will the Fund allow for 2023 pension increases being awarded?
South Gloucestershire Council	• Local Government Pay offer for 2022/23 has been released and can be factored into forecasts. • Suggest for 2023/24 sticking with 4% on the basis that Local Government will likely need to contract to allow it to remain affordable given growing inflationary pressures. Falling back to c. 3% by 2024/25 as the peak drops off. • Facing a severe financial challenge with inflationary pressures and likely stagnation in funding. Organisations likely to contract to allow them to maintain balanced budgets. 2023/24 and 2024/25 will be particularly challenging as pressures bite eating into available reserves so maximum flexibility should be considered. • Level of detail provided in recent meetings has been helpful. Would

	appreciate a further update on the impact of the current economic climate and assumptions before anything is fixed. • The landscape has changed rapidly in recent weeks and will likely continue to change. • LGPS is one of SGC's most material cost pressures and will come under increased scrutiny as this year's revaluation coincides with a cost crisis.
University of the West of England	• Think it is extremely simplistic and inappropriate to treat tax raising bodies and academies differently to further and higher education institutions (FHE). Like academies FHE employers are funded effectively per capita of students by the government, and FHE employers are scheduled bodies in the Avon Pension Fund for the long term. Argue that FHE should be afforded the same recovery period rules as academies - where recovery period will not normally be reduced below 12 years, albeit could be after an enhanced employer's covenant review. Due consideration should be given to FHE's who like Unitary authorities are in the Scheme for the long-term and should be treated as equals. • Tuition fees for Higher Education (HE) sector are fixed for 3 years at £9,250 p.a. Average payroll costs constitute 60% of HE operating costs. Given inflation and energy costs it will progressively get more difficult to balance the books at HE. Long-term salary increases of 4.6% is at the extreme limits of affordability for most HE institutions. Planning long-term 4% salary increases (including scale drift) over the next 5 years. • Draft FSS is easy to read, and no further information required.
South Gloucestershire & Stroud College	• Are looking to make a 2% pay award annually, this with movements in bands and other individual increases during the year will be fine with the 3% assumption. • Cannot see that the college will be in a position to make higher pay awards despite the current high inflation. • In the past have stepped increases in contribution rates. • Prepayments - is there an option to prepay each year's in advance?
Cotham School	• Future pay awards will follow the local government pay scales and awards approved annually. • Recovery period looks as though ours will be reduced as it is currently 14 years. Assume this means if all else remains equal the annual deficit payment will increase?
Three Ways School	• Has the impact on special schools has been considered as we have high support staff numbers, but our income is governed by our pupil numbers. At present contribution rates are manageable but the deficit payment (currently £118,000 per year) is becoming unsustainable. By comparison it seems as though our yearly deficit is comparable to large secondary schools when we only have 220 students.
Westbury Park School	• From September 2022 a 5% increase to pay and allowance ranges and advisory points, with a view to achieving the £30,000 starting salary for teachers. • From September 2023 a 3% increase. • Not sure whether schools are able to afford any more deficit payments as budgets are already tight without the inclusion of additional payments. Funding remains low and costs are increasing substantially across the board.

Cabot Learning Federation	• LGA have announced £1,925 per pay point which varies from 11% to 4%. We are still considering what we will offer. • The government has not provided any additional funding for pay awards and we are also facing rising energy costs, higher employer NI contributions and inflation. Schools are definitely going to face some financial challenges ahead and a number have been in contact with the DFE/ESFA already. 2022/23 is going to be a very challenging year and with continued pressure on pay awards, likely to extend into 2023/24. • Challenge why deficits need to be repayable within 12 years given the current volatility and inflationary pressures. Would encourage a longer-term viewpoint.
Gatehouse Green Learning Trust	• Pay awards in line with the local authority increases of £1,925 for every support member of staff. This will be a greater increase than the pay increases that you have modelled in your assumptions. • Following announcements of pay awards, increase in energy costs and other inflationary pressures, every year is likely to be challenging unless increased funding is awarded.
Learn @ Multi Academy Trust	• Assumptions in relation to pay increases look reasonable.
Westerleigh Parish Council	• 12 years seems quite long for a deficit recovery period, what defines this? • The actuarial valuation of 2019 did not allow for the levels of increases to pensions in payment that we will be seeing with current levels of inflation. Does this mean an increase in employers' contributions as the results of the 2022 actuarial valuation come through? • Is the return on the assets sufficient to cover the inflationary increase to the liabilities? • Questions liability leakage between different employers in the scheme, in relation to ill health captive insurance and default. • What changes have/have not been made to the investment mix to align with current thinking on risk mitigation?

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Appendix 3

Funding Strategy Statement Checklist 2022

Regulation 58 of LGPS Regulations 2013 provides statutory framework for preparing and maintaining an FSS. In addition CIPFA has produced guidance for administering authorities.

Requirements of regulation 58	**Confirmation of Compliance**	**Comments**
1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.	✓	The draft FSS was circulated to all employers and Pension Board.
2) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.	✓	The FSS is reviewed at each valuation.
3) In preparing, maintaining and reviewing the statement, the **administering authority** must have regard to: a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012 b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.	✓	A checklist against the CIPFA guidance is set out below. Section 3 of the FSS references the current Investment Strategy Statement.

CIPFA Guidance	**Confirmation of Compliance**	**Reference to FSS section**
CIPFA states that the FSS should be prepared having regard to the guidance given on the following matters:		
1) The purpose of the FSS in policy terms including the processes by which the admin authority: a) Establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward b) Supports the desirability of maintaining as nearly constant a primary contribution rate as possible as defined in Reg 62(5) of the LGPS Regulations 2013 c) Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met d) Takes a prudent longer-term view of funding those liabilities	✓	Section 2 & 3
2) The aims and purpose of the pension fund	✓	Section 3, p.6
3) The responsibility of the key parties including the administering authority, individual employers and fund actuary	✓	Section 3, p.6
4) Solvency issues, target funding levels and long-term cost efficiency. The funding plan must be prudently appropriate, relevant to local circumstances, balanced with the short-term and long-term funding requirements of the pension fund, including the ability to meet pension obligations as they fall due. Securing solvency and long-term cost efficiency is a regulatory requirement whereas as constant as possible primary contribution rate remains a desirable outcome Long-term cost efficiency will be met if the rate of employer contributions is sufficient to for the cost of current benefit accrual with and appropriate adjustment for any surplus/deficit.	✓	Section 3, p.8
5) Links to the investment policy set out in the Investment Strategy Statement The required investment returns to meet the aspirations set out in the FSS must be compatible with the investment policy set out in the ISS and this should be confirmed and explained in the FSS	✓	Section 3, p.8
6) Identifications of risk and countermeasures including investment, employer, liquidity/maturity, liability, regulatory and compliance risks	✓	Section 3, p.10

<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>23 September 2022</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">ANNUAL EMPLOYER AND COVENANT UPDATE</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Covenant update</td></tr>
</table>

1 THE ISSUE

1.1 To provide the Committee with a summary of the employer base of the Fund, changes, current issues and covenant work. This is to be considered in the context of employer risk.

1.2 Given the range and number of individual employers in the Fund each posing different levels of risk the Fund has developed a comprehensive framework for monitoring employer risk. This framework helps direct resources where closer monitoring is required and enables the Fund to identify any emerging risks early so that actions can be taken to prevent sub optimal outcomes.

2 RECOMMENDATION

2.1 **The Committee notes the report.**

3 FINANCIAL IMPLICATIONS

3.1 The triennial valuation assesses the funding position of the Fund as a whole and sets the contribution rates for individual employers for the following 3 years. The 2019 valuation is the current valuation, whilst the 31 March 2022 triennial valuation which will set the contribution rates for 2023-2025 is in progress.

4 REGULATORY AND POLICY CHANGES

4.1 **McCloud update:** This refers to the age discrimination case brought in respect of the Judges and Firefighters schemes relating to age protections when the scheme was changed in 2014. The Government confirmed that the judgement would apply to the LGPS, and the Scheme Advisory Board set out how McCloud should be allowed for in the 2019 Valuation. Although no change to the Regulations has yet been made a letter from the DLUHC was forwarded to administering authorities on 22 March 2022 setting out DLUHC's recommendations on how the impact of the McCloud Judgment should be considered as part of the 2022 actuarial valuation. The recommendations were in line with the treatment already incorporated into the 2019 valuation outcomes and hence no significant changes in approach are expected as part of the 2022 valuation exercise.

5 EMPLOYER ACTIVITY UPDATE

5.1 There is significant ongoing employer activity as shown in the tables below:

From 1 April 2021 to date 31st March 2022

	@31/03/2021	Joined	Left	@31/03/2022
Scheduled				
Local Authourity	4	0	0	4
Academies	255	11	0	266
Higher and Further education	8	0	0	8
Town and Parish councils	35	2	0	37
Other	7	0	1	6
Admitted				
Admission bodies guaranteed	109	16	21	104
Admission bodies unguaranteed	8	0	2	6
Total	426	29	24	431

From 1 April 2019 to date 31st March 2022

	@31/03/2019	Joined	Left	@31/03/2022
Scheduled				
Local Authourity	4	0	0	4
Academies	218	49	1	266
Higher and Further education	8	0	0	8
Town and Parish councils	35	3	1	37
Other	6	2	2	6
Admitted				
Admission bodies guaranteed	109	62	67	104
Admission bodies unguaranteed	8	0	2	6
Total	388	116	73	431

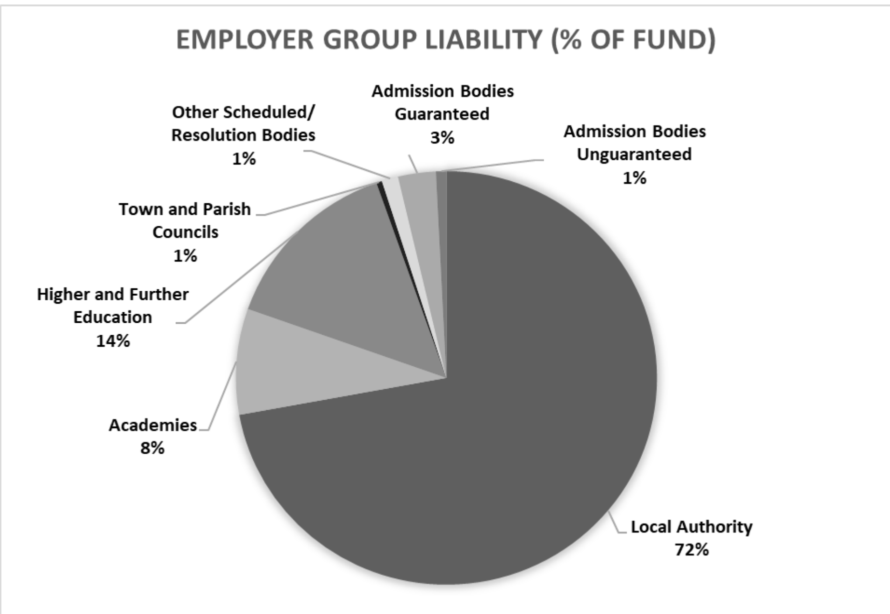
5.2 **Academies**: Academy conversions are steadily continuing, and in a Government White Paper issued in March 2022, plans were announced for all English schools to become part of an academy trust by 2030. There are approximately 140 maintained schools still to convert to academy status in the geographical area covered by Avon Pension Fund. There continues to be changes in the academy employer base with one academy closure currently expected and single academies joining Multi Academy Trusts (MAT). The Fund has 30 MATs, the three largest of which have 20 or more academies in our Fund.

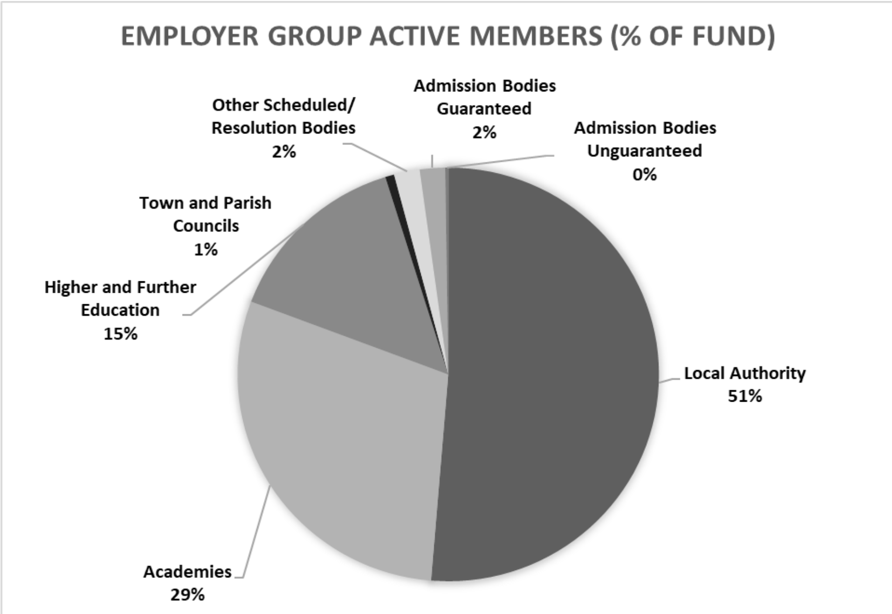
5.3 **Admitted bodies**: All admitted employers joining the Fund are required to have a guarantee in line with the Funds policy. Most admissions are from outsourcings, particularly by MAT's outsourcing catering and cleaning services. These outsourcings are increasing in complexity due to the size of MATs with their numerous schools participating under their contracts. Unitary Authority related admissions also reflect cleaning and catering at maintained schools being outsourced as well as care and leisure contracts. There is considerable upheaval in the care and leisure sectors due to the pandemic and now inflation, leading to rising contract costs and this in turn is resulting in contracts being ended earlier than would otherwise be expected. The Fund is therefore experiencing an increase in the number and complexity of admissions. This in turn increases the number of exiting admitted employers, when the last member leaves or the contract is re-let.

