

# Avon Pension Fund Committee

**Date: Friday, 17th March, 2023**

**Time: 10.00am**

**Venue: Kaposvar Room - 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**

**Democratic Services**

Lewis House, Manvers Street, Bath, BA1 1JG

Telephone: 01225 394458

Web-site - <http://www.bathnes.gov.uk>

E-mail: [Democratic\\_Services@bathnes.gov.uk](mailto:Democratic_Services@bathnes.gov.uk)

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](http://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, 17th March, 2023**

**at 10.00am in the Kaposvar Room - 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 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 4.4 Appendix 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: 16TH DECEMBER 2022 (Pages 7 - 14)

8. STRATEGIC INVESTMENT REVIEW (Pages 15 - 128)

9. 2023 - 26 SERVICE PLAN AND BUDGET (Pages 129 - 150)

The purpose of this report is to present to Committee the 3-year Service Plan and Budget for the period 2023-26.

10. ACTUARIAL VALUATION 2022 & UPDATED FUNDING STRATEGY STATEMENT (Pages 151 - 214)

The Local Government Pension Scheme (LGPS) Regulations require LGPS funds to have an actuarial valuation every three years. The 2022 valuation has a base date of 31 March 2022 with new employer contribution requirements becoming effective from 1 April 2023. This report examines the outcome of the valuation process for the whole fund and highlights the principal changes which have occurred since the 2019 valuation.

11. TREASURY MANAGEMENT POLICY (Pages 215 - 224)

The Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2022. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy. The policy proposed for 2023/24 set out in Appendix 1 is the same as the policy approved in March 2022. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

12. PENSION FUND ADMINISTRATION (Pages 225 - 240)

The purpose of this report is to present the Fund's service performance for the three months to 31st December 2022 against target service levels. The report also addresses the Fund's business operational position from an overall risk perspective and provides an update forecast on the Funds cash flow and budget.

13. UPDATE ON LEGISLATION (Pages 241 - 244)

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

14. RISK MANAGEMENT PROCESS & RISK REGISTER (Pages 245 - 254)

The purpose of this report is to update the Committee with the quarterly review of the risk register.

15. GOVERNANCE (Pages 255 - 264)

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 provisional training programme for 2023 is included as Appendix 3.

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

**BATH AND NORTH EAST SOMERSET**

**AVON PENSION FUND COMMITTEE**

Friday, 16th December, 2022

**In attendance in person:**

**Bath and North East Somerset Councillors:** Paul Crossley (Chair), Bruce Shearn, Chris Dando and Paul May

**Co-opted Voting Members:** Councillor John Cato (North Somerset Council), Charles Gerrish (Academies) and John Finch (Independent Member)

**Also in attendance:** Nick Dixon (Head of Pensions), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

**In attendance virtually:**

**Co-opted Voting Members:** Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Pauline Gordon (Independent Member) and Jackie Peel (Independent Member)

**Co-opted Non-voting Member:** Wendy Weston (Trade Unions)

**Advisors:** Nick Page (Mercer)

**Also in attendance:** Liz Woodyard (Group Manager for Funding, Investment & Risk), Jeff Wring (Director, One West) and Charlotte Curtis (Governance & Risk Officer)

**32 EMERGENCY EVACUATION PROCEDURE**

The Chairman drew attention to the emergency evacuation procedure.

**33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Nick Weaver, Chair of the Pension Board had sent his apologies to the Committee.

**34 DECLARATIONS OF INTEREST**

There were none.

**35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

**36 ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

### **37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

### **38 MINUTES: 23RD SEPTEMBER 2022**

The Committee **RESOLVED** that the minutes of the meeting on 23<sup>rd</sup> September 2022 be confirmed as a correct record and signed by the Chair.

### **39 PENSION BOARD MINUTES: 8TH DECEMBER 2022**

The Committee **RESOLVED** to note the minutes of the Pension Board meeting that took place on 8th December 2022.

### **40 NEW RISK MANAGEMENT PROCESS & RISK REGISTER**

The Governance & Risk Advisor introduced this report to the Committee. She explained that the Fund has reviewed its risk management process and documented it in a new risk management policy.

She said that the policy sets out the Fund's approach to risk, process for review and update of the risk register. She added that it also sets out the roles and responsibilities of all those involved in the management of risk within the Fund, including the role of the Pension Board and Pension Committee.

She informed the Committee that the new risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. She said it also sets out mitigating actions.

She stated that the risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter and all risks are also reviewed quarterly or when there has been a material change to the risk.

She highlighted two of the main risks from the register:

NR01 - The Fund's ability to deliver the administration service to members and employers within the agreed standards.

NR10 - Failure to earn investment returns.

Councillor John Cato commented that he would like to see a bit more clarity as to how the objectives map across to the risk register.

The Governance & Risk Advisor replied that all risks are linked to the relevant Fund strategy documents and policies and how they are reported to Pension Committee and Pension Board.

Councillor Cato asked if each risk had an action plan and if so where could it be found.

The Governance & Risk Advisor replied that the register was not at that stage yet.

The Group Manager for Funding, Investment & Risk added that investment risks are covered by reports to the Investment Panel / Pensions Board.

Jackie Peel asked if the risk score shown was after mitigation.

The Governance & Risk Advisor replied that it was.

Jackie Peel said that she felt it would be good if there was a way for the biggest risks to be identified at a glance with maybe some additional colouring / a key.

The Governance & Risk Advisor replied that there had been a similar discussion at the Pension Board and that they were looking to create a document that shows the risks in order of importance. She added that the colours in the 'Current Factors...' column were used to indicate the impact level and therefore if the text was green it was deemed not to be a big impact.

The Head of Pensions commented that having now received feedback on the register from both the Pensions Board and the Committee they would look to see what amendments can be made and then share a draft of it before the next round of meetings take place.

The Committee **RESOLVED** to note the report.

#### **41 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) PROVIDER REVIEW & APPOINTMENT**

The Pensions Manager introduced the report to the Committee and highlighted the following points from within it.

The Fund's existing AVC provider, Aviva, gave notice in January 2022 that they would not accept any new employer applications to their existing AVC scheme. In practice this meant that any member, with an employer not already in the scheme, would not be able to start an AVC contract. This situation left the Fund in breach of LGPS regulations which state that members must be provided with access to an AVC scheme. The Fund negotiated a six-month extension with Aviva (which expired in August) and in February appointed Hymans Robertson to assist with the procurement of a new provider. Hymans were appointed via the LGPS National Framework.

Hymans carried out a review of the AVC market on behalf of the Fund and six other LGPS Funds. The LGPS AVC market is not lucrative for providers (as most members take the AVC as a cash lump sum) and a number have now withdrawn from the market. The conclusion from their review was that there was only one provider who would be prepared to offer an AVC scheme which was Legal & General (L&G).

Advised by Hymans' the Fund has engaged with L&G to agree specific terms for an AVC contract which will in most cases be more favourable to scheme members in

terms of management fees and the range of funds offered. For the Fund it will be more operationally efficient with all the employers set up as one scheme.

All new contributions currently paid by members to Aviva will transfer to L&G in January 2023. L&G and the Employer Services Team are working with employers to ensure they are set up to submit contributions from January 2023 via the L&G portal. Most members' AVC pots will transfer from Aviva and Utmost to L&G in March 2023. A series of communications are being sent to members to explain the changes and timescales involved.

William Liew asked what level of costs would be incurred by the Fund as part of the transfer and what is the value that will be transferred across to L&G.

The Pensions Manager replied that there were no significant costs involved in the transfer and that there would be no loss in value to member's pots. He said that the value to be transferred was around £5m.

Councillor Steve Pearce asked if it was known what L&G's ESG approach was to AVC pots.

The Group Manager for Funding, Investment & Risk replied that they have a strong ESG approach to their work and support the Fund's stance on transition to net zero. She added that two messages have been sent to all members on this matter.

Charles Gerrish commented that he was uncomfortable on hearing that there is only one provider of this service available for the Fund. He asked if any contingency measures could be put in place should L&G decide to cease this provision.

The Pensions Manager replied that the Scheme Advisory Board and the Local Government Association are aware of the situation. He added that a good relationship has been established with L&G as part of this process and that he believed that they are looking to support other Funds in a similar way.

John Finch suggested that as only one provider now exists the issue should be added to the risk register.

The Pensions Manager replied that they would make this addition.

Councillor John Cato asked how the Fund would monitor the statement in the report that L&G's default fund and all their 'Future World' funds has a strong emphasis on responsible and sustainable investment.

The Group Manager for Funding, Investment & Risk replied that an investment brochure exists and that they will periodically carry out reviews with them on their work.

The Committee **RESOLVED** to note:

- i) The selection of the AVC provider which is a decision delegated to the Head of Pensions



- ii) That the AVC arrangements including fund selection will be reviewed every 2 years.

## **42 INVESTMENT STRATEGY AND BRUNEL UPDATE (FOR PERIODS ENDING 30 SEPTEMBER 2022)**

The Group Manager for Funding, Investment & Risk introduced the report to the Committee. She informed them that the FRMG had decided to retain the current decision to suspend the trigger framework with interest rate hedge ratio and inflation hedge at c. 40%.

She said that the outline of the forthcoming Strategic Investment Review had been discussed at the recent Investment Panel meeting and that background papers relating to it would be circulated ahead of the workshop to be held on 28<sup>th</sup> February. She added that a wider stakeholder consultation was planned to take place in late January / early February for Members, Employers and Councillors.

She informed the Committee that the Fund had been nominated for the Best Climate Change Strategy award as part of the LAPF Investment Awards 2022 and thanked the Investments Manager and Senior Investment Officer for their work involved in the award.

Nick Page, Mercer addressed the Committee and highlighted points from within Appendix 3 - Mercer Quarterly Investment Performance Report.

### Market Background

- There was turmoil in UK gilt markets around the end of the quarter, as markets positioned for the Bank of England having to double down on tightening, in order to offset the expansionary mini budget. Soaring yields led to significant disinvestment of liquid assets in order to bolster collateral levels for funds using leveraged hedging strategies.
- Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were squashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession.

### Mercer market views

- Our medium term outlook (as at October 2022) is mixed given the big cross in current markets.
- Several factors give rise to a negative backdrop to risk markets, however valuations are more attractive, sentiment is soft and the Fed might start to curtail monetary tightening.

### Total Fund performance attribution – 1 year

- The negative returns from equities, LDI and currency hedging drove negative performance over the one year period.
- The alternative investments and Equity Protection Strategy cushioned losses.

The funding level has held up strongly despite the negative asset returns, significant headwinds and volatility.

Pauline Gordon asked for further information could be added to the chart on page 56 to show how liabilities have done versus the LDI.

Nick Page replied that they could look to add this into the next reporting cycle.

William Liew commented that he felt the drop in funding level was quite significant given that it equated to around £675m.

Nick Page replied that the 89% stated in the Executive Summary is based on the previous actuarial valuation assumption. He added that if you allow for the updated actuarial valuation assumption to March 2022 and also allow for changes in market conditions from March to September 2022 then the actual funding level is now around 98%.

The Group Manager for Funding, Investment & Risk asked when will the 2022 valuation basis be allowed to be used.

Nick Page replied that it could be used once agreed and signed off. He added he felt that this had already taken place.

The Group Manager for Funding, Investment & Risk said that she would contact the Actuarial team to confirm.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **PROPOSES**, 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.

The Committee returned to public session for further questions.

Councillor John Cato referred to Appendix 2 - Investment Strategy Dashboard and asked at what point would the funding level need to reach to go red.

The Group Manager for Funding, Investment & Risk replied that big swings can happen in short periods of time. She added that for her the main issue would be when the deficit reaches a certain percentage of our assets, overall liabilities. She said that this is a particular problem within the valuation year.

Councillor Cato asked for confirmation that the detail of what comprises the Brunel portfolio is delegated to them.

The Group Manager for Funding, Investment & Risk replied that yes it was.

Councillor Cato asked how much overlap of assets was there within the equity funds and could some comments be added as to the ESG criteria for the asset classes / portfolios listed.

The Group Manager for Funding, Investment & Risk replied that the monitoring role for the portfolios is taken up by the Investment Panel. She added that there was likely to be a high overlap between the three equity portfolios. She said that for the Passive Global Equity Paris Aligned there would also be some overlap.

She explained that for Global Sustainable Equity there are four managers and that Brunel will allocate to those managers that have less of an overlap. She stated that overall there was quite a lot of diversification and low degree of overlap aside from the core equity funds mentioned.

The Committee **RESOLVED** to:

- i) Note the information set out in the report and appendices.
- ii) Note the outline and timetable for the Strategic Investment Review

### **43 UPDATE ON LEGISLATION**

The Pensions Manager introduced the report to the Committee and highlighted the following areas from within it.

#### McCloud Judgment

It is expected that the expected timing for guidance and regulations will be delayed (relative to the earlier timetable issued by DLUHC). It has been confirmed that certain Teachers will also be eligible for LGPS membership due to the McCloud remedy. The inclusion of certain Teachers in relation to the LGPS remedy will also add to the administrative burden and further guidance awaited on how to deal with such cases.

#### Pension Dashboard

The main development over recent months was the laying of a draft of The Pensions Dashboard Regulations 2022 before each House of Parliament by DWP. These were debated on 15th November by MPs and Peers and approved.

#### SCAPE Discount Rate

Response to June 2021 consultation expected in coming weeks, including potential revision to SCAPE discount rate.

#### CARE Revaluation Date

Consideration currently being given to amending the revaluation date to 6 April from 1 April due to increasing number of members potentially subject to annual allowance charges. Nothing definitive published yet.

Charles Gerrish asked what implications would there be on schools if certain teachers were allowed LGPS membership and how would this affect those schools that run subsidiary bodies.

The Pensions Manager replied that he believed this would only affect those teachers who have multiple posts. He added that information on that level of detail was not available to him yet, but that he would update the Committee when possible.

The Committee **RESOLVED** to note the current position regarding the developments that could affect the administration of the fund.

#### 44 GOVERNANCE

The Governance & Risk Advisor introduced this report to the Committee. She informed them that attached to the report is the workplan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which set out provisional agendas for forthcoming meetings. She added that the provisional training programme for 2022 is included as Appendix 3 and the quarterly monitoring report for the Service Plan is also attached as Appendix 4.

She reminded members that the modules of the Hymans Learning Academy were due to be completed by the end of the year.

She explained that the March 2022 Committee date had now been amended and the meeting will take place on 17<sup>th</sup> March 2022.

The Committee **RESOLVED** to note the Committee & Investment Panel workplans and training programme plus the Service Plan monitoring report for the relevant period.