5.4 The total number of employers in the Fund is expected to continue to grow. Admissions and exits are processed in accordance with the Regulations and Funding Strategy Statement which are designed to protect the Fund from financial risk.

5.5 Following the pandemic, and with the foreseeable prospect of stagflation the 2022 Valuation is expected to be challenging for all employers and particularly so for some employers. Employers are, again, reviewing their costs and the Fund is working with many employers, in a wide range of circumstances, to share information for decision making (including membership data and funding updates) whilst ensuring the Fund's policies are communicated clearly and implemented in accordance with the Regulations and Funding Strategy Statement.

5.6 A summary of the liabilities and membership by employers is shown below:





5.7 The table shows how the liabilities in the Fund are distributed. The unitary authorities have tax raising powers as do town and parish councils and the academies are guaranteed by the DfE. The largest group by membership and liabilities of non-guaranteed, non-tax raising bodies is the higher and further education employers; as a result, the Fund prioritises its engagement with these employers to manage the overall risk to the Fund.

5.8 The Fund is at risk from six unguaranteed admission bodies (admitted to the Fund before guarantees were permitted), which are actively engaged with by officers to manage the risk to the Fund. Three are on the more prudent lower risk funding basis and the Fund holds security in the case of three employers to mitigate risk. As some of these bodies are nearing a natural exit as they have few members left in the scheme, the new employer flexibilities may be used where appropriate because of the high cost of exiting the Fund on a clean break basis.

5.9 Given the difficult financial outlook for many employers due to the pandemic, officers have begun discussions about affordability with employers ahead of the 2022 valuation.

6 COVENANT ASSESSMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The Funding Strategy is designed to manage this risk to ensure the Fund achieves full solvency over an appropriate period. Assessing the strength of an employing body's covenant is also a crucial component in managing the potential risk of default to the Fund.

6.2 Covenant assessment is ongoing work which provides input to the triennial valuation. The assessment framework has been developed using Mercer guidelines along with other best practice including from the Pensions Regulator. Criteria is set for each group of employers to reflect the main factors relevant to their covenant. A summary of the overall covenant process with examples is included in Appendix 1.

7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None – report for information only.

10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Julia Grace, Funding and Valuation Manager 01225 395392
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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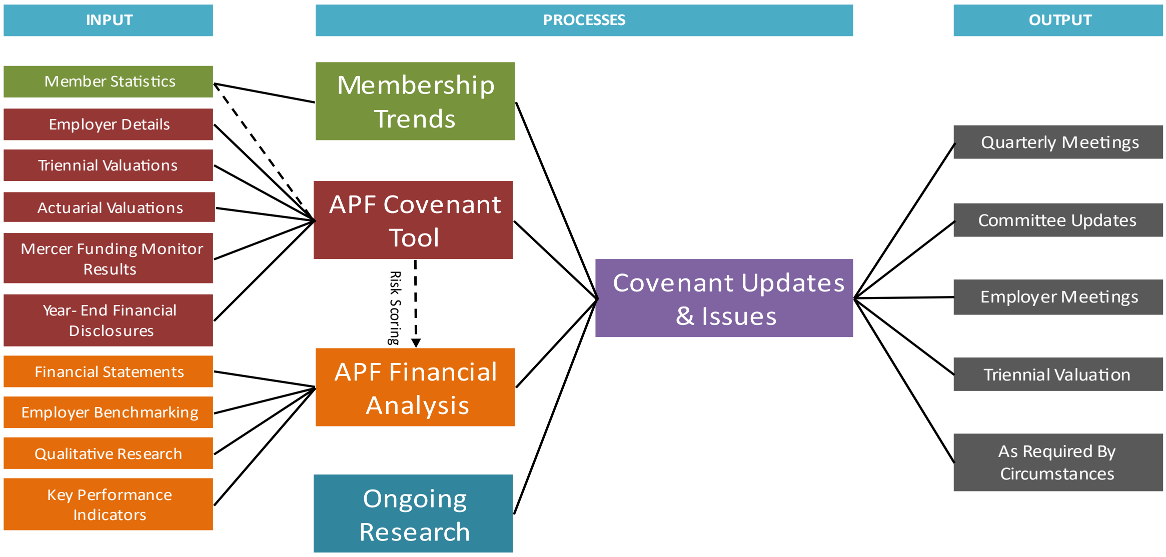
Overview of Covenant Process



As highlighted in the above diagram, the data "INPUTS" into the Covenant processes are from many sources, whether it be internal data on membership movements or collecting financial statements.

"Membership Trends" looks at the most recent membership data, running a series of tests (primarily looking at trends), and then flagging any concerns such as an accelerated decrease in membership leading to a point where there are no active members and an exit from the Fund.

The "APF Covenant Tool" acts primarily as a database, holding all relevant (internal) information on employers in the Fund. The information is used to identify employers in the Fund who may be 'higher-risk' to the Fund and thus should be reviewed in more detail. This is not an assessment of the employer's financial risk.

The "APF Financial Analysis" differs between employer groups, but is an analysis of an employer's financial position, looking at external data such as financial statements, management accounts, benchmark results and using key performance indicators (KPI) to look for any trends and compare against peers. The Fund's primary focus when looking at this information, and what forms the basis for many of the KPI's, is whether there are any concerns around LGPS affordability in the short, medium, or long-term.

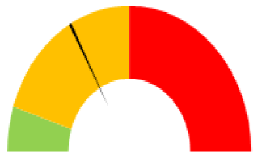
"Ongoing Research" is any further qualitative analysis undertaken, this could be specific to an employer, a sector as a whole, or general macro-economic changes and how certain events may have a bearing on employers in the Fund. These are recorded and then given a risk rating based on how imminent the event is and its severity.

These four processes are updated in the "Covenant Updates and Issues" database, which is a central knowledge hub covering APF Covenant related matters.

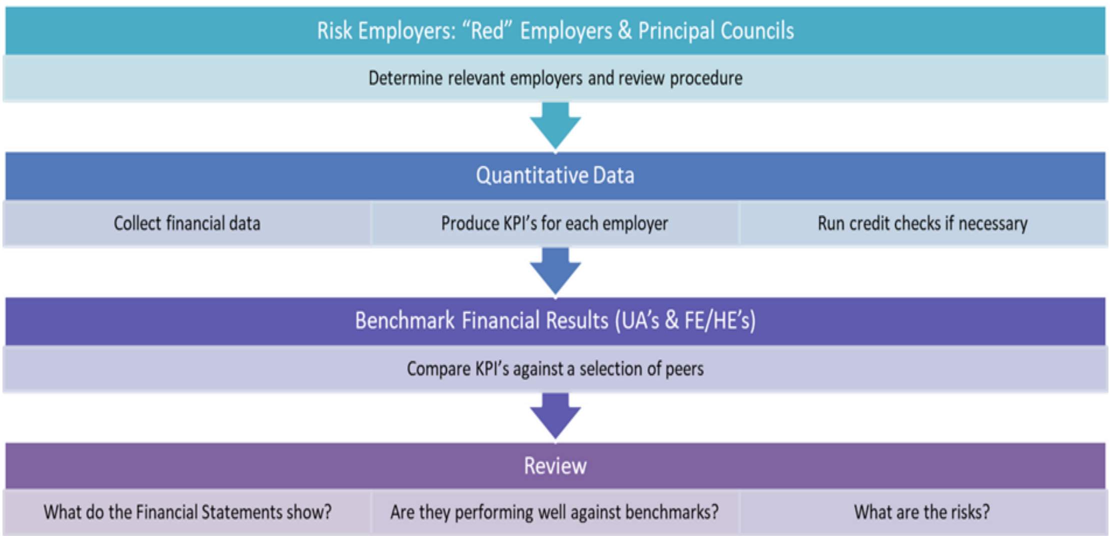
The primary focus of the Fund’s covenant work is to ensure employers can maintain their legal obligation and financial ability to support the LGPS now and in the future. At least once a quarter Officers meet to discuss developments of employers in the Fund, any flags identified by the Covenant work and what steps are needed to address concerns. This ensures that Covenant risk is regularly reviewed and Officers are aware of affordability constraints and concerns raised by employers.

1. The “higher-risk” employers in the Fund are identified from the “APF Covenant Tool” process, where each employer is reviewed against set variables based on internally held data. This test allocates each employer with a “score” indicating the level of risk they pose to the Fund. Those who are categorised as “red” employers (scoring more than 4) are reviewed more thoroughly alongside the FE/HE’s (unguaranteed) and the UA’s (on account of their size). An example of the test is below:

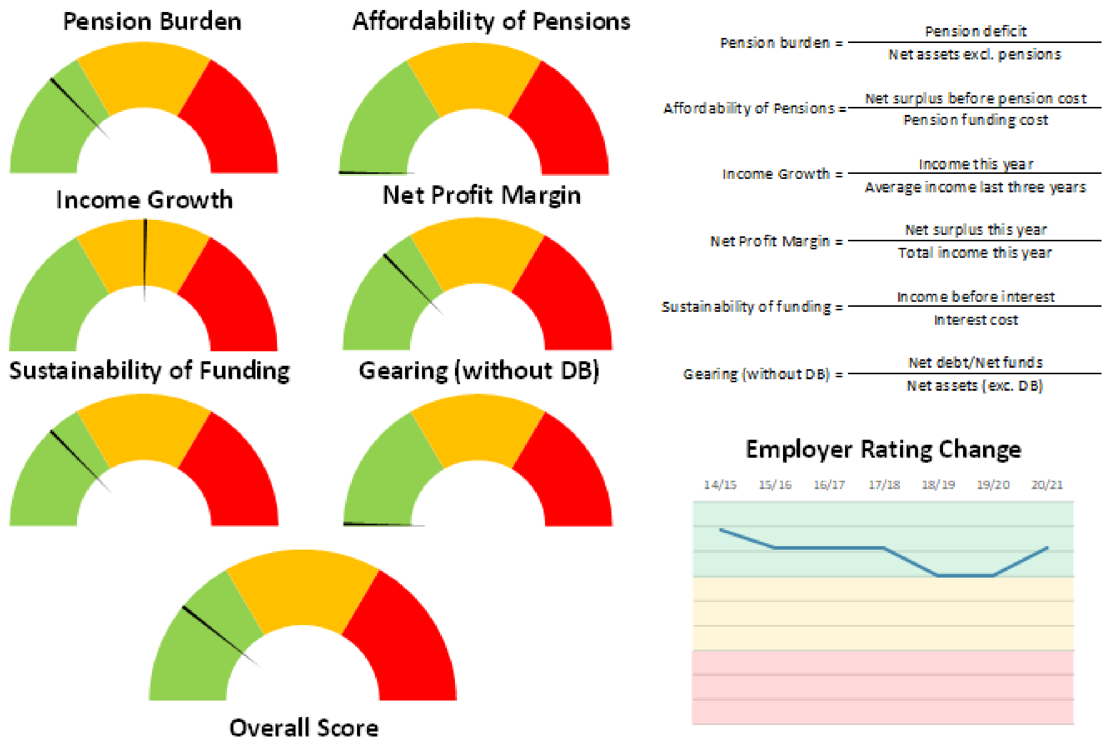
Scoring Factors	Variable	Score	Employer	Test Employer	
Funding level less than	80%	1	Funding Level	36.00%	1
Funding deficit more than	£500,000	2	Deficit/ (Surplus)	£697,000	2
No Guarantor/ Tax (toll) Raising powers/ or concerns about guarantee		3	Guarantor	DfE	0
If above true, no Security		2	Security	N/A	0
Active members are less than or equal to	3	1	Members	38	0
					3



2. The higher risk employers then progress through the steps outlined below:



3. Following guidance from the Actuary, the benchmarking process has been created focusing on a selection of key performance indicators. Below is an example of the benchmarking, with the dials showing how an employer’s performance compares against their peers:



4. In addition to the benchmarking, which provides an indication of an employer's financial health, the Fund also looks for other trends in the financial statements, investigating any areas of concern (asking for supplementary information if necessary), and looking at how and why figures have changed. This ensures that the Fund has a good understanding of its employers and draws out any potential affordability concerns.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**23 SEPTEMBER 2022**
TITLE:	**INVESTMENT STRATEGY AND BRUNEL UPDATE (for periods ending 30 June 2022)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Brunel Monitoring Dashboard Appendix 2 – Investment Strategy Dashboard Appendix 3 – Mercer Quarterly Investment Performance Report Exempt Appendix 4 – Brunel Oversight Board minutes	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level, policy and operational aspects of the Fund.