The meeting ended at 11.22 am

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

### Access to Information Arrangements

#### Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA- 1249059
Meeting / Decision: Avon Pension Fund Committee
Date: Friday 17 <sup>th</sup> March 2023
Author: Liz Woodyard
<p><b>Exempt Report Title:</b> Strategic Investment Review</p> <p><b>List of exempt attachments to this report:</b></p> <p>Exempt Appendix 1 – Strategic Review Workshop Report</p> <p>Exempt Appendix 2 – LDI review brief</p> <p>Exempt Appendix 3 – Equity portfolios</p> <p>Exempt Appendix 4 – Revised Investment Strategy Statement</p>

The appendix contains 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 report and 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 report and appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could 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 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.

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>17 March 2023</b>	AGENDA ITEM NUMBER <input type="text"/>
TITLE:	<b>2023 - 26 SERVICE PLAN AND BUDGET</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Annex 1:</b>	<b>2023-26 Service Plan and Budget Report</b>	
<b>Appendix 1</b>	<b>Scope of the Avon Pension Fund</b>	
<b>Appendix 2A</b>	<b>Service Plan monitoring 2023</b>	
<b>Appendix 2B</b>	<b>Service Plan completed projects 2022</b>	
<b>Appendix 3</b>	<b>Budget &amp; Cash Flow Forecast</b>	

## **1 THE ISSUE**

- 1.1 The purpose of this report is to present to Committee the 3-year Service Plan and Budget for the period 2023-26.
- 1.2 The Service Plan (Appendix-1) details developments to be undertaken during the next 3 financial years. These are designed to improve performance and the overall quality of service to stakeholders, as well as meet legislative obligations.

## **2 RECOMMENDATION**

- 2.1 That the Committee approve the 3 Year Service Plan and Budget for 2023-26 for the Avon Pension Fund.**

## **3 FINANCIAL IMPLICATIONS**

- 3.1 Administration and investment management costs incurred by the Avon Pension Fund are recovered from the Fund through employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.
- 3.3 Financial implications are contained within the body of the Report.

## **4 SERVICE PLAN 2023-26**

4.1 The Service Plan sets out the Fund's objectives for 2023-26. The 3-year budget underpins actions in the plan including the investment strategy, risk management, compliance, and improvements in administration of the Fund.

4.2 The main focus of this plan is as follows:

### **(i) Service**

- The Fund will implement a new service model to facilitate digitalisation and process automation, raising operational efficiency and improving service for members.
- The fund will transfer administration of the Firefighters' Pension Scheme in conjunction with Avon Fire Authority.

### **(ii) Funding**

- The Fund will manage employer admissions and exits, as well as assessing employer contributions vs covenant quality.
- The Fund will also explore if a captive (Fund-wide) arrangement for Death in Service can be implemented at minimal extra cost to employers.

### **(iii) Investments**

- The Fund will complete a strategic investment review and implement resulting changes to asset allocation, risk management (including liability driven investing and hedging) and climate goals.
- It will also actively seek broad stakeholder engagement in investment strategy and climate change.
- The investment consultancy contract (with Mercer) expires in 2023 and the Fund will tender a fresh contract within the LGPS National Framework.

### **(iv) Regulations:**

- The Fund will manage three mandated changes
  - o The McCloud remedy including for the Fire scheme.
  - o Rectification required in respect of the Guaranteed Minimum Pensions.
  - o Planned introduction of the DWP pensions dashboard.
- The Fund will implement requirements of the Good Governance Review and The Pension Regulator's Single Code of Practice.

### **(v) People**

- To help address a high staff vacancy rate of c.13%, the fund will review pay scales with independent advice, and recommend changes to be executed as soon as practical.
- The fund will also support staff wellbeing and provide access to resource tools and training opportunities.

4.3 Full details of the 2023-26 Service Plan are in Appendix 1.

4.4 Appendix 2 shows the new medium-term projects for 2023-26 together with completed projects from the 2022-23 plan.

## 5 BUDGET FOR 2023-26

- 5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2023 are included as APPENDIX 3 to the Service Plan.
- 5.2 The aggregate budget for 2023-24 of £31.9m is £2.1m (6%) below the £34.0m budget of 2022-23.

<i>£ millions</i>	2022-23	2023-24	Change
Administration & Governance	5.9	7.0	+ 1.1
Investments	28.1	24.9	- 3.2
Total	34.0	31.9	- 2.1

- 5.3 The administration and governance budget of £7.0m in 2023-24 is a £1.1m increase over 2022-23, largely driven by new roles, inflation, and contingency for a salary review.
- 5.4 In Investments, costs of £24.9m are £3.2m (11%) lower than the £28.1m of 2022-23. This difference is largely driven by: lower asset values, higher proportion of passive equities, allocations towards portfolios with lower fees, lower asset values.

## 6 RISK MANAGEMENT

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund, with responsibility to ensure adequate risk management processes.
- 6.2 It discharges this responsibility by ensuring the Fund has an appropriate investment strategy which is regularly monitored.
- 6.3 In addition the Committee monitors benefits administration, the risk register and compliance with relevant regulations. The Investment Panel further strengthens governance of investment matters and contributes to reduced risk.

## 7 EQUALITIES

- 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.
- 8.2 The Fund acknowledges financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities and renewable opportunities. The strategy is monitored and reviewed by the Committee.
- 8.3 The Fund also seeks to act as a force for positive change in climate matters and will act in collaboration with other responsible investors to engage companies, encouraging them to accelerate their pathway towards net zero.

## 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

<b>Contact persons</b>	<b>Budget</b> – Dave Richards, Finance & Systems Manager (Pensions) (01225 395259) <b>Service Plan</b> – Nick Dixon, Head of Pensions (01225 477325), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Group Manager Funding, Investments & Risk (01225 395306)
<b>Background papers</b>	Various Accounting Records

# **ANNEX 1**

## **SERVICE PLAN & BUDGET REPORT**

### **2023 - 2026**

**MARCH 2023**

**PREPARED BY:** Nick Dixon, Liz Woodyard, Geoff Cleak, Dave Richards

<b>1. Management Summary</b>	<b>2</b>
<b>2. Background</b>	<b>3</b>
<b>3. Key Objectives 2023-26</b>	<b>5</b>
<b>4. Budget &amp; Cashflow Forecast 2023-26</b>	<b>7</b>

#### **APPENDICES**

<b>APPENDIX 1</b>	<b>SCOPE OF THE AVON PENSION FUND</b>
<b>APPENDIX 2</b>	<b>PROGRESS OF THE 2023-26 PLAN</b>
<b>APPENDIX 3</b>	<b>BUDGET &amp; CASHFLOW FORECAST 2023-26</b>

## 1 MANAGEMENT SUMMARY

The Ukraine conflict and other global challenges have adversely impacted the Fund in 2022. Markets have experienced elevated volatility, with UK government bonds for example declining in value by c.30%.

Even though the Fund's portfolio declined by 11% during 2022 to £5,231m, we enter 2023 in a robust financial position with c.97% funding, as rising interest rates and hence a higher Fund discount rate reduced the present value of future liabilities. The triennial actuarial review has not required a material change in employer contributions.

The Fund has diversified into renewable infrastructure and Paris-aligned equities and is making excellent progress towards its climate change targets. The fund is reviewing its investment strategy and will implement changes during 2023-24.

Operationally the Fund has had more mixed success during 2022-23. Service performance in aggregate is below required levels, with only 5 of 19 service measures completed within target timescales. This is a result of high staff vacancy rates of c.13%, churn of leavers and joiners, regulatory change, and slow progress in digitising administration. To address these challenges, we are driving three core actions:

- *Backlogs:* we are working to reduce backlogs with an immediate focus on outstanding 'leaver' cases, ensuring that those services most critical for members are prioritised.
- *Performance insight:* we are seeking to maximise the range and quality of MI from the Altair system, to more accurately measure members' service experience and assess key bottlenecks in work flow.
- *Project portfolio:* we are framing a portfolio of change projects into a 3-year plan with aligned resource requirements. Data and digitisation run through the plan which seeks to achieve three core objectives for the Fund:
  - Meet regulatory requirements
  - Raise operating efficiency to increase our capacity
  - Improve members' service experience.

On the regulatory front, we expect to focus on three key initiatives during 2023-24:

- The McCloud judgement and Exit Cap require further work and we are still waiting for the final rules to implement solutions.
- Pensions Dashboard is gathering momentum, even though the deadline date is under review. Current work focus is on data cleansing to ensure exchanges of accurate data.
- We also expect to complete work during 2023-24 on enabling the fund to comply with final rules in respect of the Minimum Pensions Guarantee (MPG).

In terms of technology resilience, further work is being undertaken with B&NES' Financial Systems team on Cyber security as the threat levels across the public sector increase.

## 2 BACKGROUND

### Administration

Since Covid, the Fund has adopted a hybrid model of office and home working. Staff returned to Keynsham Civic Centre in September 2022 in space which accommodates 60% of APF employees, with a mandate that all full-time staff be in the office at least 2 days per week.

The Fund is experiencing a high staff vacancy rate of c.13%. This is causing capacity strains which lead into issues with member service levels and delays in planned developments, e.g. digital transformation. While there has been material improvement in service levels during 2022, with a significant rise in total cases processed, performance in aggregate is below required levels, with only 5 of 19 service measures completed within target timescales.

The Fund sought external support in 2022-23 to help with statutory projects, e.g. delivering the Annual Allowance and Pension Saving Statements, and project management for the McCloud Remedy. Support in these areas will remain ongoing in 2023-24.

The Fund has appointed Legal & General as its AVC provider and successfully transferred members from Aviva and Utmost Life. We still expect to transfer administration of the Avon Fire & Rescue pension scheme to an alternative supplier before 31 March 2024.

Ongoing challenges of rising employer numbers and regulatory change complexity are likely to continue, with impacts on workload. Operating circumstances have been challenging over the past three years during which many improvement projects have not met delivery times.

### Investments & Funding

Significant work has been undertaken to complete the 2022 triennial valuation and prepare for the strategic investment review, both of which complete in March 2023. These major strategic projects have been undertaken at a time of significant economic change with higher bond yields and inflation having a material financial impact.

Despite rising inflation which has raised future pension payments, the funding position has improved to 97% on the back of higher interest rates. The Fund is benefiting from some materially positive drivers:

- Higher bond yields have enabled some employers nearing exit to switch to the Low Risk Funding Strategy, which is reducing the Fund's aggregate risk profile.
- Higher inflation and interest rates have enabled the Fund to lock in inflation and interest rate hedging at attractive levels, thus raising the proportion of better matched liabilities.

During the year we worked with Blackrock to refine our liquidity management strategy, with tighter alignment to net zero commitments. As a responsible investor the Fund disclosed its climate related activities through Task Force on Climate-Related Financial Disclosures and the FRC's Stewardship Code. In addition, we are engaging stakeholders around how, as an investor, we promote positive change and demonstrate leadership in responsible investment.

## **Addressing the Climate Emergency**

The Fund's strategy to reduce carbon emissions encompasses all aspects of its activities. Being administered by B&NES Council, the Fund is committed to achieving the Council's goal of being net zero by 2030 in respect of its own operations. It will achieve this by digitising service for members and employers (with manual options for those not electronically enabled). In addition, use of technology to enable remote working and online learning lowers carbon emissions by reducing travel.

Responsible investing is embedded in the investment process, starting with investment objectives and climate goals. These objectives are kept under regular review as development of government policies and technology enables milestones to be brought forward over the next 5-10 years.

## **Governance**

The national Scheme Advisory Board's Good Governance review sets out recommendations to improve the governance of LGPS. The statutory guidance necessary for the recommendations to take formal effect is expected to be published shortly.

The Fund reviewed its arrangements vs the Good Governance recommendations and in 2022 implemented a Conflicts of Interest Policy, Representation Policy and Training Policy. The Fund has also adopted the Hymans Learning Academy to supplement knowledge and training for Committee and Board members as well as officers. An additional requirement to have a workforce plan in place will be added to the governance plan for 2023.

The Fund continues to meet its responsibilities under data protection legislation, regularly monitoring and updating as requirements change. Staff training continues on a regular basis for new and existing staff in line with B&NES' policy.

## **Regulatory Update**

Projects for McCloud and the Pensions Dashboard implementation are in place and resourced. For McCloud, data collection is near completion and technical guidance is still awaited from DLUHC on the remedy (benefit calculations). For the Pensions Dashboard, new regulations came into force on 12 December 2022, though the staging date of 30 September 2024 and data readiness by 1 April 2025 are now under review,

Other regulatory updates from relevant bodies are still to be finalised. These include further reforms on public sector exit payments, SCAPE discount rates, and the in-service revaluation date for active CARE members.

We regularly review guidance and bulletins from the LGA. There are regular discussions with APF management to discuss changes to legislation to ensure required changes are made. This includes reviewing and updating systems, processes and member documentation to ensure calculations and documents are technically correct.

There are ongoing 'business as usual' projects which are regulatory, e.g. members' annual benefit statements, statements for the annual allowance. Planning and delivery of these projects is managed by the Quality Assurance Team and ensures all service areas act on their tasks within given timescales to meet regulatory deadlines.



### 3 KEY OBJECTIVES – 2023-26

#### Administration Strategy

The resource challenge – with c.13% vacancy rate – is the most urgent issue facing the Fund, as it adversely impacts member service levels and our ability to improve and digitise the Fund. There are no simple solutions and addressing these challenges requires a blend of actions which, in combination, can improve staff retention and raise capacity.

At its heart is a strategic change programme of projects to meet regulatory needs, raise operational efficiency, and improve member experience. To be implemented over 2023-26, this will raise our capacity and enable us to serve members and employers more effectively over time. The plan is being developed and will be shared in detail with the Committee in June 2023. At a high level it is designed to meet a few core objectives:

1. *Regulations:* meet required regulatory commitments
  - We will assess the McCloud judgement and implement required remedies.
  - We will undertake necessary work to ensure the Fund meets regulatory compliance with DWP Pensions Dashboard ahead of the expected compulsion date.
  - We will also complete the final phase of the GMP data reconciliation exercise as required by HMRC to ensure the fund is not at risk of erroneous pension liabilities.
  - The Fund will comply with other regulatory changes as required.
  
2. *People:* drive improvements in resourcing and engagement
  - We will implement a new organisational structure. This includes a digital service team, a Change function leading improvement projects, and a team focused on data management.
  - Pay scales: retention and recruitment is impacted by salary scales currently less than many LGPSs and the private sector. Hence we are reviewing pay scales for the APF with independent advice from Aon. We will recommend a proposal to B&NES Finance and HR leadership during April 2023, to be implemented as soon as practical.
  - APF leadership is also focused on training, development, and communication, to improve staff engagement and strengthen their sense of connection with the APF.
  
3. *Service* raise efficiency to create capacity and improve member experience
  - We will continue the move towards digital communications for all stakeholders, reflected in a revised communications strategy.
  - We will complete rollout of I-Connect and the receipt of monthly member data returns.
  - The Fund will undertake website upgrades to support improved experience for members and employers.
  - The Fund will manage transfer of the Firefighters' Pension Scheme administration to an alternative provider, in partnership with the Avon Fire Authority.
  
4. *Insight* raise the quality of MI to inform operational improvements
  - The Fund will maximise the range and quality of MI from the Altair system.
  - This will enable us to more accurately measure members' service experience and assess key bottlenecks in work flow, to drive operational improvements.

## Governance

The essence of good governance is a robust process for decision making, with proportional checks and controls. During 2023-26 the Fund will continue to:

- Robustly identify and mitigate material risks.
- Ensure that the Pensions Committee operates effectively in making key decisions, with all members properly trained and briefed on relevant pension matters.
- Enable the Board to continue providing well informed independent scrutiny of the Fund.

We will also undertake the following work and projects:

- The Fund will review and implement additional requirements from the Strategic Advisory Board's Good Governance Review and TPR's Single/General Code of Practice.
- We will re-tender service contracts, including a new 3-year investment consultancy contract which will be agreed in 2023.
- We will review Committee reports and transition them to the Modern Gov library.

A report on objectives, targets & progress towards objectives and those rebased and temporarily put on hold is given in Appendix 2.

Local elections in May are likely to result in some changes to composition of the Pensions Committee. There will be a focus on induction training for new members to ensure they have sufficient knowledge and understanding to fulfil their roles. There are also likely to be changes to the Pension Board as a couple of members' terms are due to end in 2023. A process will be initiated to recruit new members.

## Funding Strategy

The focus during 2023-26 will be on managing employer admissions and exits as well as annual covenant work. In 2022 a number of smaller bodies exited the Fund or moved to the Lower Risk Funding Strategy to reduce investment risk. Work will continue to ensure scheme exits are viable for smaller employers without affecting solvency of the Fund.

Covenant assessment is an important tool to identify employers which may face funding issues, so that we can work with them to manage pension costs and minimise financial risks.

The Fund already has captive group-wide insurance for Ill-health retirement given that this can result in significantly liabilities. The main new project in 2023 is to explore similar group-wide captive insurance options for Death in Service, at minimal extra cost to employers. Officers will come back to the Committee with a proposal for their approval later in 2023.

## Investment Strategy

The focus for 2023 will be implementing changes from the Strategic Investment Review, to be discussed separately for approval in the Committee meeting of 17 March 2023. This includes potential changes in the Fund's risk/return profile and asset allocation.

Three other key investment changes will be tabled for Committee approval later in 2023:

- *Risk management:* we are undertaking an in-depth review of 'liability driven investments' (LDI) and related hedging, with a view to bringing a proposal to Committee no later than September 2023.

- *Climate:* fresh climate goals will be presented to Committee for approval in September 2023, using latest climate analyses. The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC) and our approach to managing climate risk utilises the IIGCC's net zero framework. This approach is supported by Brunel.
- *Local Investment:* officers will bring a proposal for approval to Committee during 2023, setting out how the Fund could invest up to c.3% of its assets in local initiatives. The proposal will include a definition of what 'local' means, and a structure in which the Committee sets objectives and a mandate, executed by an independent asset manager to ensure that potential conflicts are managed and technical investment expertise is embedded in the process. It will reflect the latest DLUHC guidance on Levelling Up.

### Communications Strategy

The Avon Pension Fund has several objectives in 2023 from a communications perspective.

- *Regulatory:* the first and most important objective is to support the administration strategy in meeting regulatory commitments, e.g. timely production of the Annual Benefit Statements, publishing documents like the Responsible Investment Report.
- *Stakeholder engagement:* the Fund needs to clearly communicate with key stakeholder groups, e.g. councillors, scheme members, trades unions, etc. on investments and climate change. This will encourage broad feedback and input to influence the Committee's decisions on revised climate targets in September 2023. We also need to communicate with employers and members on how Pension Dashboards and the McCloud remedy will impact them.
- *Digital adoption:* a critical objective is to maximise members' adoption of 'my pension online' which will support improved service levels and higher operational capacity. Required work includes more pro-active member communication, streamlined member onboarding with 'activation keys' for online set up, and new websites with fresh content and functionality. The Fund is also changing its brand logo for simpler digital deployment.

## 4 BUDGET & CASHFLOW FORECAST 2023-26

The budget includes Administration and Investments. The 2023-24 £31.9m total is £2.1m (10%) below the £27.6m budget of 2022-23.

<i>£ millions</i>	2022-23	2023-24	Change
Administration & Governance	5.9	7.0	+ 1.1
Investments	28.1	24.9	-3.2
Total	34.0	31.9	-2.1

### Administration & Governance Costs

The administration budget of £7.0m for 2023-24 is £1.1m higher than 2022-23. The difference comprises 5 core categories of change:

- £0.3m: new posts required to improve service, control and meet regulatory obligations, e.g. Head of Pensions, Web Development Manager, McCloud Pensions Officer.
- £0.2m: expected 4% pay rise in 2023-24, flat rate pay awards, and other costs.

- £0.4m: contingency for salary reviews required to address the c.13% vacancy rate,
- £0.1m: website developments and higher Altair costs for membership above 150,000.
- £0.1m: support for McCloud remedy and technical & compliance.

The Governance component increases in 2023-24 driven by wider use of online training, Good Governance projects, and more employer-specific changes requiring external advice.

The Fund is required to meet costs of the Pensions Board. Estimated full year costs for 2023-24 to 2025-26 have been included in the 3-year budget.

### **Investment Costs**

2023-24 investment fees of £24.9m are £3.2m (11%) lower than the £28.1m of 2022-23. The difference is driven by: asset values lower than 2022-23 budget, raising the proportion of passive equities from 39% to 50%, and changes in portfolio allocations,

Investment costs above include fees from Brunel which manages £4.5 billion (85%) of Avon assets<sup>1</sup>. Estimated fees for 2023-24 assume current mandates are retained though actual fees will depend on asset values and performance. Avon's estimated share of Brunel costs is c.13% or £1.6m pa (3 bps). The 6% increase over current year budget is largely driven by inflation and higher pension costs.

### **Cashflow**

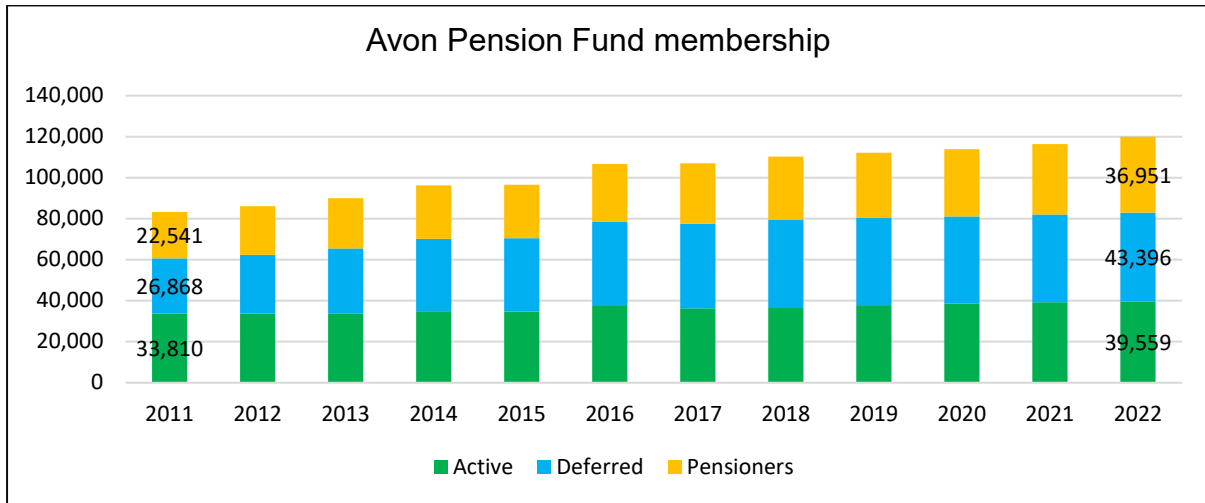
As Fund membership matures, monitoring cash flow trends becomes increasingly critical. The Fund is now passing through an inflection point from being cash flow positive (more cash from contributions than paid in benefits) to cash flow negative. Cash flow is monitored monthly and reported quarterly to Committee.

Owing to advance future service payments from major employers in April 2023 and some employers paying 3 years' deficit in advance, the Fund will enjoy high cash in-flows at the start of the financial year, followed by greater negative monthly cash flows mitigated by using investment income and divestments.

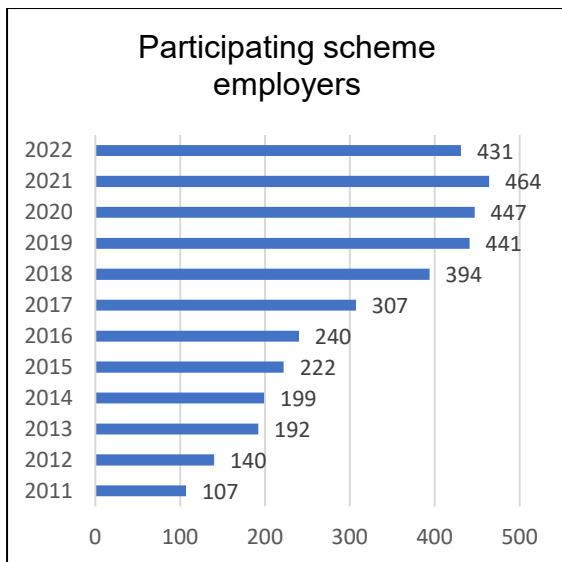
Full details of the budget between 2023-24 and 2025-26 together with a cash flow forecast for the payment of benefits and the receipt of contributions are in Appendix 3.

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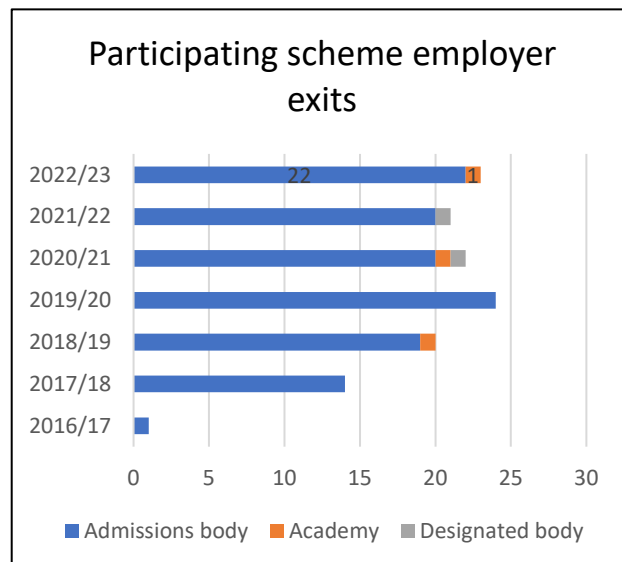
<sup>1</sup> 31 December 2022



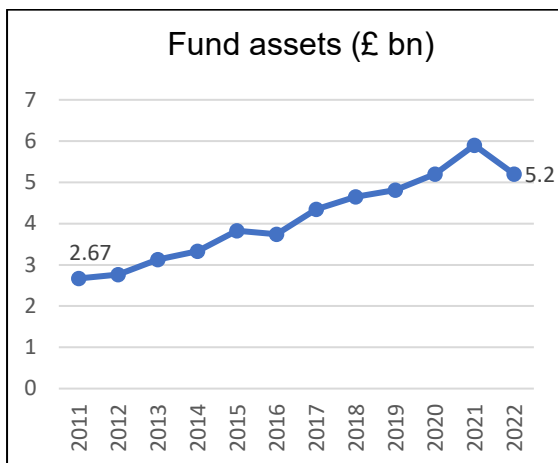
(Data: 31 March 2022)



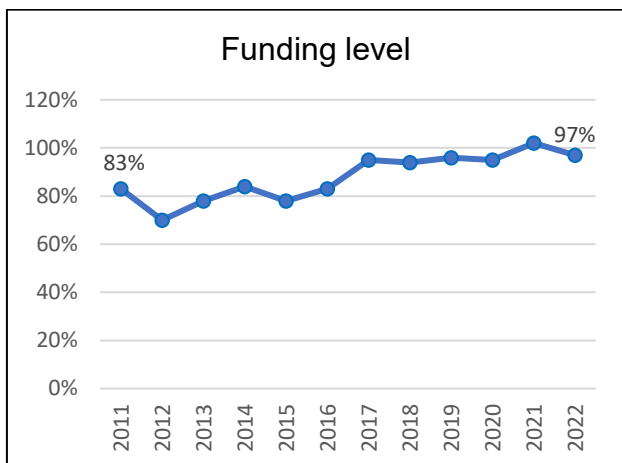
(Data: 31 March 2022)



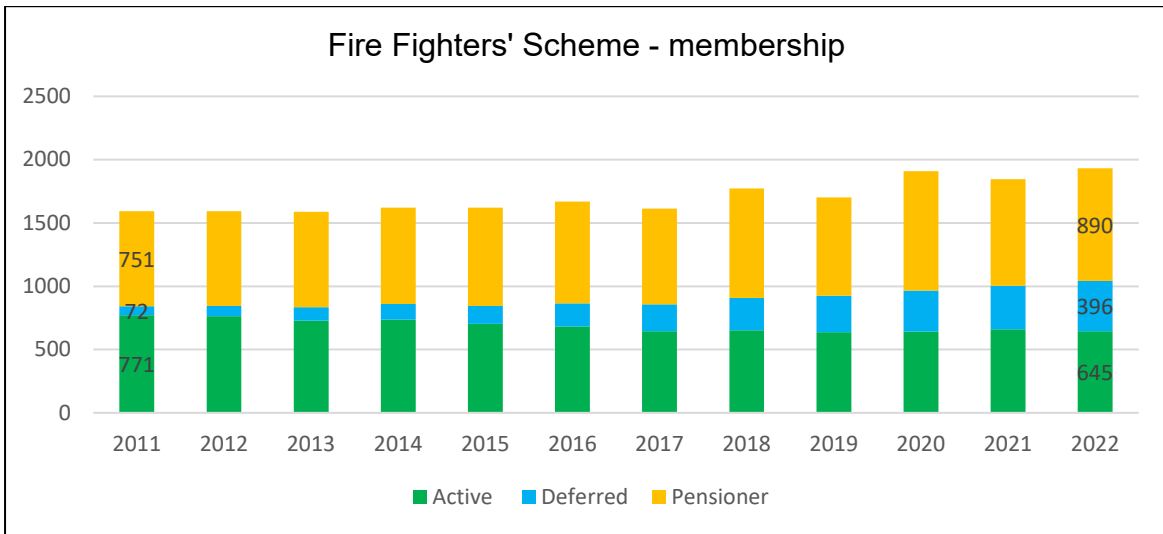
(Data: 6 March 2023)