1.2 Exempt Appendix 1 updates the Committee about Brunel and the wider pool covering delivery of service, performance, governance and risk management aspects of the pool.

1.3 Appendix 2 summarises progress in respect of the investment strategy (including the risk management framework), portfolio performance and responsible investment issues.

1.4 The Mercer Investment Performance Report at Appendix 3 contains performance statistics for periods ending 30 June 2022. Mercer will present their paper at the meeting.

1.5 Appendices to this report including Minutes of the Investment Panel and the LAPFF Quarterly Engagement Report are now available in the Modern Gov library.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report and appendices.**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2020 will affect the 2022 triennial valuation. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 BRUNEL UPDATE

4.1 The dashboard of key indicators covering strategic aspects of Brunel is set out in Exempt Appendix 1. It covers all aspects of service delivery, governance, finance and risk. It is updated quarterly to reflect current activity and developments and changes to ratings are highlighted in the commentary. A verbal update will be provided at the meeting.

4.2 **Governance:**

a) Since the last committee meeting, Brunel Oversight Board (BOB) have met once in September. The June meeting minutes are in Exempt Appendix 4. The next BOB meeting is in December.

b) The Client Group (CG) meets monthly with mid-month update calls as required. Five sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.

c) Quarterly performance and KPI reporting are reviewed by BOB consisting of

   (i) RAG reporting on agreed metrics and commentary on action taken by Brunel if there is underperformance or areas of concern for each portfolio

   (ii) Performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.

4.3 **Investments:**

a) Brunel now manages £4.6bn (at 30/06/22) of the Fund's assets (84%). This includes £669m in private market portfolios (invested capital).

b) Brunel's quarterly investment performance and stewardship activity reports are included in the Investment Panel meeting agenda; Panel will highlight any issues or areas of concern via its normal investment reporting (covering all our managers) to Committee.

c) The current focus of work is the 2022 Stocktake. This will review Brunel's climate policy and the approach the pool has taken given the evidence of progress/achievements over the last 2 years. The outcome (and Brunel's revised Climate Policy) will feed into our strategic investment review later in 2022.

4.4 **Operational/Financial:**

a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the budget variances in detail on a quarterly basis, raising any issues with BOB.

b) The project to improve investment reporting to clients is in full swing with a new provider appointed. New reports will be used from 3Q 2022.

4.5 The Brunel Working Group (BWG) met ahead of the September BOB meeting to discuss the meeting agenda. A verbal update will be provided at the meeting.

5 INVESTMENT STRATEGY

A – Funding Level and Investment Performance ('Amber' Ratings)

5.1 Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have widened over the quarter to £490m. The Funding level is c.92%, which is 3% behind the existing recovery plan.

5.2 The Fund's assets decreased by £370m in the quarter (-7.1% net investment return) ending June 2022 giving a value for the Fund of £5,456m. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return and performance relative to the benchmark is summarised below.

Table 1: Fund Investment Returns (Periods to 30 June 2022)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-7.1%	-2.0%	3.0%
Avon Pension Fund (excl. currency hedging)	-5.9%	-0.1%	3.1%
Strategic benchmark (no currency hedging)	-6.0%	2.5%	6.0%
Currency hedge impact	-1.2%	-1.9%	-0.1%

1.1. **Returns versus the strategic assumptions:** Global Sustainable Equity returns are below expected returns due to portfolio biases. Multi Asset Credit is also behind due to negative returns from fixed income markets in 2022. The private markets mandates are either still in build-up phase or do not have a sufficient track record to properly compare against strategic return assumptions.

B – Portfolio Performance

5.3 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are available in the Modern Gov library.

5.4 Brunel listed market portfolios are currently rated amber due to the underperformance over the quarter and on a 1-year basis. Underperformance is largely attributed to the growth/quality and ESG bias in the portfolios. Towards the end of the quarter the quality factor began to outperform due to its defensive qualities in economic downturns and, as a result, the portfolios began to recover some of their losses. A small change to the underlying manager allocations in the high alpha equity portfolio took place during the quarter which served to moderate the bias to growth and marginally increase exposure to the value factor. The DRF and credit portfolios underperformed in part because their performance is measured against a cash benchmark. The MAC portfolio performed in line with comparable credit indices and the DRF performed as expected by participating to a lesser extent in the equity market sell off.

5.5 The currency hedge that forms part of the Fund's Risk Management Framework is rated 'amber'. As GBP has fallen the currency hedge has caused a drag on returns. GBP has fallen from 1.40 against the US Dollar in 2021 to c.1.15. The significant decline in the value of GBP has led to a -2.0% drag on returns over a 1-year period. Detailed performance attribution can be found on p14 of Appendix 3.

5.6 The 'amber' RI factors reflect current work in progress. Enhanced climate metrics and disclosures form part of the ongoing Brunel climate stocktake and a transition aligned equity fund that can double as collateral in the Risk

Management Framework will be explored further by Panel at its November meeting and implemented following the 2022/23 strategy review.

6 INVESTMENT PANEL ACTIVITY

6.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee.

6.2 The Panel's 9 September meeting has been rescheduled for 30 September. Issues arising from the Panel meeting will be raised with Committee as necessary and a copy of the draft minutes will be made available following the meeting in the Modern Gov library.

7 RESPONSIBLE INVESTMENT ACTIVITY

7.1 **Voting and Engagement Summary**: Federated Hermes EOS provide voting and engagement services on behalf of the Fund. Summary reports available in the Modern Gov library disclose the number of companies and topics engaged on over the quarter.

7.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report which is also available in the Modern Gov library.

8 RISK MANAGEMENT

8.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

9 CLIMATE CHANGE

9.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

10 OTHER OPTIONS CONSIDERED

10.1 None.

11 CONSULTATION

11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager (Tel: 01225 395357)
Background papers	Data supplied by Mercer & SSBT Performance Services Mercer ACT report 2022
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1034710

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 23rd September 2022

Author: Nathan Rollinson
Report Title: Investment Strategy and Brunel Update (for periods ending 30 June 2022) **List of Exempt attachments to this report:** **Exempt Appendix 1** – Brunel Monitoring Dashboard Appendix 2 – Investment Strategy Dashboard Appendix 3 – Mercer Quarterly Investment Performance Report **Exempt Appendix 4** – Brunel Oversight Board minutes

The appendices to the report contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and include information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

Document is Restricted

Investment Dashboard at 30 June 2022

1. Investment Strategy

	Objective	Commentary	RAG	Trend
1	**Funding level**	• 92% (£462m deficit) • Behind existing recovery plan by c.3%		⇩
2	**Investment Performance**	• Behind strategic benchmark over 1 and 3 years (1yr attribution on p14 of Mercer report)		⇩
	Qtr return	• Negative quarter of -7.1% due to equity sell off, FX hedge & LDI portfolio detracting due to rising gilt yields		⇩
	1 Year return	• Behind funding objective at -2.0% p.a.		⇩
	3 Year return	• Behind funding objective at 3.0% p.a.		⇩
	Social/Impact investing	• Framework for Social/Impact portfolio to be considered by Panel in September (to feed into 2022/23 strategic review)		⇔
3	**Risk Management**			
	LDI	• Inflation protection in place. Interest rate triggers breached post Qtr end. Mandate performing as expected. Manager in compliance with investment guidelines • Trigger framework under review by FRMG		⇔
	EPS	• Dynamic EPS has added +2.9% since inception (May-21) as markets have trended downwards • Overall EPS has detracted -2.9% since inception		⇧
	FX	• Sterling weakness detracts from return. Cost c. 1.9% over 12 months		⇩
	Collateral adequacy	• Panel approved Collateral Plan in May 2022		⇔
4	**Rebalancing/ cashflow**	• JPM Hedge Fund wind down on track, funding PM calls		⇔
5	**Investment Panel activity**	September Panel cancelled and not yet held		

2. Portfolios

	Objective	Commentary	RAG	Trend
1	Brunel Listed Market portfolios	• Equity portfolios underperforming due to their bias towards growth/quality stocks and underexposure to		⇧

		commodity, materials and energy stocks. Long term rationale for portfolio positioning unchanged. • Post Qtr end has seen greater opportunity for underlying managers to generate alpha, hence upward trend		
2	**Private Markets Portfolios**			
	Infrastructure (Brunel)	Performance: n/a - portfolio in build-up New commitments: 2 (Energy transition fund and solar fund) Capital deployment: • Cycle 1: 64% • Cycle 2: 21%		⇧
	Secured Income (Brunel)	Performance: • Positive performance attributed to inflation linkage in underlying assets and renewables infrastructure exposure benefitting from high valuations New commitments: None. Cycles 1 & 2 fully committed Capital deployment: • Cycle 1: 100% • Cycle 2: 86%		⇔
	Private Debt (Brunel)	Performance: n/a – portfolio in build-up New Commitments: Cycle 2 fully committed Capital deployment: • Cycle 2: 26% • Committed capital is expected to be fully deployed over the next 12-36 months.		⇔
	UK Property (Brunel)	Performance: • Outperformed over the quarter due to overweight in industrials. New commitments: • 4% allocations to life sciences and social & environmental impact funds		⇔
3	**Legacy portfolios**			
	IFM (infra)	• Mercer supportive of continuing to hold given portfolio's decarbonisation plan. • Currently overweight (7% vs 5% allocation) so will rebalance dependent on cashflow requirements.		⇔
	JPM Hedge Funds	• Orderly liquidation with c.90% liquidated by end 2022.		⇔
	Partners (Intl Property)	• Majority of funds in realisation phase. c.70% of unrealised value held in fund with 2029 contractual expiry.		⇔
	Schroder (UK Property)	• Single closed end debt fund (£12m) due to expire in 2025		⇔

3. Responsible investing

	Objective	Commentary	RAG	Trend

1	**Climate change targets**			
	43% reduction in absolute emissions by 2025	• Fund has decarbonised by 41.6% versus baseline (updated annually). Further 2% reduction in absolute emissions to 2025.		⇧
	30% of total assets in sustainable and Paris-aligned investments by 2025	• 25% made up of: 23% invested in sustainable and Paris-aligned equities and 2% capital currently invested in Brunel renewable infrastructure portfolio		⇧
2	**Voting activity (active equity portfolios)**	• Voting recommendations at 475 meetings (6,832 resolutions). • At 311 meetings recommended opposing one or more resolutions. • 64% of the issues voted against management on comprised board structure and remuneration.		⇔
3	**Engagement activity (active equity portfolios)**	• Engaged with 323 companies across 967 ESG issues in Qrtr • Environmental 26% • Social 18% • Governance 45%		⇔
4	**Progress on engagement and selective divestment policy**	• Brunel 2022 Stocktake is on track for agreeing a new Brunel climate policy in early 2023 (to feed into Avon's strategic review)		⇔
5	**Equity fund held in in Risk Management QIF**	• Panel to review options to replace with net zero transition solution in Nov 2022 (to feed into strategic review)		⇔
8	**Capability to measure SDG impact across portfolios**	• Work progressing on reporting against SDGs, expect update late 2022. Brunel want to progress this but the issue is availability and consistency of the data. • Brunel are currently piloting 'green revenues' reporting on sustainable equity portfolio.		⇔

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Mercer

Avon Pension Fund

Committee Investment Report
Quarter to 30 June 2022

September 2022

Steve Turner
Joshua Caughey

Contents

Mercer

Executive summary

1

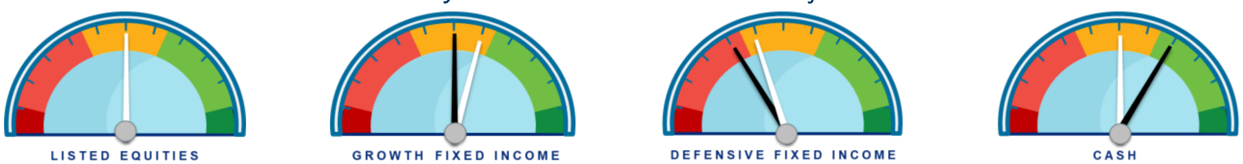
Executive summary

Market background

- The broad macro trends seen since the beginning of the year continued throughout the second quarter of 2022. Surging commodity prices led to new multi-decade inflation records.
- Central banks doubled down on monetary tightening, resulting in elevated market volatility and a sell-off in virtually all asset classes except commodities and property. Growth expectations were dialled down drastically over the quarter.

Mercer market views

- Our medium term outlook is mixed after the turbulent start to 2022, given the crosscurrents at play.
- High inflation and rising interest rates are typically not a good environment for most risk assets. However markets have already fallen sharply year-to-date and our concerns around valuations have eased as a result.
- Our outlook for returns over a 1-3 year time horizon for the major asset classes are summarised below:



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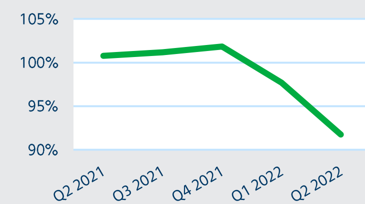
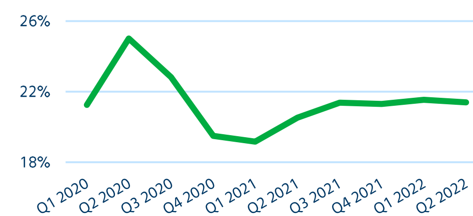
Funding level and risk

- The funding level is estimated to have decreased over Q2 to 92%, as the assets fell in value by more than the liabilities.
- It is estimated to have decreased by 9% over the year to 31 March 2022 (as illustrated to the right).



- The Value-at-Risk fell slightly over the quarter to £1,272m, largely due to the fall in absolute value of the assets.
- It was broadly unchanged as a percentage of liabilities at 21.4%.
- Risk as a proportion of liabilities has increased over the year due to rises in expected volatility. However it remains below the levels of 2020, in part due to the move from a static to dynamic equity protection strategy.



Executive summary

Performance

- The Fund assets fell in value primarily due to negative returns from the equity and LDI portfolios as markets declined. The Diversified Returns and Multi-Asset Credit mandates also lost value (as we would expect given the market backdrop).
- The alternatives in real assets and the Equity Protection cushioned losses.

- Underperformance relative to the strategic benchmark over the one year period to 30 June 2022 is mainly due to the underperformance of the active equity and multi-asset mandates.
- This has also contributed to underperformance over the three year period, alongside the Equity Protection and Overseas Property.
- Conversely the real assets have done well over the one and three years against their benchmark.

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-7.1	-2.0	3.0
Strategic Benchmark **(2)** (ex currency hedge)	-6.0	2.5	6.0
Relative **(1 - 2)**	**-1.1**	**-4.5**	**-3.0**

- The Currency Hedge overlay detracted from returns over all time periods shown due to a weakening of Sterling.

- Absolute returns for the global equity mandates compared to the strategic returns modelled at the strategy review in 2019 have been mixed. The most recently-incepted Paris-Aligned mandate has underperformed due to its point of inception, though the underperformance of the Sustainable Equity mandate is due to active management.
- The Diversified Returns and Multi-Asset Credit mandates have also fallen short of expectations due to this year's losses, however the alternative assets have generally outperformed.

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Asset allocation and strategy

- During the quarter, the BlackRock QIF collateral pool was topped up by £60m, funded from the Hedge Funds mandate which is in the process of being wound down.
- A net amount of c£47m was drawn down to the Brunel private market portfolios during the period.
- At quarter-end, all asset classes were within their ranges, except for the Core Infrastructure allocation due to its stronger relative recent performance. This is offset by the equivalent underweight to Renewable Infrastructure.

Liability hedging mandate

- BlackRock were in compliance with their investment guidelines over the quarter.
- No triggers were breached over the quarter.
- Post quarter-end (September), a number of triggers have been hit due to rises in gilt yields, resulting in the interest rate hedge ratio increasing from c10% of assets to c20%.

Equity option mandate

- Market value of options at end of the quarter was positive (£56m) as equity markets have fallen since the inception of the dynamic strategy in May 2021.
- In this environment, the protection has worked as expected and helped to protect the portfolio, with estimated performance of 3.6% over Q2.

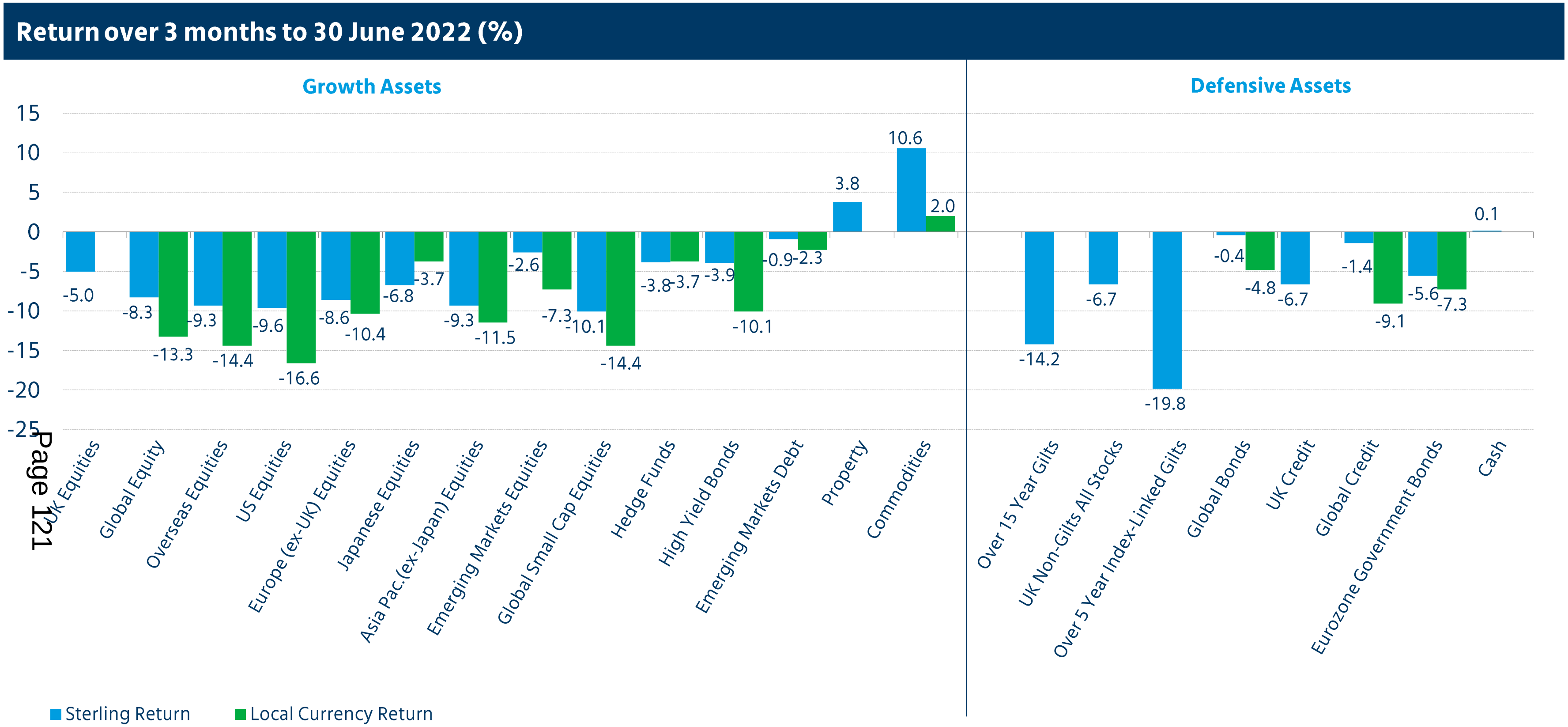
Collateral position

- Collateral within agreed constraints.
- The BlackRock QIF could sustain a 4.8% p.a. rise in interest rates, a 0.6% p.a. fall in inflation or a 8% fall in the value of the equity options before the early warning trigger is breached.

Market background

2

Market background



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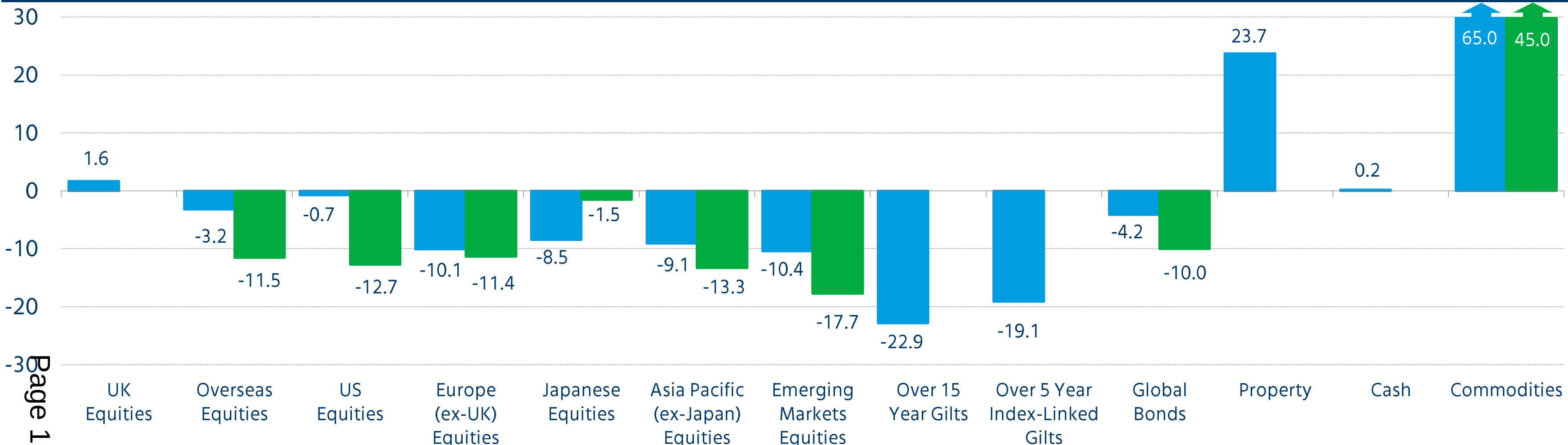
The broad macro trends seen since the beginning of the year continued throughout the second quarter of 2022. Surging commodity prices, to a large degree the result of the ongoing conflict in Ukraine and supply chain disruptions from Chinese lockdowns, led to new multi-decade inflation records.

Central banks in many major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in virtually all asset classes except commodities and property. Growth expectations were dialled down drastically over the quarter with a growing number of investors seeing a recession as an increasingly plausible scenario.

Source: Refinitiv

Market background – 1 & 3 years

Return over 12 months to 30 June 2022 (%)



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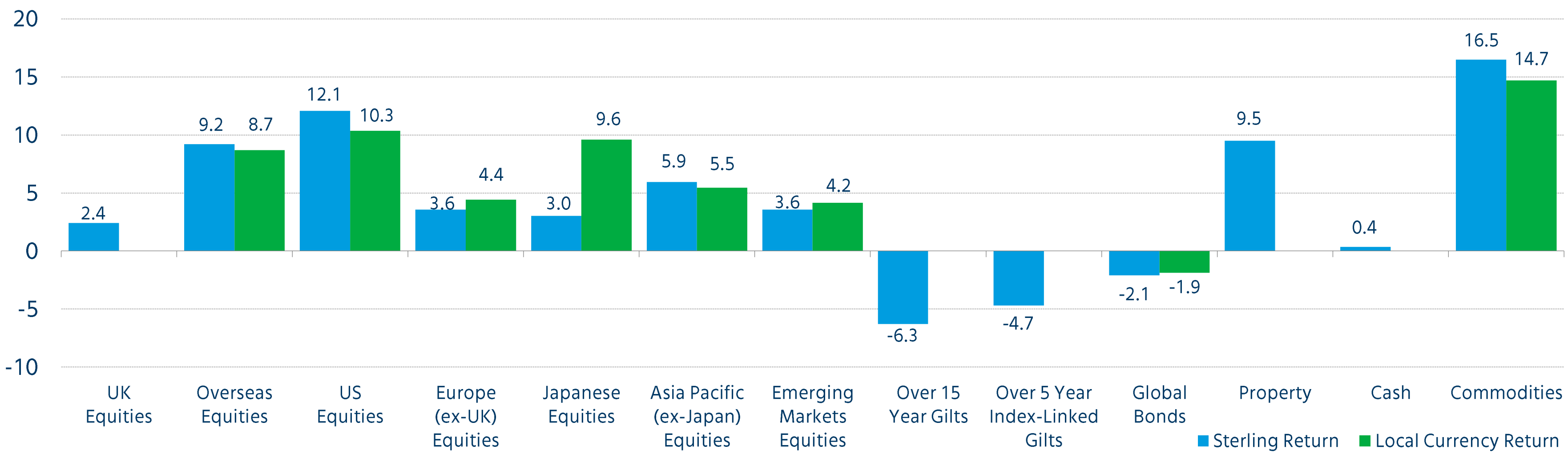
Return over 3 years to 30 June 2022 (% p.a.)