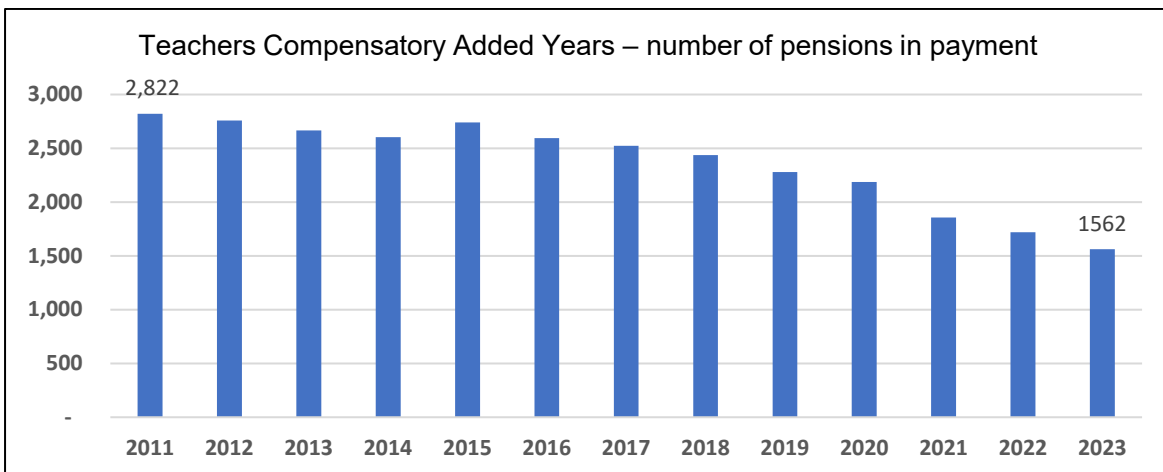
(Data: December 2022)



(Data: December 2022)



(Data: 6 March 2023)



(Data: 6 March 2023)

<b>Appendix 2A - Service Plan Monitoring 2023</b>		
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Key Objectives	Tasks	Completion Date	Status
<b>Administration</b>			
<b>IT Development</b>			
Progress full employer electronic data delivery	Completion of i-connect project - 100% employers using IC		In progress
Heywood Insights - Perf Reporting & Dashboard	Implementation & roll out		In progress
<b>Other Projects</b>			
McCloud Data Collection	Data collection exercise LGPS and FPS		In progress
McCloud Remedy	Implementation of remedy - LGPS		In planning
1* McCloud Sargeant (Fire Schemes)	Implementation of remedy - Fire		In progress
2* McCloud Sargeant (Fire Schemes)	Implementation of MOU & ID Framework Agreement		On hold
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases		In progress
DWP Pensions Dashboard	To enable Pension Dashboard Compliance		In progress
Fire Exit	Exit of FPS Admin and Payroll from APF		In planning
SCAVC/AVC Wise	review scope and implementation of SCAVCs for employers		In planning
Fire/Matthews cases	retained FF's service pre 2000 recognised as pensionable		On hold
<b>Implement new operating model</b>	Agree structure and review job descriptions		In progress
	Review of pay structure with Aon advice		In progress
	Candidate and experience recruitment project		In planning
	Consultation, recruitment & implementation		In progress
<b>Digital Transformation</b>	Set up temporary Digital Services Team & workflow review		In progress
	Automation of Data/Leaver processes		In planning
	Automation of starter process		In planning
	Member Website -Develop website inline with digital services objectives		In progress
	Employer WebsiteDevelop an improved employer online experience- linking directly to relevant SLA and employer responsibilities		In progress
	Implement Digital Office		In planning
	MPOL Systems Development		In progress
	Interim Leaver Process pre Digital team		In progress
<b>New Administration Strategy</b>	Develop new strategy document & committee approval		In planning
	Consultation & implementation		In planning

The service plan portfolio is currently under review and revised completion dates will be advised at the June Committee Meeting

<b>Funding Strategy</b>			
Death in Service Insurance	Implement captive arrangement; include in FSS after consulting employers		<b>In planning</b>
<b>Governance</b>			
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-23	<b>In planning</b>
	Review Governance Compliance statement	Jun-23	<b>In planning</b>
	Review register of interest forms	Jun-23	<b>In planning</b>
	Review scheme of delegation	Jun-23	<b>In planning</b>
	Review Conflicts of Interest Policy	Jun-23	<b>In planning</b>
	Review Training Strategy Policy	Jun-23	<b>In planning</b>
	Review Policy on Committee Representation	Jun-23	<b>In planning</b>
	Review Decision Making Matrix	Jun-23	<b>In planning</b>
Good Governance Review	Review any new requirements from Good Governance review once published eg - Workforce Plan	TBA	<b>In planning</b>
TPR SCOP requirements	Gap analysis & action plan for new requirements	TBA	<b>In planning</b>
	Review disaster recovery / business continuity plan	TBA	<b>In progress</b>
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	<b>In progress</b>
Annual governance review for Pension Board	Review all items on governance checklist	Jun-23	<b>In planning</b>
Appointment of new Committee & Pension Board Members	Liaise with Democratic Services and stakeholders to appoint new members or re-appoint members to the Committee	Sep-23	<b>In planning</b>
	Recruitment process for new Pension Board members	Dec-23	<b>In planning</b>
Training Plan for Committee & Board members	Plan annual training programme for members	Mar-23	<b>In progress</b>
	Induction Training for new PC/PB members	Dec-23	<b>In planning</b>
Review of Committee Reports	Continue to review report content & Modern Gov Library	TBA	<b>In progress behind schedule</b>
Contract Retenders	Investment Advisor Contract	Sep-23	<b>In progress</b>



<b>Finance</b>			
iConnect Project to improve process for reconciliation of contributions	Set up new reconciliation process	TBA	<b>In progress</b>
	Plan requirements of moving more employers to simplified LGPS50 form dependent on iconnect project; 2023 project	Dec-23	<b>In planning</b>
Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	May-23	<b>In progress</b>

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**Appendix 2B - Service Plan Projects completed in 2022**

**Key Objectives**

**Tasks**

**Administration Strategy**

Progress software developments with Heywood	Review processes to use portal and roll out to ER's inc training	<b>Complete</b>
	Hand back loading of files to ER's with tolerance limits	<b>Complete</b>
Revise Fire Service model	SLA to be approved by AFA & APF	<b>Complete</b>
<b>Communication</b>		<b>Complete</b>
Member digital engagement	Activate online ABS availability - Active members - PDF copies of the Annual pension (benefit) statements are now available to download from our online portal for Active members. Deferred members first had this facility in 2021.	<b>Complete</b>
Collateral Plan	Develop plan in event need to access assets outside QIF to support hedging strategies	<b>Complete</b>
Climate Change disclosures & monitoring	TCFD: Report in line with TCFD recommendations for 2021/22 year end reports	<b>Complete</b>
	ACT analysis	<b>Complete</b>
FRC Stewardship Code	annual FRC compliance statement	<b>Complete</b>
Monitoring of Brunel portfolios	Input as member of Brunel Client Group - agree responsibilities within team	<b>Complete</b>
Brunel 2022 Stocktake	To review & revise Brunel's Climate Policy. Fund officers and PC members will be involved /consulted. Outcome/new policy due 1Q23.	<b>Complete</b>
		<b>Complete</b>
<b>Funding Strategy</b>		<b>Complete</b>
Prepare FSS	Update policies for changes in regulations	<b>Complete</b>
Recruitment	Review resource requirements of Team	<b>Complete</b>
		<b>Complete</b>
<b>Finance Strategy</b>		<b>Complete</b>
Salary budgeting	Develop process for better monitoring of salary budget/vacancies	<b>Complete</b>
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	<b>Complete</b>
	New office accommodation	<b>Complete</b>
<b>Governance</b>		<b>Complete</b>
Action Plan from Good Governance Review	Conflicts of Interest Policy	<b>Complete</b>
	Training Strategy Policy	<b>Complete</b>
	Policy on Committee Representation - add to GCS	<b>Complete</b>
	Decision Making Matrix	<b>Complete</b>
	Add requirements of LGPS senior officer to TOR	<b>Complete</b>
Review of risk register	Annual Review format, content & process	<b>Complete</b>
Contract Retenders	New AVC contract with L&G	<b>Complete</b>

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## Budget and Cash Flow Forecast

## APPENDIX 4

<u>Three Year Budget</u>	<b>Budget for 2022/23</b>	<b>Forecast 2022/23</b>	<b>Budget 2023/24</b>	<b>Budget 2024/25</b>	<b>Budget 2025/26</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Administration Costs	199,013	180,627	282,475	299,546	329,500
Communication Costs	171,200	86,800	247,400	272,140	295,368
Payroll Communication Costs	158,752	174,323	156,565	172,221	189,443
Information Systems	482,513	408,684	492,920	542,212	596,433
Salaries	2,294,273	2,231,774	3,328,820	3,223,751	3,546,126
Central Allocated Costs - Administratic	511,878	511,878	478,884	526,772	579,449
Miscellaneous Recoveries/Income	(402,067)	(402,067)	(419,785)	(461,763)	(507,940)
<b>Total Administration</b>	<b>3,415,562</b>	<b>3,192,019</b>	<b>4,567,278</b>	<b>4,574,878</b>	<b>5,028,380</b>
Investment Governance Costs	510,950	494,436	480,770	528,847	581,732
Committee Governance & Projects	152,300	117,726	157,012	172,713	189,985
Actuarial & Compliance costs	1,125,917	1,127,498	1,045,830	1,150,413	1,265,454
Salaries	875,376	757,089	977,538	1,075,292	1,182,821
Compliance Costs recharged	(246,100)	(246,100)	(273,442)	(300,786)	(330,865)
<b>Governance &amp; Compliance</b>	<b>2,418,443</b>	<b>2,250,649</b>	<b>2,387,708</b>	<b>2,626,479</b>	<b>2,889,127</b>
<b>Pensions Board</b>	<b>20,000</b>	<b>8,350</b>	<b>23,102</b>	<b>25,412</b>	<b>27,953</b>
Global Custodian Fees	44,000	49,691	46,200	50,820	55,902
Brunel Management Fees	1,450,000	1,505,225	1,576,000	1,733,600	1,906,960
<u>Investment Manager Fees</u>					
Annual Management Fees	21,714,800	18,103,372	17,890,628	18,964,066	20,101,910
Performance Related Fees	4,960,000	7,032,831	5,359,977	5,681,576	6,022,470
<b>Investment Fees</b>	<b>28,168,800</b>	<b>26,691,119</b>	<b>24,872,805</b>	<b>26,430,061</b>	<b>28,087,242</b>
<b>TOTAL COST TO FUND</b>	<b>34,022,805</b>	<b>32,142,137</b>	<b>31,850,893</b>	<b>33,656,831</b>	<b>36,032,702</b>

0

<u>Cash Flow Forecast</u>		<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
(Excluding Administration and Investment costs)		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Benefits Outflows</b>				
Benefits	Pensions	(190,672)	(204,782)	(206,011)
	Lump sums	(28,619)	(30,737)	(30,921)
<b>Total Benefits Outflows</b>		<b>(219,291)</b>	<b>(235,519)</b>	<b>(236,932)</b>
<b>Inflows</b>				
Deficit recovery		4,673	4,893	5,123
Deficit recovery - paid in advance		28,207	10,288	10,762
Future service Contributions		136,597	144,542	153,551
Future service Contributions - paid in advance		58,980	58,980	58,980
<b>Total Contributions</b>		<b>228,457</b>	<b>218,703</b>	<b>228,416</b>
<b>Net Cash Flow (excluding Administration &amp; Investment costs)</b>		<b>9,166</b>	<b>(16,816)</b>	<b>(8,516)</b>
Divestments & Investment income received as cash		2,200	29,000	20,800
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(11,304)	(12,140)	(12,213)
<b>Net Cash Flow (Out-Flow)</b>		<b>62</b>	<b>44</b>	<b>71</b>
<b>Notes</b>				
- Net cash requirements will be met from divestments and cash balances				
- Transfers in and out are assumed to net to zero				
- The cash outflow due to administration includes Investment Management Fees that are invoiced to the Fund.				
- The forecast for 2023/24 includes employers who have indicated they wish to pay their deficit three years in advance.				

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>17 March 2023</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>ACTUARIAL VALUATION 2022 &amp; UPDATED FUNDING STRATEGY STATEMENT</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report:		
Appendix 1 – 2022 Funding Strategy Statement		

## **1 THE ISSUE**

- 1.1 The Local Government Pension Scheme (LGPS) Regulations require LGPS funds to have an actuarial valuation every three years. The 2022 valuation has a base date of 31 March 2022 with new employer contribution requirements becoming effective from 1 April 2023.
- 1.2 In calculating the contribution rates and deficit recovery payments for the period from 1 April 2023, the Actuary has taken the Funding Strategy Statement (FSS) into account.
- 1.3 The Actuary will finalise the actuarial valuation report before 31 March 2023 which will be circulated to all employing bodies. In the meantime, the employing bodies have been notified of their revised contribution requirements for the period 1 April 2023 to 31 March 2026.
- 1.4 This report examines the outcome of the valuation process for the whole fund and highlights the principal changes which have occurred since the 2019 valuation.
- 1.5 The latest version of the Funding Strategy Statement is included for information only.

## **2 RECOMMENDATION**

**The Committee notes:**

- 2.1 Notes the outcome of the 2022 actuarial valuation exercise.**
- 2.2 Delegates the finalisation of the Funding Strategy Statement to Officers.**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The actuarial valuation assesses the funding position of the Fund as a whole, for the individual employers and sets the contribution rates due from all employers for the 3 years commencing 1 April 2023. The costs for completing the valuation are provided for in the 2022/23 budget.

### **4 Background and valuation approach**

- 4.1 The long-term funding objective is to achieve a 100% solvency over a reasonable length of time, and then maintain that position. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if the 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.

As market conditions change between valuations, the assumptions may need to change at subsequent valuations in order to meet this objective; hence contribution rates will vary from one valuation to the next.

The Fund's approach is that the assumptions used will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at every valuation.