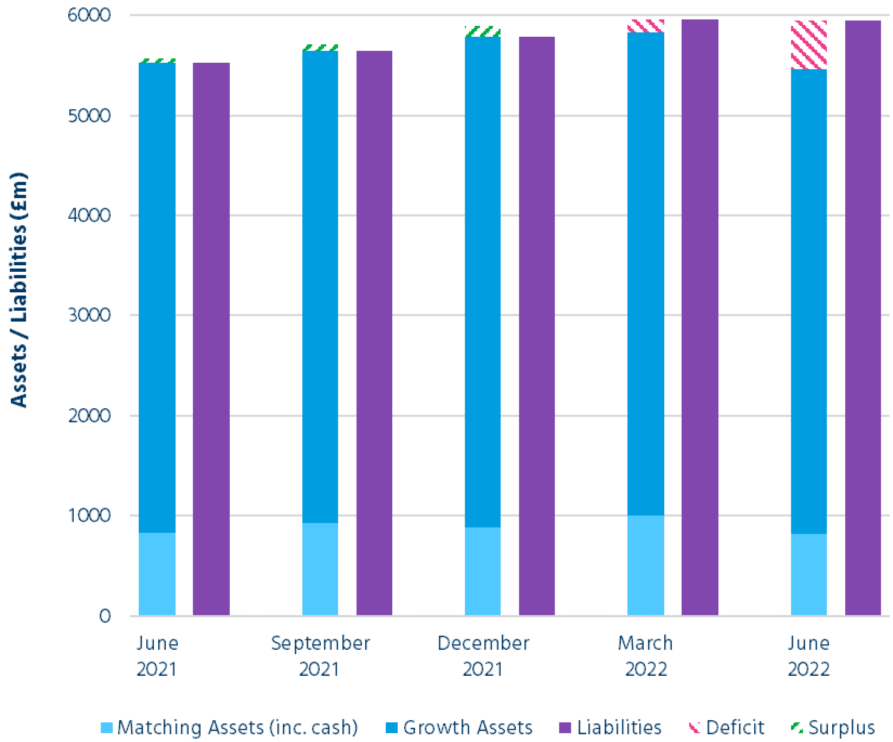
Mercer

Source: Refinitiv

Funding level and risk

3

Change in deficit

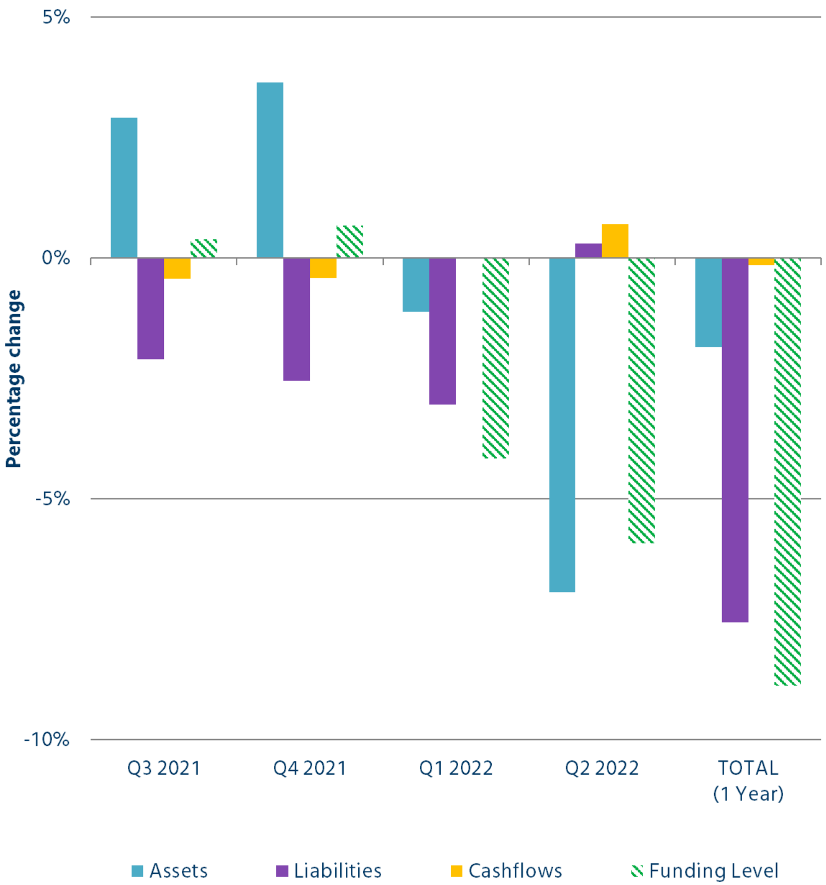


Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have widened over Q2 to £490m.

This occurred due to the fall in value of the assets, whilst the present value of the liabilities fell only marginally.

Liability values are estimated by Mercer.
They are based on the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.
31 March 2022 estimates have been revised upon receipt of updated asset / liability data.

Funding level attribution



Q1 2022 estimates have been revised upon receipt of updated asset / liability data.

The Fund's assets contracted by 7.1% over the quarter, whilst the liabilities are expected to have fallen by c. 0.3% due to the rise in inflation.

The combined effect of this, also allowing for expected cashflow over the period, saw the funding level decrease to c.92%.

The funding level is estimated to have decreased by c. 9% over the year to 30 June 2022.

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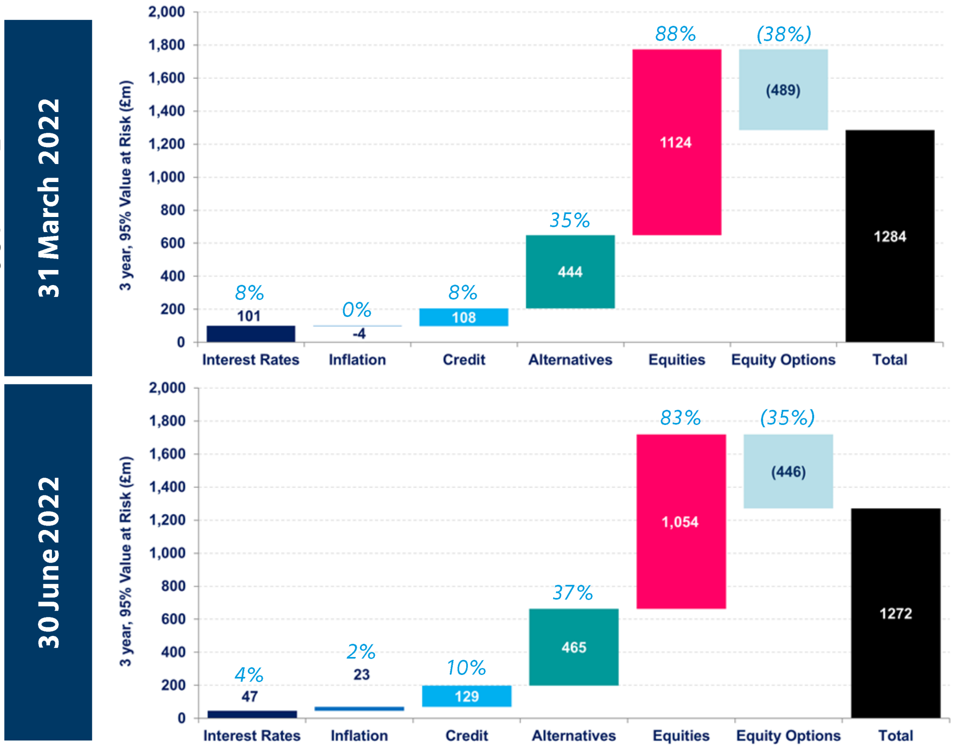
Risk decomposition – 3 year Value at Risk

- The two charts below illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The final columns show the estimated 95th percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.



- As at 30 June 2022, if a 1-in-20 'downside event' occurred over the next three years, the funding position could deteriorate by at least an additional **£1.3bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR decreased slightly over the quarter**, largely due to the fall in absolute value of the assets. This outweighed increases in the expected underlying volatility of the growth assets.

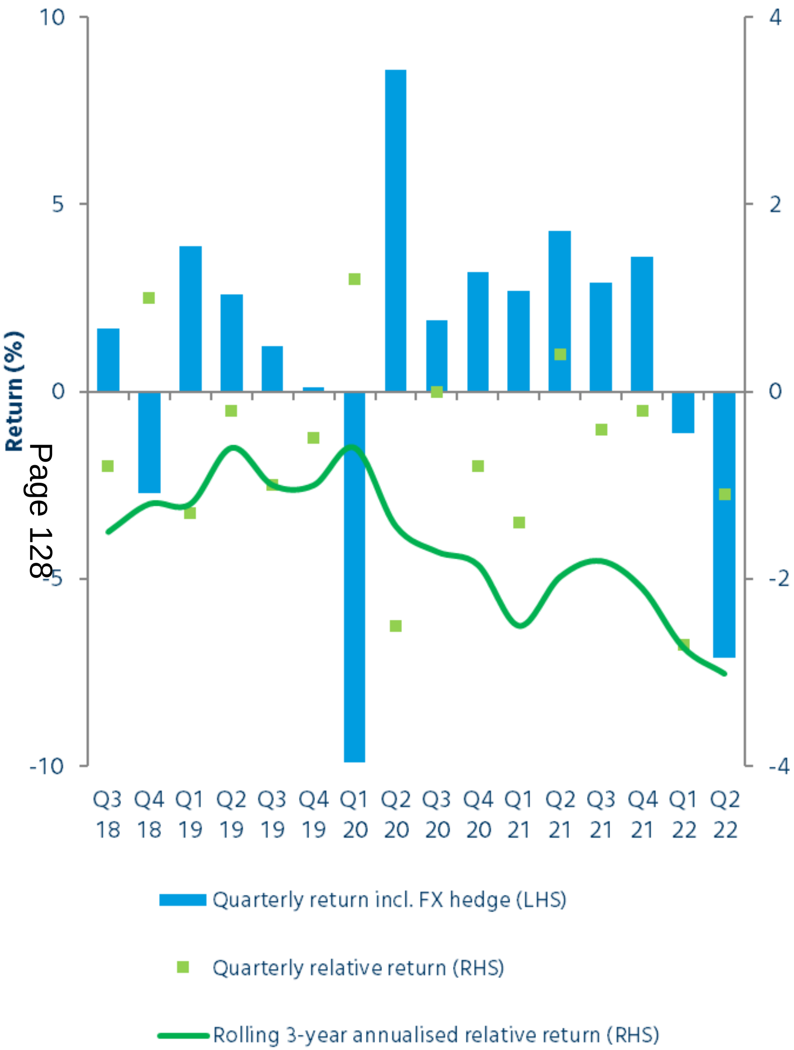
VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

Mercer

Performance summary

4

Total Fund performance



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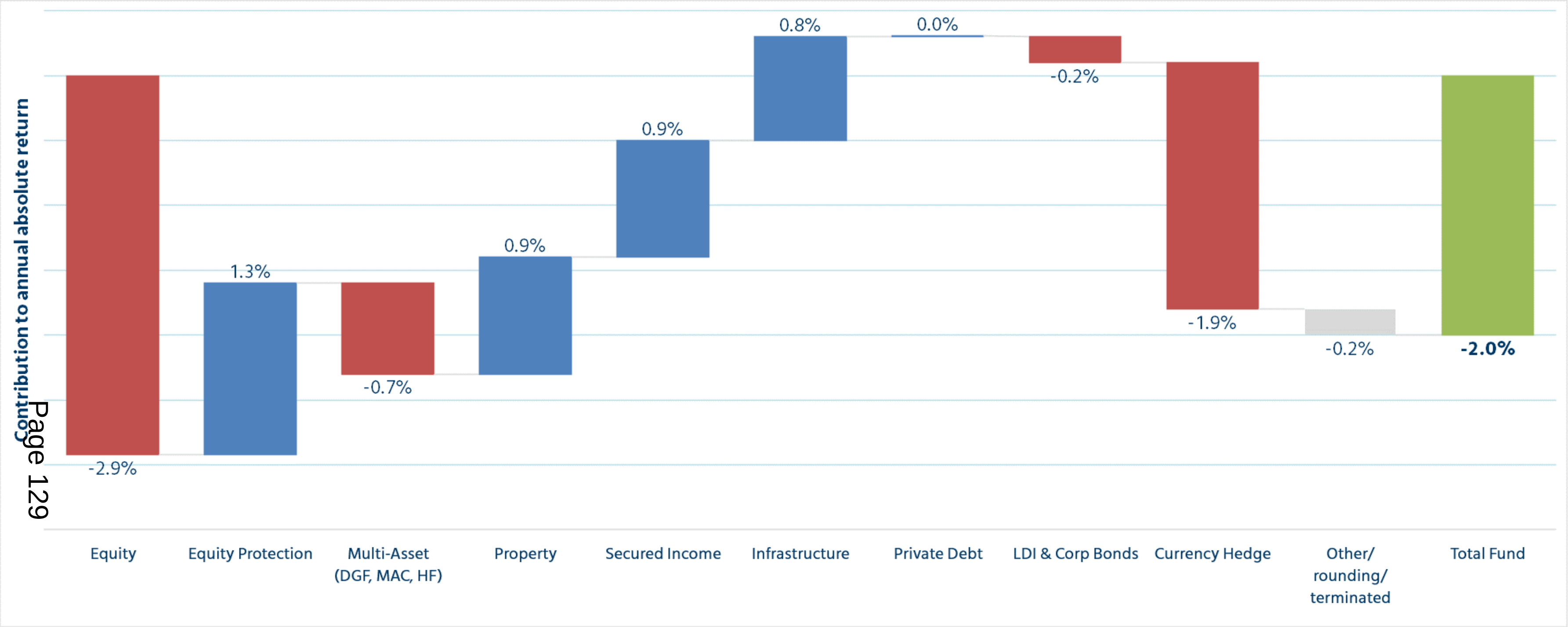
	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	-7.1	-2.0	3.0
Total Fund (ex currency hedge)	-5.9	-0.1	3.1
Strategic Benchmark **(2)** (ex currency hedge)	-6.0	2.5	6.0
Relative (1 - 2)	**-1.1**	**-4.5**	**-3.0**