- 4.2 Alongside this overarching objective, employer contributions are set to achieve long-term cost efficiency, meaning the funding plan must provide equity between different generations of taxpayers. Therefore contributions must not be set at a level that is likely to give rise to additional costs to future taxpayers or that put too high a burden on current taxpayers. Given the difficult economic and public sector funding environment at the time of the 2022 valuation, significant consideration was given to both the solvency and long-term cost efficiency objectives.
- 4.3 Finally, the 2022 valuation sought to maintain stable employer contributions where possible, and the FSS, which was approved by the Committee in September 2022, set out the parameters as to how these aims would be met.
- 4.4 By utilising the flexibility allowed within the FSS, the 2022 funding plans balance affordability for individual employers and solvency of the Fund. The main pressure on contributions is the impact on the discount rate due to lower long-term return expectations. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the "real" investment return expected on the Fund assets).
- 4.5 The current rise in inflation, and the uncertainty of how persistent this period of higher inflation may be, has led to a reduction in the expected level of real returns over CPI so that a lower discount rate is needed to deliver the same level of prudence in the funding strategy. However, given that investment returns have been higher than was expected in the 2019 valuation, asset values have increased materially, and so the funding level has improved and deficit reduced when allowing for the lower discount rate. Likewise the real return for the future service discount rate has been reduced leading to higher contribution rates (all other things being equal).
- 4.6 Individual employer results will vary significantly due to other factors such as changes in the membership profile and salary growth (versus assumptions).



4.7 The actuary has applied the flexibility within the FSS to accommodate, as far as possible, the budgetary pressures facing all scheme employers while not compromising the long-term solvency of the Fund. In particular, an allowance for short term pay increases of 3%, 4% (versus 4.6% p.a. for long term pay increases).

## 5 ACTUARIAL VALUATION 2022 OUTCOME

5.1 The current valuation has been taken at 31 March 2022 and a summary of the valuation is in the table below.

5.2 The FSS provides a flexible framework to take account of affordability when setting contribution rates and deficit recovery payments as follows:

- a) Phased in increases in deficit recovery payment increases over 3 years
- b) Phased in increases in future service rates over a maximum of 3 years
- c) Option to pay contributions in advance to benefit from a monetary discount.

### Initial Fund Outcome:

	2019	2022
Deficit	£284m	£198m
Funding Level	94%	97%
Value of assets	£4,818m	£5,822m
Value of Liabilities	£5,102m	£6,020m *
Average employee contribution rate	6.4% of pay	6.4% of pay
Average future service rate (employer) **	17.1% of pay	18.5% of pay
Past service recovery period (years)	13	12

#### Notes:

\* includes lower risk strategy results for employers within that strategy at the valuation date

\*\* this is the average ongoing open future service rate for transparency

5.3 The average deficit recovery for the Fund has reduced from 13 years in 2019 to 12 years in 2022 which is line with the medium-term target. The main drivers of the valuation outcome are:

- a. The investment return over the 3 years to 31 March 2022 was approximately 6.5% p.a. compared to an expected return in 2019 of 4.15% p.a. This served to reduce the deficit by c. £384m.
- b. The discount rate used to value the past service a liability is based on the expected return on the assets relative to CPI. At 31 March 2019 the equivalent annual discount rate relative to CPI was CPI +1.75% p.a. This was reduced to CPI +1.50% in 2022.
- c. The fall in return expectations has also affected the FSR. The Actuary uses a “smoothed” discount rate to value future accruals, in order to keep the FSR as stable as possible in line with the Regulations. The 2019 discount rate of CPI +2.25% was reduced to reflect the challenging economic outlook at 31 March 2022, in particular headwinds from inflation and therefore pressure on the real

return outlook and increased risk of stagflation in the near term. Therefore the discount rate for future service was reduced by 0.25% p.a. to CPI + 2.00% p.a. The average FSR across all employers in the Fund increased by 1.6% of pay p.a. as a result of this change to the assumptions; however the impact at the individual employer level varies depending on the profile of their active members and their funding strategy.

- d. At each valuation the actuary uses an analysis of the life expectancy experienced by the Fund and other LGPS funds alongside improvement trend models from the Continuous Mortality Investigation (CMI) to assess the adequacy of the longevity assumptions.

The longevity assumption is made up of two elements, the current life expectancy (or baseline assumption) and an assumption of future improvement / deterioration around the baseline assumption. The Actuary has altered the baseline assumption for the 2022 valuation reflecting the updated membership information to include the Fund's experience since 2019. For the long-term life expectancy improvement assumption, the latest 2021 CMI tables have been used which show a slowing in the rate of improvement evidenced by mortality data. As a result the higher mortality has reduced liabilities overall.

- e. Whilst the final McCloud remedy regulations are awaited, in line with guidance issued by DLUHC, the Actuary has included an allowance for the cost of the McCloud remedy within the valuation balance sheet. At the whole Fund level the impact has been an increase in liabilities of c1.1% although the impact for individual employers has varied depending on the available data and the membership profile. There is no impact on the FSR as the extension to the final salary underpin to CARE benefits (the McCloud remedy) ceased in respect of benefits earned from 1 April 2022.
- f. Overall the changes in the financial and demographic assumptions have increased the average FSR by 1.3% of pay p.a. The impact of the change in membership profile (and other factors) is an increase of 0.1%, giving an overall average increase in the FSR of 1.4% of pensionable pay.

5.5 The changes are summarised in the following tables:

#### **Changes to past service position since 2019 valuation**

	£m
<b>Deficit at 31 March 2019</b>	<b>-284</b>
Interest on deficit	-37
Investment returns versus assumptions	+384
Contributions paid versus benefits accruing	+6
Salary gain/loss (i.e. salary increases less/more than assumption)	-53
CPI pension increases vs 2019 assumption	+85
Change in discount rate	-260
Change in demographic assumptions	+98
McCloud / GMP indexation	-89
Approximate allowance for April 2023 pension increase	-121

Allowance for 4% short term pay for 3 years from April 2023	+61
Member movement and other factors	+12
<b>Deficit at 31 March 2022</b>	<b>-198</b>

#### **Changes to future service rate**

<b>Average Employer Rate at 31 March 2019</b>	<b>17.1% of pay</b>
Change in membership profile	+0.1% of pay
Change in Discount rate	+1.6% of pay
Change in demographic assumptions	-0.3% of pay
<b>Average Employer Rate at 31 March 2022</b>	<b>18.5% of pay</b>

## **6 COMMUNICATION WITH EMPLOYING BODIES**

6.1 The 2022 actuarial report will be published by 31 March 2023. In the meantime, the employing bodies have been notified of their revised rates and officers are responding to queries from employers.

## **7 FUNDING STRATEGY STATEMENT (FSS)**

7.1 The 2022 FSS was approved by Committee in September 2022, and finalisation of the FSS was delegated to Fund Officers, with assistance of Fund Actuary.

7.2 The version in Appendix 1 has been updated for the actuarial and financial assumptions/data and the section on Climate Change. There may be further minor amendments once the Actuarial Valuation Report is completed.

## **8 RISK MANAGEMENT**

8.1 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 and is incorporated in the contribution plans.

## **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 and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9.2 In terms of the current valuation, an analysis of different climate change scenarios at the Whole Fund level has been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under three climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise. The analysis considers a

projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change. Further detail is set out in the FSS appended to this report (pages 10 and 11), and a summary of the results of the analysis will be included in the Actuary's valuation report.

**10 OTHER OPTIONS CONSIDERED**

10.1 Report for information only.

**11 CONSULTATION**

11.1 The Council's Monitoring Officer and Section 151 Officer have reviewed this paper for publication.

<b>Contact person</b>	Julia Grace, Pensions Valuation Advisor 01225 395392
<b>Background papers</b>	Actuary reports and presentations; 2022 FSS
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# FUNDING STRATEGY STATEMENT

## AVON PENSION FUND

MARCH 2023

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:
<ul style="list-style-type: none"> <li>• manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due</li> <li>• 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</li> <li>• maximise the returns from investments within reasonable risk parameters taking into account the above aims.</li> </ul>	<ul style="list-style-type: none"> <li>• receive monies in respect of contributions, transfer values and investment income, and</li> <li>• pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.</li> </ul>

### 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:
<ul style="list-style-type: none"> <li>• operate the pension fund</li> <li>• collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations</li> <li>• pay from the pension fund the relevant entitlements as stipulated in the Regulations</li> <li>• invest surplus monies in accordance the Regulations</li> <li>• ensure that cash is available to meet liabilities as and when they fall due</li> <li>• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default</li> <li>• manage the valuation process in consultation with the Fund’s actuary</li> <li>• prepare and maintain a FSS and an Investment Strategy Statement (“ISS), both after proper consultation with interested parties</li> <li>• monitor all aspects of the Fund’s performance and funding, amending the FSS/ISS as necessary</li> <li>• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer</li> <li>• 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)</li> <li>• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework</li> <li>• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain</li> <li>• have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context</li> <li>• 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.</li> <li>• understand the pensions impacts of any changes to their organisational structure and service delivery model.</li> <li>• 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.</li> <li>• 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).</li> </ul>

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• provide advice and valuations on the termination of admission agreements</li> <li>• 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</li> <li>• assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations</li> <li>• advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• be aware of all guarantees that are currently in place</li> <li>• work with the Fund and the employer in the context of the guarantee</li> <li>• receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.</li> </ul>

**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.

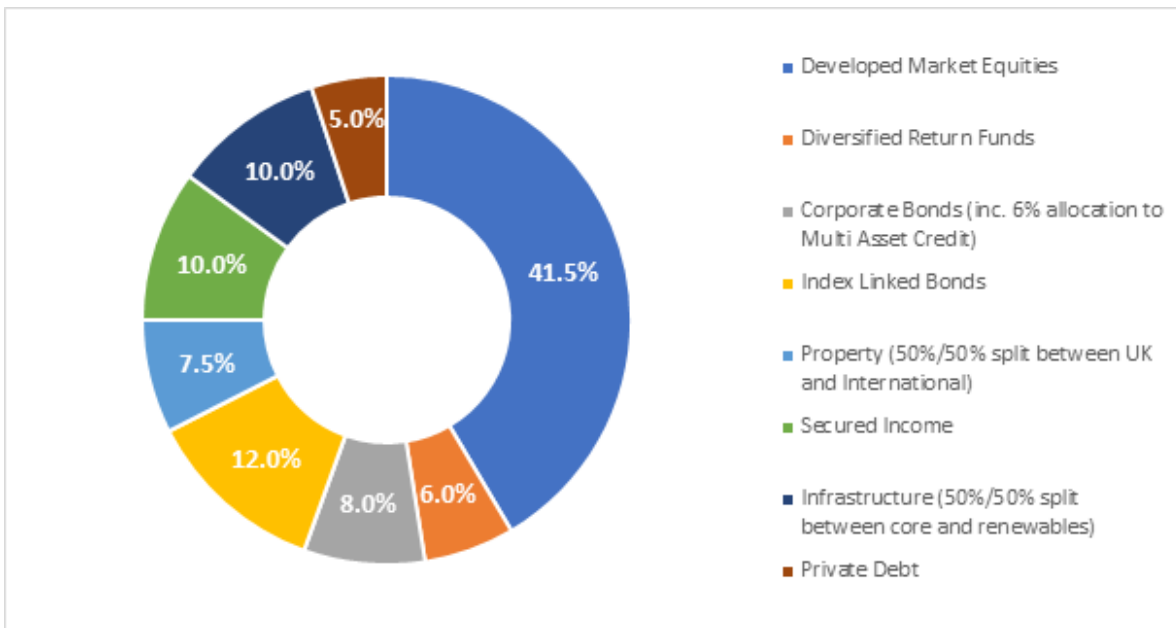
Each employer’s contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

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

The results of the 2022 valuation show the liabilities to be [97%] covered by the assets, with the funding deficit of [3%] 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).

<p><b>Equity Protection</b></p>	<p>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).</p>
<p><b>Liability Driven Investments (LDI)</b></p>	<p>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.</p>

<p><b>Lower risk investment strategy</b></p>	<p>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.</p>
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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**

An important part of the risk analysis underpinning the funding strategy will be for the Actuary 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, an analysis of different climate change scenarios at the Whole Fund level has been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under three climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change. The actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable is set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting the same (or similar) scenarios although this can be over a different time period.

The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only three out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the Fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The three climate shock scenarios considered are:

1. **Rapid Transition** - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050. In relative terms to the best estimate basis at the valuation date, this could have a slightly detrimental impact on the funding level of around 3% after 5 years as the larger transition risks manifest. However, whilst the rapid transition sees a world that has a major shock in the early years there is then a period of recovery in the following years, with reduced physical damages in the long term. Given the Fund's allocation to sustainable assets, the full impact of the initial shock is mitigated to some extent and then the Fund almost fully recovers from it, with the projection then following the baseline as the time period spans out towards 20 years and beyond.
2. **Orderly Transition** - political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. This scenario includes additional economic damage consistent with 1.8°C of average temperature rise – peaking in 2070. In relative terms this could have a marginally detrimental impact on the funding level of 1% after 5 years as the transition risks are less impactful, and 2% after 20 years. The impact after 40 years is 9% which is much greater than the Rapid Transition scenario as the higher temperature rises begin to have a greater impact.
3. **Failed Transition** - The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. In relative terms this could lead to a marginal increase in the funding level of 1% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of 15% after 20 years and 30% after 40 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so needs to be monitored over time. Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a much lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate TCFD reports.

## 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.

<b>FINANCIAL</b>	<b>DEMOGRAPHIC</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Investment markets fail to perform in line with expectations</li> <li>• Protection and risk management policies fail to perform in line with expectations</li> <li>• Market outlook moves at variance with assumptions</li> <li>• Investment Fund Managers fail to achieve performance targets over the longer term</li> <li>• Asset re-allocations in volatile markets may lock in past losses</li> <li>• Pay and price inflation significantly more than anticipated</li> <li>• Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> </ul> <p>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.</p> <p>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.</p>	<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers</li> <li>• 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.</li> </ul> <p>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.</p>

<b>GOVERNANCE</b>	<b>REGULATORY</b>
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<p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> <li>• The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated</li> <li>• 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</li> <li>• Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates</li> <li>• An employer ceasing to exist with insufficient funding or a bond which is not adequate.</li> </ul> <p>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.</p>	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,</li> <li>• Changes to national pension requirements and/or HMRC Rules</li> <li>• 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 large increase in the number of academies in the Fund due to Government policy.</li> <li>• 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</li> </ul> <p>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.</p>
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**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

[Return to Contents](#)

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 service) and 2.0% p.a. above CPI inflation (future service). 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. This assumption will be regularly reviewed and updated to allow for changes in market conditions at the relevant employing body's cessation date, along with any other structural or legislative changes.
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).

FINANCIAL ASSUMPTIONS			
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 remove the estimated impact of supply/demand distortions as well as Bank of England forecasts. 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.  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)	Higher Risk Strategy	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 appropriate CPI inflation assumption as described above. This includes allowance for promotional increases.
	Lower Risk Strategy	5.10% p.a.	
Salary increases (short-term)	Where applicable this is 3% 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).		
McCloud	A reasonable estimate for the potential cost of McCloud has been included within the 2022 valuation results for each employer. This has been calculated based on the data provided for the 2022 valuation and in line with national guidance.		

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

### 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 2021 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 2021 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
<b>Pensioners</b>	23.1	22.5	25.2	24.4
<b>Actives aged 45 now</b>	24.6	24.1	27.2	26.7
<b>Deferreds aged 45 now</b>	23.2	23.5	25.9	26.2

For example, a male pensioner, currently aged 65, would be expected to live to age 87.5. Whereas a male active member aged 45 would be expected to live until age 89.1. 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	100% S3PMA_CMI_2021 [1.75%] 98% S3PFA_M_CMI_2021 [1.75%]
	Dependant	112% S3PMA_CMI_2021 [1.75%] 106% S3DFA_CMI_2021 [1.75%]
	Ill Health	108% S3IMA_CMI_2021 [1.75%] 117% S3IFA_CMI_2021 [1.75%]
Active	Normal Health	105% S3PMA_CMI_2021 [1.75%] 95% S3PFA_M_CMI_2021[1.75%]
	Ill Health	228% S3IMA_CMI_2021 [1.75%] 301% S3IFA_CMI_2021 [1.75%]
Deferred	All	113% S3PMA_CMI_2021 [1.75%] 102% S3PFA_M_CMI_2021 [1.75%]
Future Dependant (from current non pensioners)	Dependant	118% S3PMA_CMI_2021 [1.75%] 108% S3DFA_CMI_2021 [1.75%]

\* The life expectancy assumptions use a smoothing parameter of 7.5 and no short term improvements are allowed for.

### OTHER DEMOGRAPHIC ASSUMPTIONS

Commutation	It has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. 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.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates 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.

### OTHER DEMOGRAPHIC ASSUMPTIONS

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.
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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.

More detail on the approach to assessing an employer's asset share is available on request.

[Return to Contents](#)

# APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

[Return to Contents](#)

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, but it will not normally reduce below 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, but in some cases may be increased to 12 years at the discretion of the Fund.



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 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. 31<sup>st</sup> July 2023 or 31<sup>st</sup> August 2023), the Fund can, at the employer's request before 28<sup>th</sup> 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.

[Return to Contents](#)

# 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 2<sup>nd</sup> 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 2<sup>nd</sup> 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.

[Return to Contents](#)

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

[Return to Contents](#)

## 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:

	<b>Employers with no guarantor in the Fund/ only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Financial assumptions</b>	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.



	<b>Employers with no guarantor in the Fund/ only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Demographic Assumptions</b>	In line with the assumptions adopted for the 2022 valuation with the exception of a 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.	In line with the assumptions adopted for the 2022 valuation for ongoing 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.
<b>McCloud</b>	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.	
<b>Additional Costs</b>	<p>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. Where the guarantor is responsible for paying the costs, the default approach is for the cost will be included in the next actuarial valuation assessment as a liability and spread over the length of their recovery period. However, the Fund and the guarantor can agree an alternative approach at the Fund’s absolute discretion.</p> <p>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.</p>	

	<b>Employers with no guarantor in the Fund/ only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Default policy once the termination certificate has been provided</b>	<ul style="list-style-type: none"> <li>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).</li> <li>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.</li> </ul>	<p>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.</p>

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).

**REVIEW OF THE TERMINATION POLICY**

As set out in the table above, for employers without a guarantor or with a guarantee of last resort, the financial assumptions are currently based on the lower risk basis. The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is sufficient monies to pay all the benefits due in relation to the “orphan” members of the outgoing employer as otherwise the remaining employers would potentially have to fund this via their contributions at subsequent valuations. This is why the Fund takes a more cautious view as set out in this policy. For other employers, the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

The policy will be reviewed as a matter of course at each actuarial valuation but will also be reviewed in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy, which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk associated with funding the orphaned liabilities left behind by an exiting employer is being passed to other Fund employers, and ultimately the tax payer. This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it. Employers would be notified of any change (and the rationale for the change) and the policy would be updated.

The Fund also has the discretion to apply a different approach on a case by case basis taking into account all factors (financial and non-financial) pertaining to the exiting employer.

## 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.

[Return to Contents](#)

# APPENDIX E - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

[Return to Contents](#)

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 advisor.

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.

[Return to Contents](#)

# APPENDIX F - EMPLOYERS MOVING BETWEEN INVESTMENT STRATEGIES

[Return to  
Contents](#)

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, then at the absolute discretion of the Fund, 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

The factors taken into account by the Fund in considering whether this will be possible include whether or not the process to disinvest assets has already commenced.

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.

[Return to Contents](#)

# APPENDIX G - ACADEMIES / MULTI-ACADEMY TRUST POLICY

[Return to  
Contents](#)

## 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.

[Return to Contents](#)



[Return to Contents](#)

# 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/Green (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

[Return to Contents](#)

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.

[Return to Contents](#)

# APPENDIX J – INSURANCE ARRANGEMENTS

[Return to Contents](#)

## 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 0.4% 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 it is 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.

[Return to Contents](#)

# APPENDIX K - GLOSSARY OF TERMS

[Return to Contents](#)

**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 calculate 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.

[Return to Contents](#)

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	<b>AGENDA ITEM NUMBER</b>
MEETING DATE:	<b>17 MARCH 2023</b>	
TITLE: <b>TREASURY MANAGEMENT POLICY</b>		
WARD: <b>'ALL'</b>		
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1</b>	The proposed Treasury Management Policy	
<b>Appendix 2</b>	Counter parties acceptable under the policy and their Credit ratings	

## 1. THE ISSUE

- 1.1. The Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2022. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.
- 1.2. The policy proposed for 2023/24 set out in Appendix 1 is the same as the policy approved in March 2022. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

## 2. RECOMMENDATION

- 2.1. That the Committee approves the Treasury Management Policy set out in Appendix 1.

### **3. FINANCIAL IMPLICATIONS**

3.1. The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short-term investment of up to £57m earns interest and incurs transfer costs. However, the significance of an efficient means of short-term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

### **4. THE REPORT**

4.1. The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management Strategy. The Fund's Treasury Management is delegated to the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.

4.2. The Fund makes extensive use of Money Market Funds (MMF), Handelsbanken Call Account and its own call account with Nat West. The MMFs include Goldman Sachs, Aberdeen Asset management and Federated Investors. The rules of access to these accounts particularly suit the Fund's cash flow requirements.

4.3. The Council's Treasury Management investment policy incorporates ESG criteria where it lends to banks via bank deposits on longer maturity terms. In contrast the Fund requires more liquid cash management which means it utilises money market funds rather than bank deposits meaning that the Council's use of ESG criteria is less applicable to the Fund.

4.4. The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers Arlingclose. All potential counterparties are continuously monitored using the advice of external consultants.

4.5. The Fund aims to retain a minimum working balance of £20m. This ensures that we can pay all pensions and invoices without having to be forced to sell assets and, given the contributions received monthly, will cover approximately 2 to 3 months of net outgoings.

4.6. Over the next few months further money market accounts (Invesco and Morgan Stanley) will be added to the Fund's available short-term investments. This will increase the level of cash that can be held on the Fund's behalf to £74m. This increase is necessary as the Fund goes cash further towards cash negativity.

4.7. Any changes to the Treasury Management Policy made in the last two years are noted within Appendix 1.

4.8. The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria because of the policy.

### **5. RISK MANAGEMENT**

5.1. 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **6. CLIMATE CHANGE**

6.1. 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.

## **7. EQUALITIES**

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

## **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.

<b>Contact person</b>	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
<b>Background papers</b>	Various Accounting and Statistical Records

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## AVON PENSION FUND

### – DRAFT TREASURY MANAGEMENT POLICY 2023

- 1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.
- 2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back into the Pension Fund bank account.
- 3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.
- 4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.
- 5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.
- 6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.
- 7 The criteria for acceptable counter parties and their limits are:-

	<b>Maximum Monetary limit</b>	<b>Time limit</b>
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (A-) or equivalent.	£10m each	2 months
CCLA LA Deposit Fund <i>(Added March 2021)</i> & Invesco AIM <i>(Added March 2023)</i>	£7m	2 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10 m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£10m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

- 1, Banks within the same group ownership are treated as one bank for limit purposes.
- 2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2019
- 3, as defined in the Local Government Act 2003

- 8 The cash retained as the required working balance will target £20 million.
- 9 The Treasury Manager will inform the Pension Fund of any changes to the counterparty credit ratings.
- 10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

- 11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

### Summary Guide to Credit Ratings

<b>Rating</b>	<b>Details</b>
AAA	Highest credit quality – denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality - denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative - indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired.
RD	Restricted default - indicate an issuer that in Fitch's opinion has experienced: a. an uncured payment default or distressed debt exchange on a bond, loan or other material financial obligation, but b. has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and c. has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given in Appendix 2.

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## Proposed Counterparty List - Unsecured Bank Investments

2023/24									
CRITERIA									
	Duration	Fund Limit	FITCH RATINGS			Moody's Ratings		S&P Ratings	
			S/Term	L/Term	Outlook	S/Term	L/Term	S/Term	L/Term
<b>UK Banks</b>			<b>Sovereign Rating</b>		<b>AA-</b>		<b>Aa3</b>		<b>AA</b>
Barclays Bank plc	2 months	10	F1	A+	STABLE	P-1	A3	A-1	A
HSBC Bank plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
<u>Lloyds Banking Group</u>									
LLOYDS BANK PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
BANK OF SCOTLAND PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
<u>Royal Bank of Scotland Group</u>									
National Westminster Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Royal Bank of Scotland plc	2 months	10	F1	A+	STABLE	(P)P-1	A1	A-1	A
Nat West Markets Plc	2 months	10	F1	A+	STABLE	P-1	A1	A-2	A-
Santander UK plc ( <b>domiciled in UK</b> )	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Handelsbanken	2 months	10	F1+	AA	STABLE			A-1+	AA-
<b>UK Building Societies</b>									
Nationwide	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
<b>UK: OTHER INSTITUTIONS</b>									
UK GOVERNMENT	2 months	10	F1+u	AA-u	NEG		Aa3	A-1+u	AAu
LOCAL AUTHORITIES	2 months	10	F1+u	AA-u	NEG		Aa3	A-1+u	AAu
LCR FINANCE PLC	2 months	10		AA-	NEG		Aa3		AA
NETWORK RAIL INFRASTRUCTURE	2 months	unlimited		AA-	NEG	P-1	Aa3		
WELLCOME TRUST FINANCE PLC	2 months	10					Aaa		AAA
<b>Foreign Banks</b>									
<b>Australia</b>			<b>Sovereign Rating</b>		<b>AAAu</b>		<b>Aaa</b>		<b>AAAu</b>
AUST AND NZ BANKING GROUP	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
COMMONWEALTH BANK OF AUSTRAL	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
NATIONAL AUSTRALIA BANK LTD	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
WESTPAC BANKING CORP	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
<b>Canada</b>			<b>Sovereign Rating</b>		<b>AA+u</b>		<b>Aaa</b>		<b>AAA</b>
BANK OF MONTREAL	2 months	10	F1+	AA	NEG	P-1	Aa2	A-1	A+
BANK OF NOVA SCOTIA	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
CAN IMPERIAL BK OF COMMERCE	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
EXPORT DEVELOPMENT CANADA	2 months	10				P-1	Aaa	A-1+	AAA
NATIONAL BANK OF CANADA	2 months	10	F1+	AA-	STABLE	P-1	Aa3	A-1	A
ROYAL BANK OF CANADA	2 months	10	F1+	AA	STABLE	P-1	Aa1	A-1+	AA-
TORONTO-DOMINION BANK	2 months	10	F1+u	AAu	STABLE	P-1	Aa1	A-1+	AA-
<b>Singapore</b>			<b>Sovereign Rating</b>		<b>AAAu</b>		<b>Aaa</b>		<b>A-1+u</b>
DBS BANK LTD	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
OVERSEA-CHINESE BANKING CORP	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
UNITED OVERSEAS BANK LTD	2 months	10	F1+	AA-	NEG	P-1	Aa1	A-1+	AA-

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>17 March 2023</b>
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>Overview &amp; Summary Performance Report</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b>	
Appendix 1 – Performance against SLA & Workload	
Appendix 2 – TPR Data Improvement Plan	
Appendix 3 – Progress on Key Projects	

## **1 THE ISSUE**

- 1.1 The purpose of this report is to present the Fund's service performance for the three months to 31<sup>st</sup> December 2022 against target service levels.
- 1.2 The report also addresses the Fund's business operational position from an overall risk perspective and provides an update forecast on the Funds cash flow and budget.

## **2 RECOMMENDATION**

The Committee is asked to Note:

- 2.1 Fund performance for the three months to 31<sup>st</sup> December 2022.

## **3 BUSINESS CONTINUITY**

- 3.1 Keynsham Civic Centre has now re-opened with APF acquiring office space comprising of 46 workstations equating to approx. 60% of the workforce. Hot desk booking arrangements remain in place if required. In line with arrangements introduced by Bath & North East Somerset Council, officers are undertaking a more blended working approach. The management team have mandated a minimum of 2 days per week in-office working and this will be kept under review.

## **4 WORKLOAD**

- 4.1 **Appendix 1** provides details of APF performance to the end of the last quarter for KPI's measured against the current SLA.

- 4.2 With incoming case work generally increasing per quarter (Annex 5) the Fund continues to operate below its desired target of >90% for most case types (Annex 1). Although there has been a marginal improvement overall with previous quarters, generally, KPI benchmarking performance has remained below target (Annex 3).
- 4.3 A complex mix of challenges have contributed to the continued downturn including increased member churn and acceleration of scheme employers providing data monthly.
- 4.4 Once in place, the agreed new Admin Operating Model will embrace available systems technology to bulk process the majority of leavers, reducing the amount of manual intervention. However, urgent action is required now to manage the current volume of leavers separately to enable better focus on all other processes in order to drive improvement in both performance and member experience.
- 4.5 To deliver the change programme, the senior leadership team have agreed to the creation of an interim 'leaver processing team' which will provide end to end processing of all non-critical leavers including current backlog and aggregation. Staff resource will be drawn from the existing Employer and Member Services teams and will remain in place pending the formal service restructure expected towards the end of the year.
- 4.6 It is expected that interim arrangements will be in place by early May and information detailing workload and performance will be reported to future Pensions Committee and Pensions Board.

## **5 RESOURCE RECRUITMENT & TRAINING**

- 5.1 Recruitment and retention remain a key factor impacting business operations with both member and employer services carrying vacancies (including maternity cover). Overall, the administration is appx 88% resourced.
- 5.2 To mitigate operational workload some project work has already been outsourced. In particular; GMP reconciliation project and the address tracing project. Mercer consultants continue to provide Technical & Compliance advice and guidance.