Commentary

- As illustrated on the next slide, the fall in the value of Fund assets over the quarter was driven by equity market sell-offs, and the contraction of the LDI portfolio due to the fall back in long-dated inflation.
- The Diversified Returns and Multi-Asset Credit mandates also lost value, and the Currency Hedging detracted due to a weakening of Sterling. However the alternatives mandates (invested in real assets) held up, and the Equity Protection strategy also cushioned losses to a degree.
- Underperformance relative to the benchmark was driven by the Brunel High Alpha and Sustainable Equity mandates, and the multi-asset mandates also underperformed against their 'cash plus' benchmarks. Relative performance within the alternatives were mixed, though IFM and Brunel Private Debt were positive highlights.
- Drivers of the underperformance over three years include the Equity Protection strategy (as expected in an overall environment of positive returns on underlying equity markets), Overseas Property and the more recent underperformance of the active equity and multi-asset mandates.
- Over three years, relative performance of the Hedge Fund and Core Infrastructure mandates continues to be strong. Outperformance has also been seen from the Renewable Infrastructure and Secured Income mandates against their inflation benchmarks, albeit short of their outperformance targets.

Mercer

Total Fund performance attribution –1 year



Source: Custodian and Mercer estimates
'Other' contributions to the total can include the relatively small holdings in the ETF, cash, the impact of cashflows and terminated mandates, as well as rounding.

The performance drivers over Q2 have also been the key determinants of returns over the 1 year period:

- The Equity and LDI portfolio drove the negative performance.
- The alternative investments and Equity Protection cushioned losses.

Mandate performance to 30 June 2022

Manager / Asset Class	3 Months Fund (%)	3 Months B'mark (%)	3 Months Relative (%)	1 Year Fund (%)	1 Year B'mark (%)	1 Year Relative (%)	3 Year Fund (% p.a.)	3 Year B'mark (% p.a.)	3 Year Relative (% p.a.)	3 Year Performance Target (% p.a.)	3 Year Performance vs Target
BlackRock Passive Global Equity	-9.3	-9.1	-0.2	-2.6	-2.6	0.0	8.7	8.7	0.0	-	N/A (p)
Brunel Global High Alpha Equity	-10.3	-9.0	-1.4	-10.8	-2.1	-8.9	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equity	-10.3	-8.4	-2.1	-10.5	-3.7	-7.1	N/A	N/A	N/A	+2	N/A
Brunel Passive Global Equity Paris-Aligned	-9.1	-9.1	0.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A (p)
Brunel Diversified Returns Fund	-3.0	0.9	-3.9	-1.5	3.4	-4.7	N/A	N/A	N/A	+3-5	N/A
JP Morgan FoHF	0.2	1.0	-0.8	-2.5	3.4	-5.8	7.2	3.2	+3.9	-	Target met
Brunel Multi-Asset Credit	-8.6	1.2	-9.7	-10.1	4.4	-13.9	N/A	N/A	N/A	-	N/A
Brunel UK Property	4.8	3.9	+0.9	26.8	23.3	+2.8	N/A	N/A	N/A	-	N/A
Partners Overseas Property*	0.9	2.5	-1.6	8.9	10.0	-1.0	2.2	10.0	-7.1	-	Target not met
Brunel Secured Income - Cycle 1	2.8	4.0	-1.2	12.0	9.4	+2.4	5.7	4.1	+1.5	+2	Target not met
Brunel Secured Income - Cycle 2	4.4	4.0	+0.4	17.5	9.4	+7.4	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure	3.1	1.4	+1.6	13.3	5.4	+7.5	8.7	5.5	+3.1	-	Target met
Brunel Renewable Infrastructure - Cycle 1	4.1	4.0	+0.1	13.9	9.4	+4.1	6.9	4.1	+2.7	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	2.3	4.0	-1.6	11.5	9.4	+1.9	N/A	N/A	N/A	+4	N/A
Brunel Private Debt	3.4	1.2	+2.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	-10.8	-10.8	0.0	-18.9	-18.9	0.0	-3.0	-3.0	0.0	-	N/A (p)
BlackRock LDI	-27.4	-27.4	0.0	0.7	0.7	0.0	1.0	1.0	0.0	-	N/A (p)
Equity Protection Strategy	3.6			2.8			-3.3			-	N/A

Since inception performance for Partners, which was the largest underperformer over the three year period, has been at 5.7% p.a. *

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees.
Returns are in GBP terms, except for JP Morgan whose performance is shown in local terms.
Relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically.
A summary of the benchmarks for each of the mandates is given in the Appendix.
Green = mandate exceeded benchmark. Red = mandate underperformed benchmark. Black = mandate performed in line with benchmark (mainly reflecting passive mandates).

Performance for JP Morgan and Partners in IRR terms. Performance for IFM is in TWR terms.
Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.
*Partners performance is to 31 March 2022 as this is the latest date that this is available. The mandate's inception was in 2009.

Asset allocation

5

Valuations by asset class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Relative (%)
Global Equity	1,007,071	960,653	17.3	17.6	16.5	11.5 - 21.5	+1.1
Global Sustainable Equity	802,687	719,751	13.8	13.2	15.0	10.0 - 20.0	-1.8
Paris-Aligned Equity	574,338	522,026	9.9	9.6	10.0	5 - 15	-0.4
Diversified Returns Fund	538,061	522,169	9.2	9.6	6.0	4 - 10	+3.6
Fund of Hedge Funds*	171,125	119,113	2.9	2.2	-	No set range	+2.2
Multi-Asset Credit	315,433	288,351	5.4	5.3	6.0	3 - 9	-0.7
Property	391,001	399,363	6.7	7.3	7.5	5 - 10	-0.2
Secured Income	468,845	503,068	8.0	9.2	10.0	0 - 15	-0.8
Core Infrastructure	427,128	441,256	7.3	8.1	5.0	2.5 - 7.5	+3.1
Renewable Infrastructure	89,252	101,434	1.5	1.9	5.0	0 - 7.5	-3.1
Private Debt	42,713	64,267	0.7	1.2	5.0	0 - 7.5	-3.8
Corporate Bonds	121,987	108,803	2.1	2.0	2.0	No set range	0.0
LDI & Equity Protection	708,640	593,303	12.2	10.9	12.0	No set range	-1.1
Other**	167,500	112,446	2.9	2.1	-	0 - 5	+2.1
Total	**5,825,924**	**5,456,148**	**100.0**	**100.0**	**100.0**		

Source: Custodian, Investment Managers, Mercer. Red numbers indicate the allocation is outside of tolerance ranges.
Totals may not sum due to rounding and other residual holdings.
*Mandate due to be terminated.
**Valuation includes the internal cash, the ETF and currency instruments.

The underweights to Renewable Infrastructure and Private Debt mandates reflects the fact that the mandates are still being drawn down. Their control ranges have been temporarily widened to account for this.

The overweight to Core Infrastructure reflects its stronger relative recent performance. It offsets the underweight to Renewable Infrastructure.

Valuations by manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	288,513	60,000	321,713	5.0	5.9
Brunel	Global High Alpha Equity	695,906		624,338	11.9	11.4
Brunel	Global Sustainable Equity	802,687		719,751	13.8	13.2
Brunel	Passive Global Equity Paris Aligned	574,338	-54	522,026	9.9	9.6
Brunel	Diversified Returns Fund	538,061		522,169	9.2	9.6
JP Morgan	Fund of Hedge Funds	171,125	-60,760	119,113	2.9	2.2
Brunel	Multi-Asset Credit	315,433		288,351	5.4	5.3
Brunel	UK Property	210,953	-61	221,124	3.6	4.1
Partners	Overseas Property	168,035	-9,832	166,227	2.9	3.0
Brunel	Secured Income – Cycle 1	381,102	-1,966	389,926	6.5	7.1
Brunel	Secured Income – Cycle 2	87,742	20,750	113,142	1.5	2.1
IFM	Core Infrastructure	427,128	44	441,256	7.3	8.1
Brunel	Renewable Infrastructure – Cycle 1	70,620	3,196	76,871	1.2	1.4
Brunel	Renewable Infrastructure – Cycle 2	18,632	5,346	24,562	0.3	0.5
Brunel	Private Debt	42,713	19,400	64,267	0.7	1.2
BlackRock	Corporate Bonds	121,987		108,803	2.1	2.0
BlackRock	LDI & Equity Protection	708,640		593,303	12.2	10.9
Record	Currency Hedging*	-10,360	10,000	-73,019	-0.2	-1.3
BlackRock	ETF	105,127		95,672	1.8	1.8
Internal Cash	Cash	93,576	2,198	102,417	1.6	1.9
Total		5,825,924	48,258	5,456,148	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding and other residual holdings.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.
* Valuation includes the collateral holdings for the currency overlay.

Appendix

Q2 2022 equity market review

Equity markets posted deep negative returns over the second quarter.

Global Equities returned -13.3% in local currency terms. Markets were significantly weaker across the globe as financial conditions tightened, input prices rose and recessionary risk increased.

US equities returned -16.6%, whilst European (ex-UK) equities returned -10.4%. Japanese equities returned -3.7%.

Emerging markets equities returned -7.3%. China rallied late in the quarter as lockdowns ended, monetary policy remained supportive and regulators softened their rhetoric. Outside of China, other Asian markets were weak due to supply disruptions and fears of a global slowdown that could have a negative impact on exports.

Global small cap stocks returned -14.4%. Small caps lagged global equities due to their cyclical nature and thus downside susceptibility, should a recession materialise.

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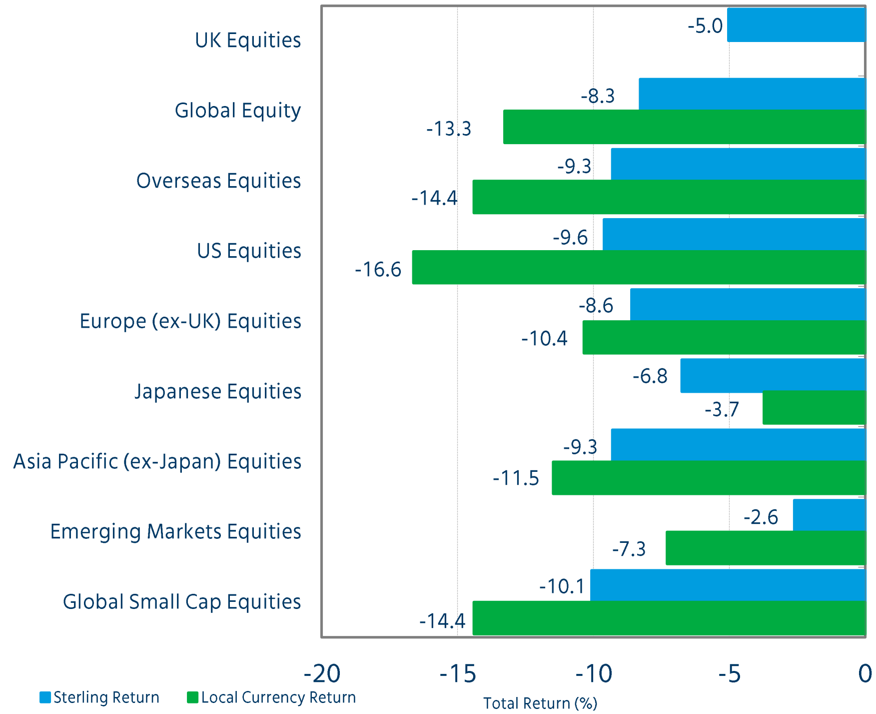
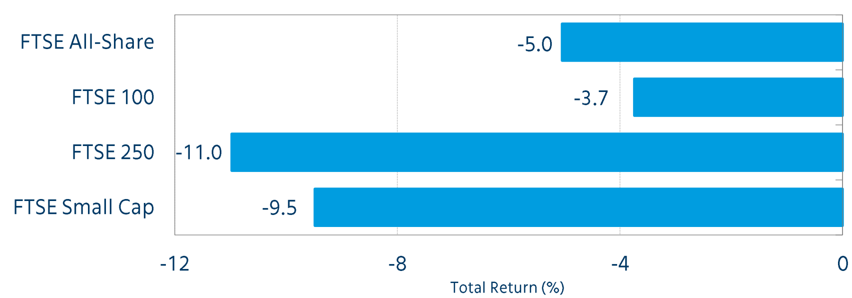
Equity Performance - Three Months to 30 June 2022



The FTSE All Share index returned -5.0% over the quarter with the large cap FTSE 100 index returning -3.7%. The FTSE 100 and FTSE All-Share's large exposure to consumer services and financials was a headwind over the quarter, offset to a degree by its large oil & gas exposure even if momentum for the latter slowed towards quarter end.