## **6 SUMMARY OF FUND MEMBERSHIP DATA QUALITY**

- 6.1 The Fund continues to maintain a Common Data score above 95%. The TPR Data Improvement Plan (DIP) report at **Appendix 2** provides an overview and trend of in-scope cases over the previous 12 months.
- 6.2 Missing CARE Pay – The number of errors across all periods have reduced from 208 to 136. The increase in numbers for the older years has been generated on the back of recent work done by the data control team to clear queries in other areas.
- 6.3 In preparation for the Pensions Dashboard Programme, the Data Control team will focus specific resource on historic queries with a view to clearing all TPR errors that have been outstanding for 1 year plus.

## **7 PROGRESS ON KEY PROJECTS**

- 7.1 **Appendix 3** provides the current position on a number of key operational projects with an outline of further actions to be taken.
- 7.2 This is not a comprehensive list of all strategic administration projects, and the report will continue to evolve, reflecting APF expectations measured against those as set out in the service plan.

## 8 BUDGET MONITORING

8.1 The budget outturn for the year was underspent by £500k. The detailed budget and cashflow monitoring tables can be found on the Mod Gov Library.

	Status	Comment if significant under/over
Administration		Reduced salaries expenditure due to delays in filling vacant posts against budget in Admin team. This underspend has been partially offset by external support brought in.
Governance & Compliance		Reduced salaries expenditure in Investments team due to staff vacancies that are in the process of being filled.
Pensions Board		
<b>Total</b>		

Key:

	Significant underspend (>5%) against budget for the year
	On budget for the year (not significantly under or over)
	Significant overspend (>5%) against budget for the year

## 9 RISK MANAGEMENT

9.1 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.

## 10 EQUALITIES STATEMENT

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

## 11 CLIMATE CHANGE

11.1 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 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.

## 12 OTHER OPTIONS CONSIDERED

12.1 There are no issues to consider not mentioned in this report.

## 13 CONSULTATION

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

<b>Contact person</b>	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
<b>Background papers</b>	<i>Various statistical documents.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## Annex 1 Overall Performance by Case Type

		Cases Last Quarter		
		Measured Against SLA		
		Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	Quote - 15 days	347	265	76.37%
	Payment - 15 days	287	270	94.08%
Retirement (from Deferred)	Quote - 30 days	56	20	35.71%
	Payment - 15 days	334	315	94.31%
Deaths	Notification - 5 days	125	121	96.80%
	Payment - 10 days	110	94	85.45%
Refund of contributions	Quote - 10 days	692	137	19.80%
	Payment - 10 days	141	118	83.69%
Deferreds (early leavers)	30 days	686	496	72.30%
Transfers In	Quote - 10 days	103	70	67.96%
	Payment - 10 days	66	42	63.64%
Transfers Out	Quote - 10 days	850	483	56.82%
	Payment - 10 days	36	29	80.56%
Estimates	Member - 15 days	162	146	90.12%
	Employer - 15 days	48	42	87.50%
Divorce	Quote - 45 days	57	51	89.47%
	Actual - 15 days	2	1	50.00%
Starters	40 days	1086	1047	96.41%
		5188	3747	72.22%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2  
Case No's vs Target

		Tasks Last Quarter							
		Average Days to Process	Actual Days to Process						
			0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
Retirement (from Active)	Quote - 15 days	11	131	85	49	39	25	7	11
	Payment - 15 days	7	177	60	33	9	7	1	0
Retirement (from Deferred)	Quote - 30 days	23	27	2	4	2	6	4	11
	Payment - 15 days	5	240	47	28	11	3	5	0
Deaths	Notification - 5 days	3	121	2	0	0	0	1	1
	Payment - 10 days	5	86	8	8	1	1	5	1
Refund of contributions	Quote - 10 days	28	51	86	101	161	109	38	146
	Payment - 10 days	6	95	23	13	5	4	1	0
Deferreds (early leavers)	30 days	24	124	71	58	88	77	78	190
Transfers In	Quote - 10 days	14	46	24	14	8	2	0	9
	Payment - 10 days	19	20	22	9	3	0	1	11
Transfers Out	Quote - 10 days	32	337	146	137	111	76	35	8
	Payment - 10 days	11	28	1	7	0	0	0	0
Estimates	Member - 15 days	7	110	24	12	9	5	1	1
	Employer - 15 days	8	25	10	7	6	0	0	0
Divorce	Quote - 45 days	18	13	16	6	6	4	3	9
	Actual - 15 days	4	1	0	0	1	0	0	0
Starters	40 days	14	732	134	26	6	67	33	88

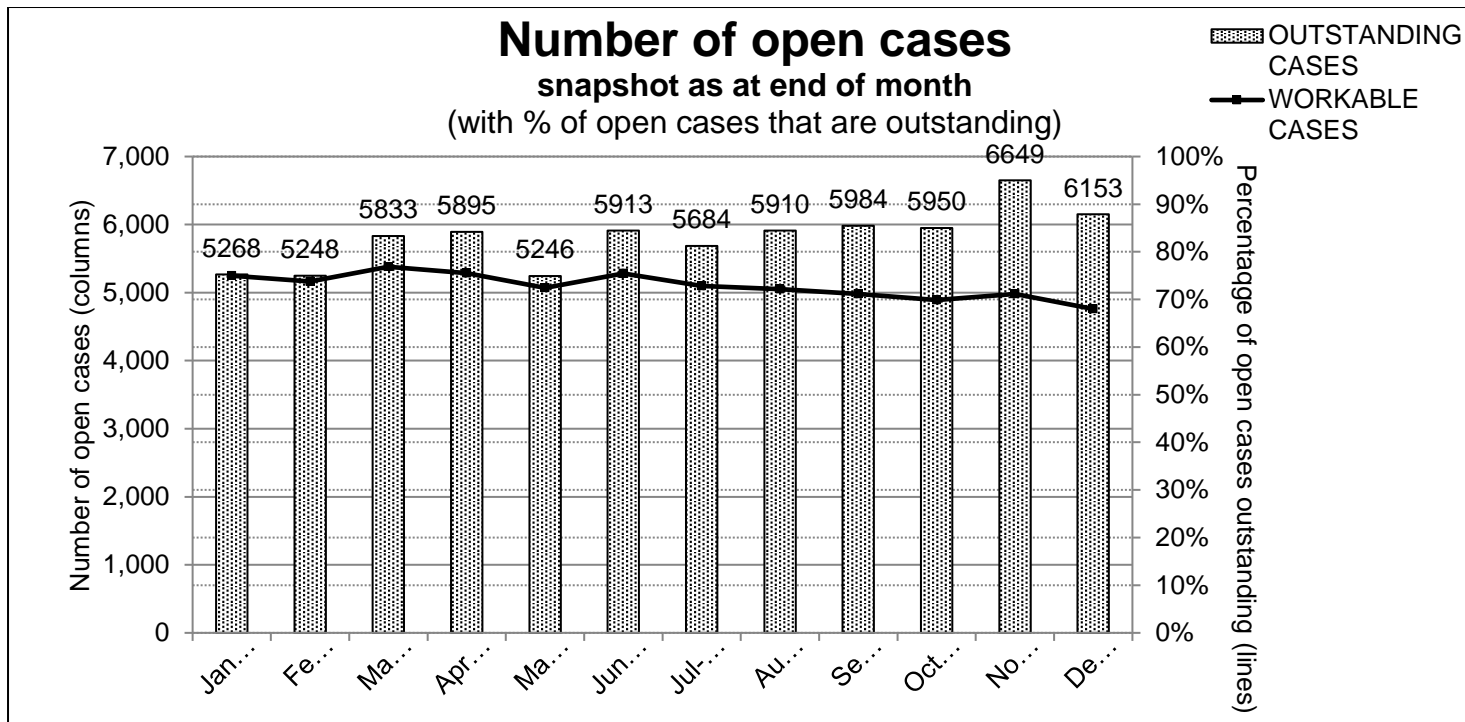
RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

**Annex 3**  
**Trend in Overall Performance**

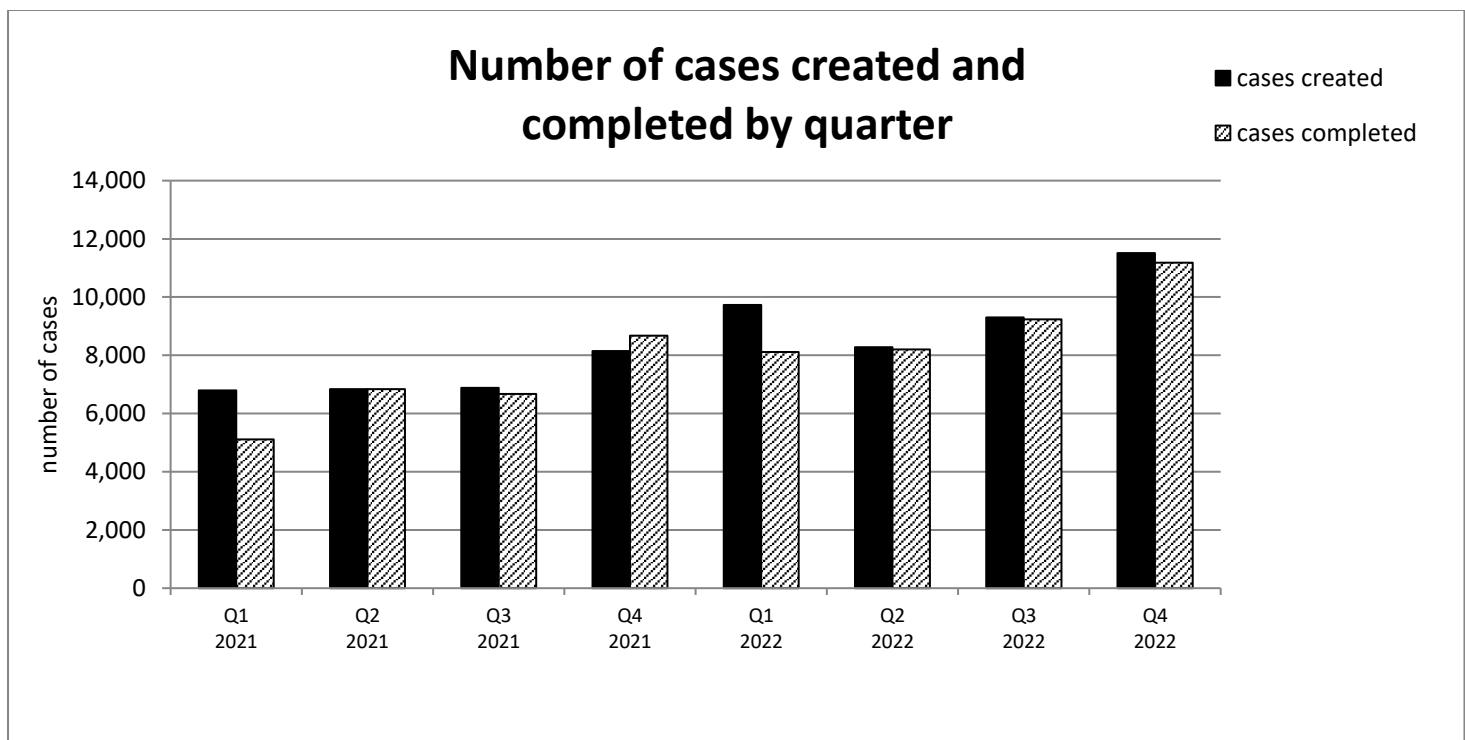
SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q1 Jan 22 - Mar 22	Q2 Apr 22 - Jun 22	Q3 July 22 - Sept 22	Q4 Oct 22 - Dec 22	Trend
Retirement (from Active)	Quote - 5 / 15 days	60.80%	62.30%	66.67%	76.37%	
	Payment - 5 / 15 days	82.59%	68.06%	92.00%	94.08%	
Retirement (from Deferred)	Quote - 30 days	44.44%	34.78%	50.00%	35.71%	
	Payment - 5 / 15 days	73.18%	75.12%	89.61%	94.31%	
Deaths	Notification - 5 days	46.24%	51.43%	81.20%	96.80%	
	Payment - 5 / 10 days	79.63%	66.67%	81.74%	85.45%	
Refund of contributions	Quote - 10 days	15.26%	15.76%	13.30%	19.80%	
	Payment - 10 days	50.46%	51.94%	78.33%	83.69%	
Deferreds (early leavers)	Notification - 20 / 30 days	93.00%	74.92%	57.17%	72.30%	
Transfers In	Quote - 10 days	13.85%	11.03%	32.98%	67.96%	
	Payment - 10 days	60.00%	15.15%	51.79%	63.64%	
Transfers Out	Quote - 10 days	33.23%	25.38%	30.37%	56.82%	
	Payment - 10 days	47.62%	24.00%	42.31%	80.56%	
Estimates	Member - 10/15 days	85.00%	79.80%	81.19%	90.12%	
	Employer - 15 days	74.65%	70.00%	66.67%	87.50%	
Divorce	Quote - 45 days	76.92%	50.00%	85.07%	89.47%	
	Actual - 15 days	100.00%	100.00%	100.00%	50.00%	
Starters	40 days	100.00%	100.00%	98.74%	96.41%	
Total Cases Processed		4227	4482	4399	5188	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 4



Annex 5





## TPR Improvement Plan Data

As of 31st December 2022

## Annex 1 – TPR Errors by Member Numbers

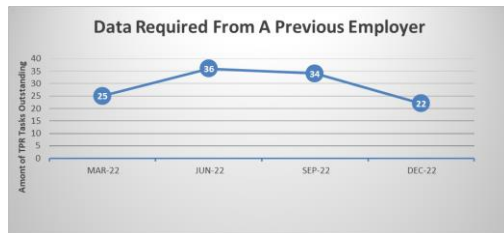
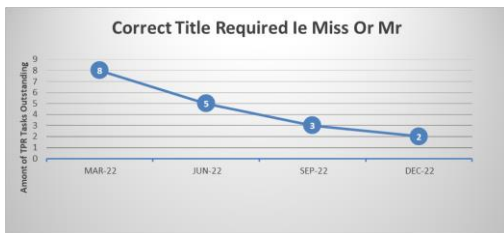
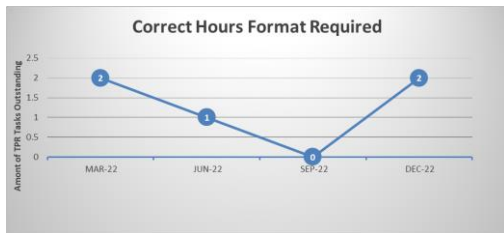
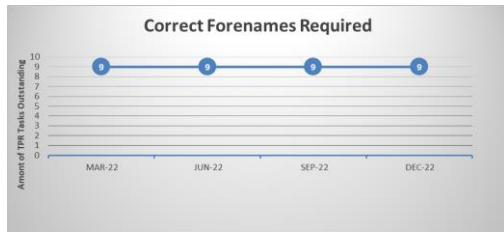
	Sep-22				Dec-22				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	38562	354	0.92%	99.08	39789	286	0.72%	99.28	-68
UNDECIDED	7358	314	4.27%	95.73	6621	236	3.56%	96.44	-78
DEFERRED	43423	3807	8.77%	91.23	43825	3822	8.72%	91.28	+15
PENSIONERS	35528	289	0.81%	99.19	35986	301	0.84%	99.16	+12
DEPENDANTS	5397	99	1.83%	98.17	5479	110	2.01%	97.99	+11
FROZEN	5125	1692	33.01%	66.99	5631	1740	30.90%	69.10	+48
TOTALS	135393	6555	4.84%	95.21	137331	6495	4.73%	95.27	-60