UK small cap and mid-cap stocks that are more reflective of the domestic UK economy produced negative returns in line with global small cap stocks.

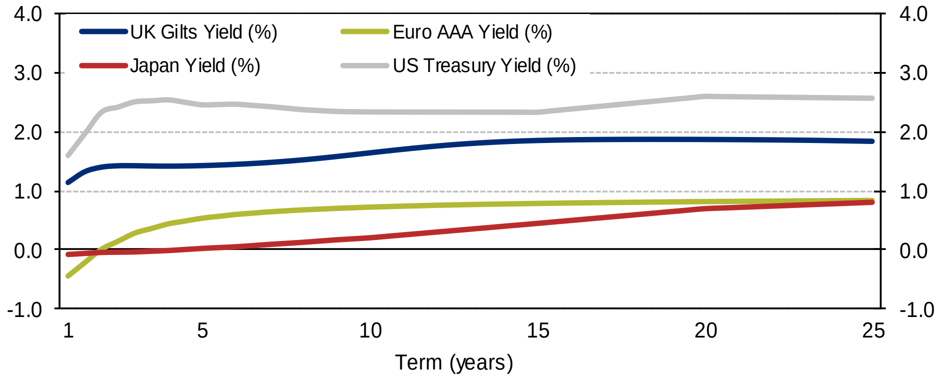
FTSE Performance by Market Cap - Three Months to 30 June 2022



Mercer

Source: Refinitiv

Q2 2022 bond market review



Source: Mercer and Bloomberg.

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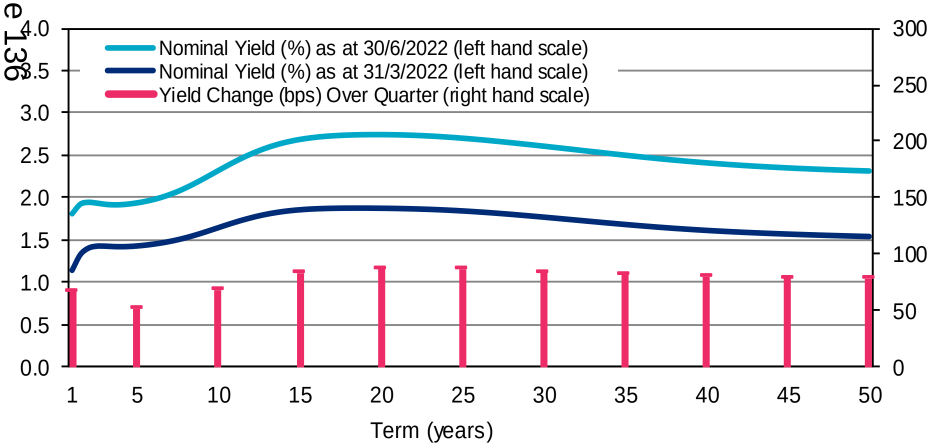


Source: Mercer.

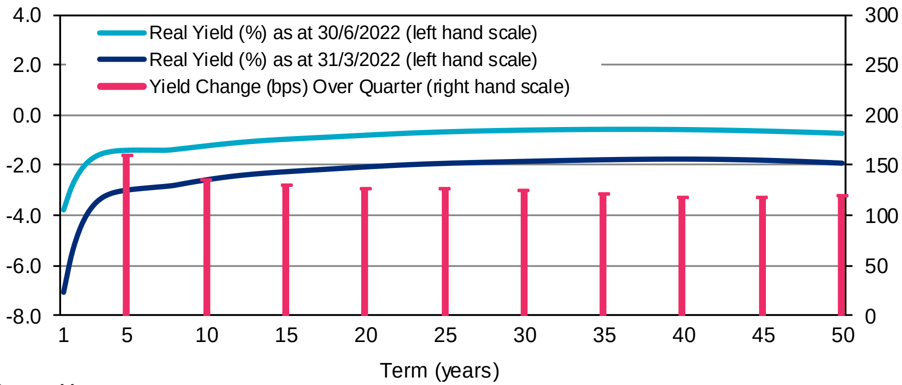
Government Bond Yields

Global government bond yield curves rose over the quarter, as yields at the ultra-short end of the curve reacted to tightening central bank policy and longer dated yields rose as well.

2-year yields in the UK and US rose 48 and 62bps respectively. 10-year gilt yields rose by 61bps while US 10-year treasury yields rose by 67bps.

Both the Federal Reserve and the Bank of England raised interest rates over the quarter several times and are expected to continue to tighten policy throughout the rest of 2022.

Q2 2022 bond market review



Source: Mercer.

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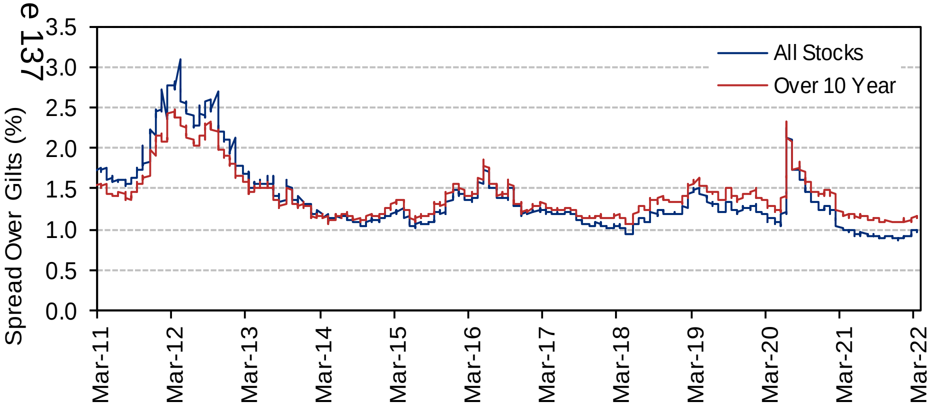


Source: Refinitiv.

UK Index-Linked Gilt Yields

UK real yields rose across the curve. Market based measures of inflation expectations, in the form of breakeven inflation, fell over the quarter. The UK 10-year breakeven rate fell to 3.7%, nearly 65 bps lower than at the end of last quarter. The fall in breakevens offset the increase in nominal yields which led to the increase in real yields.

Corporate bonds

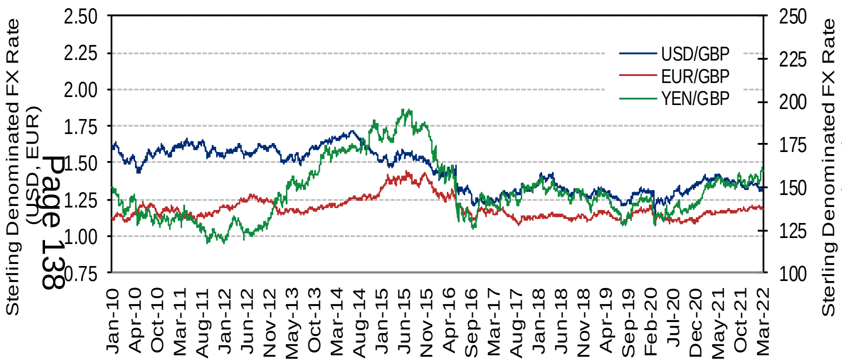
Spreads on UK investment grade credit widened for the quarter as corporate bond yields increased in light of slowing growth concerns.

Q2 2022 currency market review

Sterling depreciated versus the US dollar and Euro but appreciated versus the Yen over the quarter.

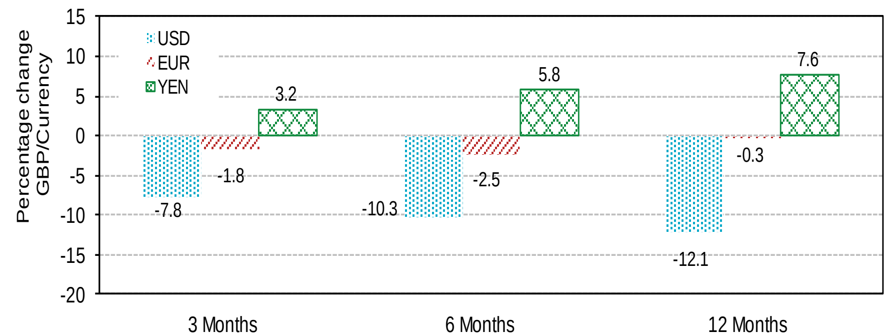
Monetary policy divergence between the regions was one of the drivers. For the year as a whole, Sterling has appreciated versus the Yen as stronger economic growth and the prospect of tighter monetary policy made Sterling more attractive relative to the former. Sterling weakened against US dollar as both growth prospects and the yield outlook favored the latter.

Sterling Denominated FX Rate



Source: Refinitiv.

Change in sterling against foreign currencies



Source: Refinitiv.

Q2 2022 property

UK property as measured by the MSCI Index increased by 3.8% over the quarter to 30 June 2022.

Source: Refinitiv

Summary of mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Global Equity	MSCI World	-	December 2017
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-	July 2018
Brunel	Passive Global Equity Paris Aligned	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
JP Morgan	Fund of Hedge Funds	SONIA +3% p.a.	-	July 2015
Brunel	Multi-Asset Credit	SONIA +4-5% p.a.	-	June 2021
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-	January 2021
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-	September 2009
Brunel	Secured Income	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure	CPI	+4%	January 2019
Brunel	Private Debt	SONIA + 4% p.a.	-	September 2021
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-	February 2016
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-	February 2016
Record	Passive Currency Hedging	N/A	-	March 2016
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-	March 2019
Cash	Internally Managed	-	-	-

Mercer

Market background indices

Asset Class	Index
UK Equity	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equity	FTSE World ex UK
US Equity	FTSE USA
Europe (ex-UK) Equity	FTSE World Europe ex UK
Japanese Equity	FTSE Japan
Asia Pacific (ex-Japan) Equity	FTSE World Asia Pacific ex Japan
Emerging Markets Equity	FTSE AW Emerging
Global Small Cap Equity	MSCI World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

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

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<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td rowspan="2">MEETING</td><td rowspan="2">23 September 2022</td><td>Agenda Item Number</td></tr>
<tr><td>13</td></tr>
<tr><td>TITLE:</td><td colspan="2">Update on Legislation</td></tr>
<tr><td>WARD:</td><td colspan="2">All</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3"></td></tr>
</table>

1 THE ISSUES

1.1 The purpose of this report is to update the Pension Fund Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is available to view in the Modern Gov Library.

2 RECOMMENDATION

The Committee is asked to:

2.1 Note the current position regarding the developments that could affect the administration of the fund.

3 THE REPORT

The table below provides a summary of the main regulatory updates since the last meeting covering McCloud, Cost Management, Pension Dashboards and Responsible Investment, including brief comment on what the implications are for the Fund and what next steps will be. Confirmation of the new DLUHC minister is also included for reference. Further details can be found in the updated list which is accessible on the Modern Gov library via the following text path – Modern Gov/Library/Avon Pension Fund/2022-2023 Quarter 02/01Regulatory Update.

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Item	Latest Position	Relevant Links	Action by Fund / Next Steps
New DLUHC Minister	Paul Scully was appointed Minister of State at the Department for Levelling Up, Housing and Communities on 7 July 2022 replacing Kemi Badenoch.	https://www.gov.uk/government/ministers/minister-of-state-at-the-department-for-levelling-up-housing-and-communities--2	No action – just to note and to acknowledge that the appointment of the new minister and the process of electing a new Conservative Party Leader / Prime Minister may lead to delays in current workstreams.
McCloud Judgment	DLUHC has issued an update to administering authorities setting out expected timing of when a response to the 2020 consultation would be issued, together with the expected timing for guidance and regulations.		Fund to continue work on collating/analysing data from employers in relation to implementing the remedy. A scoping group has been established to take forward discussions on how LGPS Funds can implement the remedy when data from employers isn't available with a view to centralised guidance being issued in due course. An officer from the Fund will be part of this group.
Cost Management	GAD have published the results of the first cost cap valuation for the LGPS as at 31 March 2016 confirming that the 2% corridor had not been breached, thus triggering no changes to benefits/contributions. The 2% corridor has since been updated in Regulations to be 3%. Permission for a Judicial Review has now been granted to review the Government's decision to include the cost of the McCloud remedy in the 2016 cost control valuations for the Fire and NHS Schemes – which may have implications for the LGPS too.	Cost cap valuation of the Local Government Pension Scheme (England and Wales) - GOV.UK (www.gov.uk) The Public Service Pensions (Employer Cost Cap and Specified Restricted Scheme) Regulations 2022 (legislation.gov.uk)	Whilst no changes to benefits/contributions have been announced as a result of the 2016 process, the potential for a judicial review could have implications in the future. Any such changes will increase the burden on the administration team (and associated systems etc.)

Pension Dashboard	A number of consultations, both responses to prior consultations, and new ones have been issued in recent months as preparation for the Pension Dashboard Programme gathers pace. The Pension Administration Standards Association (PASA) have also published guidance in a number of areas. The latest consultations and guidance issued will aim to provide clarity on the requirements for administering authorities (and software providers) and also how the Dashboard itself may look to members and be used in practice. Further information can be found on the PDP and PASA websites.	Pensions dashboards: consultation on the draft Pensions Dashboards Regulations 2022 - GOV.UK (www.gov.uk) https://www.pensionsdashboardsprogramme.org.uk/ The Pensions Administration Standards Association – Driving standards in pensions administration in the UK (pasa-uk.com)	The Fund will continue its preparations towards meeting the necessary Pensions Dashboard requirements and welcomes the decision to delay the staging date 5 months given the current burden on administration teams (e.g. implementing the McCloud remedy etc.).
Responsible Investment	DLUHC have launched a consultation seeking views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The consultation runs for 12 weeks until 24 November 2022. Intention is for regulations to be in force by April 2023.	https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks	Whilst no immediate impact on the administration team, this consultation has been long-awaited and its release may signal movement on other outstanding matters, which may impact on the team. The Fund expects to issue its own response to this consultation in due course. Note: The Fund has published a TCFD statement in 2021 and 2022 ahead of it being mandatory. Proposal is for it to be mandatory for financial year 2023/24 with first report published by December 2024.

4 FINANCIAL IMPLICATIONS

4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer’s contribution rates.

4.2 Any other specific financial implications will be reported as appropriate.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES STATEMENT

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background papers	*LGA Bulletins* *SAB Meeting Minutes* *National Technical Group Meeting Minutes*
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**23 September 2022**
TITLE:	**WORK PLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Committee Work plan** **Appendix 2 – Investments Panel Work plan** **Appendix 3 – Training Programme** **Appendix 4 – Service Plan monitoring 2022-23**	

1 THE ISSUE

1.1 Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

1.2 The provisional training programme for 2022 is included as Appendix 3.

1.3 The quarterly monitoring report for the Service Plan is also attached. This covers a high level overview of all projects for the Investments and Pensions Administration teams including progress to date.

2 RECOMMENDATION

2.1 That the committee:

Notes the Committee & Investment Panel workplans and training programme plus the service plan monitoring report for the relevant period.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider. The cost of the LGPS Online Learning Academy licences is within the budget already agreed.

4 THE REPORT

4.1 Workplans

a) The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

4.2 Modern Gov Library

a) From March 2022 the following monitoring reports will be available on the Modern Gov library only:

i. Regulatory Update

ii. Investment Performance Monitoring (appendices and supporting detail)

iii. Budget Monitoring

4.3 Training Programme

a) The provisional training programme for 2022 is also included so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

4.4 Hymans LGPS Online Learning Academy (LOLA)

a) In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA). The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. The schedule for completion of the modules is contained within the training programme (Appendix 3).

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2022	2023
23 September 16 December	24 March 23 June 22 September 15 December

5.2 Investment panel meetings as currently scheduled:

2022
09 September 25 November

6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework

7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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Appendix 1

Committee Workplan	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Quarterly Items						
PB minutes						
Brunel Update						
Review of Investment Performance (including Brunel Portfolios)						
Update on Legislation						
Pension Fund Administration –Performance Indicators and Risk Register						
Budget & Cash flow Monitoring						
Workplans						
Annual Items						
Annual Review of Risk Register						
Budget and Service Plan						
Treasury management Policy						
Annual Employer Update						
Roles & Responsibilities of the Committee, Governance Compliance Statement						
Annual Review of Investment Strategy & Performance						
Brunel Corporate update (presentation by Brunel)						
Annual Responsible Investing Report						
Annual Review of Risk Management Strategies						
Interim valuation Results / Section 13						
FRC Stewardship Code						
Review of Admin Strategy						
Agree draft FSS						
Approve FSS (after consultation)						
2022 valuation outcome						
Audit Plan & Reports						
Approve Investment Strategy Statement						
To be circulated outside of Meetings						
CMA Order Compliance (for Investment Consultant)						
Noting of Final Accounts 2020/21						
Approval of Committee’s Annual Report to council & PB Annual Report for noting						

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Appendix 2

Investment Panel Workplan	**Feb-22**	**May-22**	**Sep-22**	**Nov-22**	**Feb-23**	**May-23**	**Sep-23**	**Nov-23**
Quarterly monitoring Items								
Review performance & RM Framework								
Annual Items								
Annual Risk Management review								
Strategic items								
Collateral plan								
Mercer ACT Climate Analysis								
Blackrock Equity Fund in QIF								
Impact Investing Paper								
Cashflow/Liquidity Review								
TCFD Statement								
Update on 2022 Stocktake project								
Update on Brunel's revised Climate Policy								
Decision of Private Market allocations for Cycle 3								
Review of LDI triggers given new liability benchmark (post 2022 valuation)								
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)								

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Appendix 3
Committee Training Plan

Type of training	Date	Content	
Workshop	Jun-22	Funding Strategy Review & Valuation	
Workshop	TBA	Cyber Security Review	
Workshop	Feb-23	Investment Strategy Review	

Hymans Learning Academy	To be completed by	Title of Module	Content
Module 1	Mar-22	Intro to the LGPS	Intro to LGPS (12 mins) Role of a Councillor (20 mins)
Module 2	Jun-22	Governance & Oversight	LGPS governance (20 mins) LGPS Oversight Bodies - TPR (15 mins) LGPS Oversight Bodies - DLUHC & GAD (10 mins) Business Planning (10 mins)
Module 3	Dec-22	Administration & Fund Management	Intro to Administration (22 mins) Accounting & Audit (11 mins) Additional Voluntary Contributions (12 mins) Policies & Procedures (21 mins) Public Procurement (11 mins)
Module 4	Jun-22	Funding & Actuarial	Introduction to Funding Strategy (10 mins) LGPS Actuarial Valuation - Process & considerations (17 mins) LGPS Actuarial Valuation - Technical aspects (15 mins) LGPS employers (19 mins)
Module 5	Sep-22	Investments	Intro to Investment Strategy (10 mins) Investments - Mifid II (18 mins) LGPS Investment Pooling (12 mins) Performance Monitoring (18 mins) Responsible Investing (12 mins)
Module 6	ongoing	Current Issues	Understanding McCloud (8 mins) Understanding Goodwin (4 mins) Cost Sharing (10 mins) Climate Change & TCFD (13 mins)

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Appendix 4 - Service Plan Monitoring

Administration Strategy

Key Objectives	Tasks	Completion Date	Status
Communication			
Member digital engagement	Activate online ABS availability - Active members	Aug-22	**Complete**
Member Website	Develop website inline with digital services objectives	Mar-23	**In planning**
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Mar-23	**In planning**
IT Development			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-23	**In progress**
Progress software developments with Heywood	Review processes to use portal and roll out to ER's inc training	Mar-23	**In progress**
	Hand back loading of files to ER's with tolerance limits	Jul-22	**Complete**
Heywood Insights - Perf Reporting & Dashboard	Implementation & roll out	Dec-22	**In progress**
Other Projects			
Revise Fire Service model	SLA to be approved by AFA & APF	Mar-22	**In progress behind schedule**
McCloud	Data collection exercise LGPS	Dec-22	**In progress**
	Implementation of remedy - LGPS	Mar-23	**In progress**
1* McCloud Sargeant (Fire Schemes)	Implementation of remedy - Fire	Oct-23	**In progress**
2* McCloud Sargeant (Fire Schemes)	Implementation of MOU & ID Framework Agreement	Mar-22	**On hold**
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-23	**In progress**
DWP Pensions Dashboard	To enable Pension Dashboard Compliance	Apr-24	**In progress**
Implement new operating model	Agree structure and review job descriptions	Sep-22	**In progress**
	Consultation, recruitment & implementation	Apr-23	**In planning**
	Set up temporary Digital Services Team & redefine workflows	Sep-22	**In progress**
	Revise Communications Strategy	Jun-22	**In progress behind schedule**
	Implement Digital Office	Mar-23	**In planning**
	IT Systems Development	Mar-24	**In planning**
	New office accommodation	Dec-22	**In progress**
	Channel shift to enable support & consultancy to members & employers	Mar-24	**In planning**
New Administration Strategy	Develop new strategy document & committee approval	Mar-23	**In planning**

	Consultation & implementation	Jun-23	**In planning**
Funding Strategy			
Covenant assessment of employers during valuation period	Explore options with employers to mitigate covenant risks	Ongoing	**In progress**
	Ongoing monitoring via quarterly reports and annual report to PC	Ongoing	**In progress**
Valuation and FSS	2022 Valuation as at 31/03/22 - agree funding assumptions, set contribution rates and disseminate	Mar-23	**In progress**
	draft FSS , consult with employers and PB and publish	Mar-23	**In progress**
	Update policies for changes in regulations	Mar-23	**Complete**
Managing employer exits/increase in security	Manage exits in line with Fund policy to protect Fund; liaise closely with employer and ensure have obtained actuarial and legal advice	Ongoing	**In progress**
Funding Communications Strategy	o Website	Ongoing	**In progress behind schedule**
	o Forums/ meetings	Ongoing	**In progress**
Recruitment	Review resource requirements of Team	Dec-22	**In progress**
Investment Strategy			
Monitoring of Brunel portfolios	Input as member of Brunel Client Group	Ongoing	**Complete**
	Quarterly monitoring by Inv Team	Ongoing	**In progress**
Strategic Review 22/23	In line with valuation review required risk/return profile, asset alloaction and other investment objectives.	Mar-23	**In progress**
	Revise ISS following review	Sep-23	**In planning**
Brunel 2022 Stocktake	To review impact of Brunel's Clomate Policy. Fund officers and PC members will be involved /consulted. Outcome/new policy due 1Q23.	Mar-23	**In progress**
Collateral Plan	Develop plan in event need to access assets outside QIF to supoort hedging strategies	Jun-22	**Complete**

Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in timely manner	Liaise with Mercer and Blackrock as to exposures, trigger points and monitoring framework	Ongoing	**In progress**
	Annual review of trigger points and strategy	Annually 3Q	**In progress**
	Arrange Panel & committee training as needed	Ongoing	**In progress**
Climate Change disclosures & monitoring	TCFD: Report in line withh TCFD recommendations for 2020/21 year end reports	Annually 3Q	**In progress**
	ACT analysis	Jun-22	**Complete**
	IIGCC: annually report in line with asset owner commitment	Annually in Dec	**In progress**
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives/objectives post t2022 Stocktake	2023	**In planning**
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	Annually in December	**In progress**
FRC Stewardship Code	annual FRC compliance statement	Oct-22	**In progress**
Team Resources	Consider team structure post asset transition	2023	**In planning**
Investment Communications Strategy	Agree strategy across all stakeholders		**In progress**
	o Website		**In progress**
	o Newsletters		**In progress**

Governance

Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-22	**Complete**
	Review Governance Compliance statement	Jun-22	**Complete**
	Review register of interest forms	Jun-22	**In progress behind schedule**
	Review scheme of delegation	Jun-22	**Complete**
Action Plan from Good Governance Review	Conflicts of Interest Policy	Mar-23	**Complete**
	Training Strategy Policy	Mar-23	**Complete**
	Policy on Committee Representation - add to GCS	Mar-23	**Complete**
	Decision Making Matrix	Mar-23	**Complete**
	Add requirements of LGPS senior officer to TOR		**Complete**

TPR SCOP requirements	Gap analysis & action plan for new requirements	Dec-22	**In planning**
	Cyber security policy	Dec-22	**In progress**
	Review disaster recovery / business continuity plan	Mar-23	**In progress**
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	**In progress**
Annual governance review for Pension Board	Review all items on governance checklist	Jun-22	**Complete**
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	**In progress**
Review of Committee Reports	Continue to review report content & Modern Gov Library	Mar-23	**In progress behind schedule**
Review of risk register	Review format, content & process	Sep-22	**In progress behind schedule**
GDPR	Ensure ongoing compliance with regulations	Ongoing	**In progress**
	Training for staff		**In progress**
Contract Retenders	AVC contract review	Dec-22	**In progress**
	Software Contract	Mar-23	**Progress delayed**
	Investment Advisor Contract	Sep-23	**In planning**

Finance

Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Ongoing	**Complete**
iConnect Project to improve process for reconciliationn of contributions	Develop process	Dec-22	**In progress**
Salary budgeting	Develop process for better monitoring of salary budget/vacancies	Nov-22	**In planning**