## Annex 2 – Outstanding Queries by Type (there may be multiple queries per member)

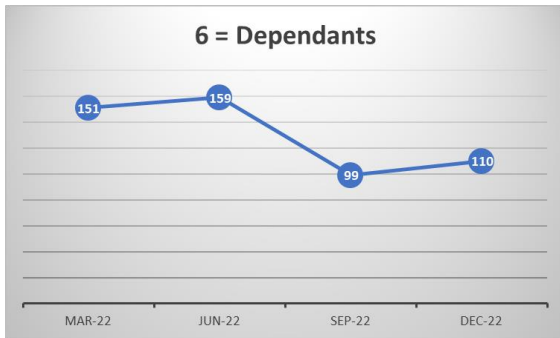
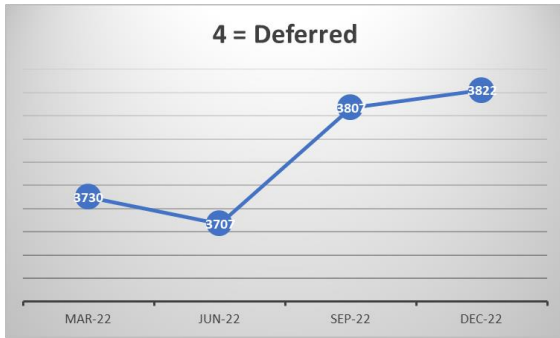
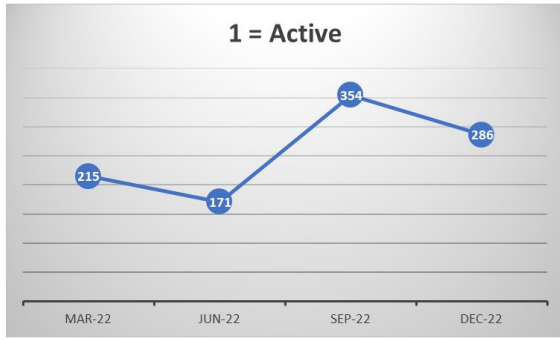
	Sep-22		Dec-22		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	67	1.01%	77	1.17%	+10
Care Pay For 2014-2015 Required	5	0.08%	7	0.11%	+2
Care Pay For 2015-2016 Required	4	0.06%	10	0.15%	+6
Care Pay For 2016-2017 Required	5	0.08%	9	0.14%	+4
Care Pay For 2017-2018 Required	24	0.36%	7	0.11%	-17
Care Pay For 2018-2019 Required	14	0.21%	14	0.21%	0
Care Pay For 2019-2020 Required	12	0.18%	8	0.12%	-4
Care Pay For 2020-2021 Required	43	0.65%	19	0.29%	-24
CARE pay for 2021-2022 required	101	1.52%	62	0.94%	-39
Missing data on leaver form - Escalation	0	0.00%	0	0.00%	0
Casual Hours Data Required	0	0.00%	0	0.00%	0
Correct Address Required	5466	82.44%	5520	83.97%	+54
Correct Forenames Required	9	0.14%	9	0.14%	0
Correct Gender Required	0	0.00%	0	0.00%	0
Correct Hours Format Required	0	0.00%	2	0.03%	+2
Correct Nino Required	148	2.23%	157	2.39%	+9
Correct Title Required ie Miss Or Mr	3	0.05%	2	0.03%	-1
Data Required From A Previous Employer	34	0.51%	22	0.33%	-12
Date Joined Fund Required	17	0.26%	4	0.06%	-13
Historic Refund Case	478	7.21%	478	7.27%	0
Leaver Form Required	200	3.02%	165	2.51%	-35
Pay Ref Required	0	0.00%	0	0.00%	0
Correct Surname Required	0	0.00%	0	0.00%	0
Correct FTE Pensionable Salary 16-17 req	0	0.00%	2	0.03%	+2
Pay Ref Required	0	0.00%	0	0.00%	0
Grand total	6630	100%	6574	100%	

\*Trend is influenced by number of errors

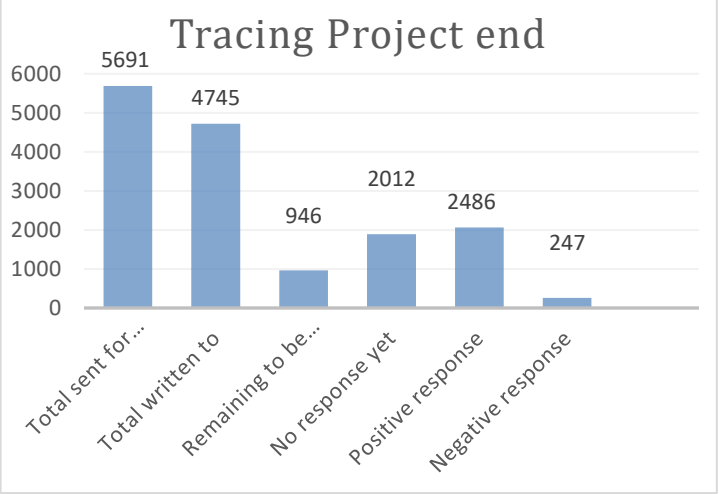
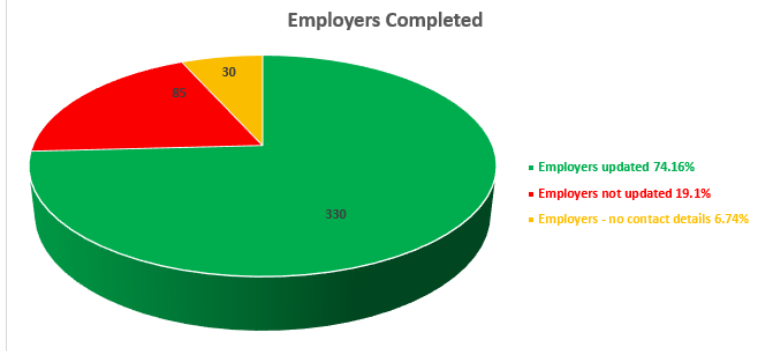
**TPR Error Numbers by Error Type**

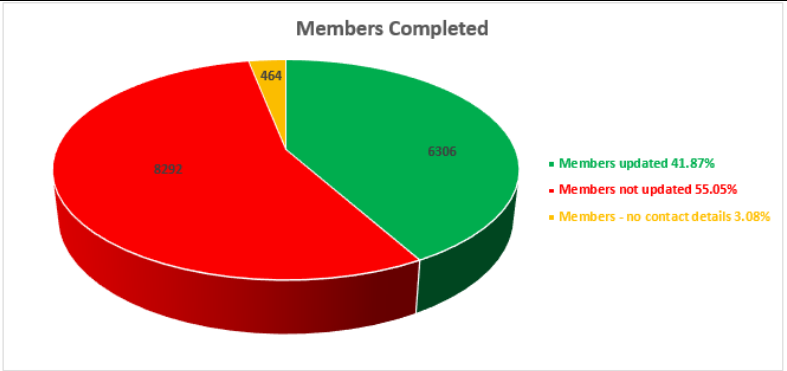


**TPR Error Numbers by Status**



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Item	Details	Action by Fund / Next Steps														
<p><b>Address Tracing</b></p>	 <table border="1"> <caption>Tracing Project end</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Total sent for...</td> <td>5691</td> </tr> <tr> <td>Total written to</td> <td>4745</td> </tr> <tr> <td>Remaining to be...</td> <td>946</td> </tr> <tr> <td>No response yet</td> <td>2012</td> </tr> <tr> <td>Positive response</td> <td>2486</td> </tr> <tr> <td>Negative response</td> <td>247</td> </tr> </tbody> </table>	Category	Value	Total sent for...	5691	Total written to	4745	Remaining to be...	946	No response yet	2012	Positive response	2486	Negative response	247	<p>Tracing of gone Away members project has now ended and going forward will be administered on the team under BAU. A snapshot of the position as at the end of the project is provided.</p>
Category	Value															
Total sent for...	5691															
Total written to	4745															
Remaining to be...	946															
No response yet	2012															
Positive response	2486															
Negative response	247															
<p><b>McCloud</b></p>	 <table border="1"> <caption>Employers Completed</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Employers updated</td> <td>74.16%</td> <td>330</td> </tr> <tr> <td>Employers not updated</td> <td>19.1%</td> <td>85</td> </tr> <tr> <td>Employers - no contact details</td> <td>6.74%</td> <td>30</td> </tr> </tbody> </table>	Category	Percentage	Count	Employers updated	74.16%	330	Employers not updated	19.1%	85	Employers - no contact details	6.74%	30	<p>97% of our employers have supplied their data to us including one of the two outstanding Unitary Authorities. We are continuing to chase this unitary and the 13 employers who have not provided the data to us. The team are checking the data and will be shortly contacting employers with any missing information or queries in readiness for the rectification method anticipated to arrive in the summer, delayed from end of the year.</p> <p>We continue to be in engagement with Aon Consultants in respect of the McCloud project for data Remedy.</p> <p>The McCloud Data scoping group are awaiting guidance from Scheme Advisory Board to enable us to deal with poor/missing data.</p>		
Category	Percentage	Count														
Employers updated	74.16%	330														
Employers not updated	19.1%	85														
Employers - no contact details	6.74%	30														



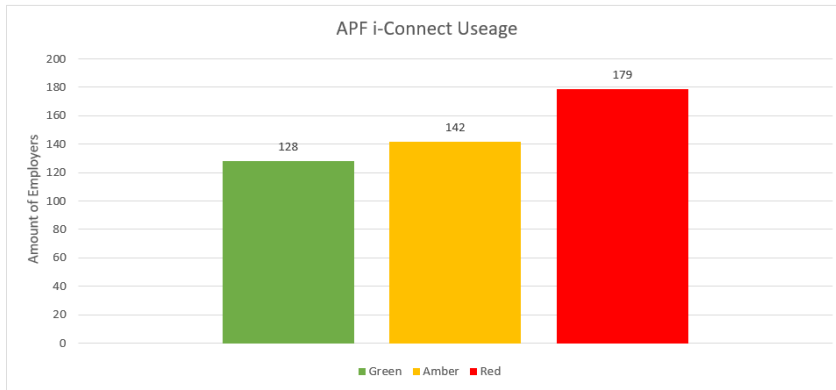
**i-Connect –  
Monthly Data  
Returns**  
Page 236

**Current IC statistics as at February 2023:**

Employers on IC – 325 (78% of Employers)  
 Employers targeted for IC – 99 (22% of Employers)  
 Active Members covered by IC – 34,964  
 88% of active membership covered by IC

i-Connect progress last 12 months:

February 2022



In the last quarter 30 employers have gone live with i-Connect equating to 78% of all active employers now supplying data monthly. A further ninety-nine employers remain to be onboarded.

Officers are actively working with 14 employers to onboard them before the end of the financial year.

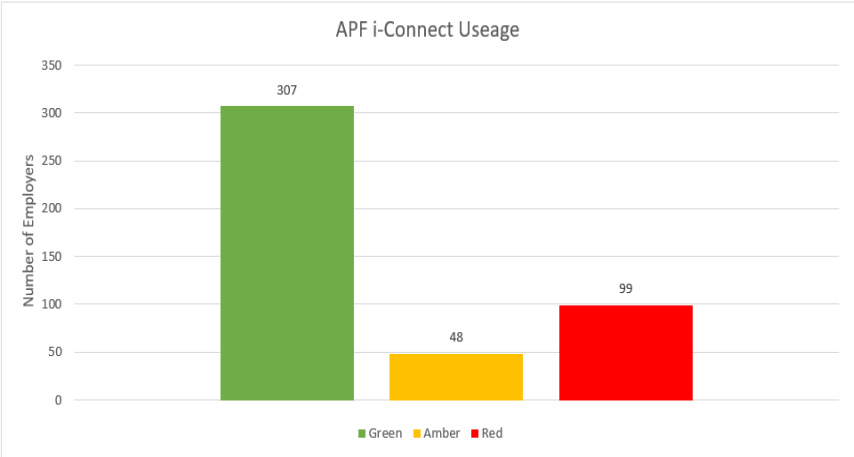
Employers not on IC by 31<sup>st</sup> March have been given notice of penalty charges that will become payable for non-compliance from April 2023.

The charts show the progress made in the last 12 months with onboarding employers and handing back data loading to employers:

Green = Employer using i-Connect and loading own data extract

Amber = Employer using i-Connect but APF loading data extract

Red = Employer not using i-Connect

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 37</p>	<p>February 2023</p>  <table border="1"> <caption>APF i-Connect Usage</caption> <thead> <tr> <th>Category</th> <th>Number of Employers</th> </tr> </thead> <tbody> <tr> <td>Green</td> <td>307</td> </tr> <tr> <td>Amber</td> <td>48</td> </tr> <tr> <td>Red</td> <td>99</td> </tr> </tbody> </table>	Category	Number of Employers	Green	307	Amber	48	Red	99	<p>Employers that are being loaded by APF are either payroll provider or employers new to i-Connect (initial 3 months of data loads are done by APF before handing to employers).</p>
Category	Number of Employers									
Green	307									
Amber	48									
Red	99									
<p><b>Pensions Dashboards Project</b></p>	<p>Pensions dashboards are digital services which members will be able to use to see their pension information in one place.</p> <p><b>KEY AIMS:</b> Covering both LGPS and Firefighter members, the Fund must comply with the Pensions Dashboard Regulations 2022, (due to be passed late 2022) following guidance issued by the Pensions Dashboard Programme, TPR and PASA with the purpose of connecting to the Dashboard ecosystem. by the deadline of 30/09/2024.</p> <p>In preparation, the Fund must become compliant with the Standards set out by the Pensions Dashboard Programme and complete our own reviews and projects in advance of our deadline, in order to connect and remain connected to the Dashboard ecosystem. This will include:</p> <ul style="list-style-type: none"> <li>The engagement of an Integrated Service Provider to enable connection. Review and agreement of responsibilities and revision of contract with ISP. Connection testing prior to onboarding.</li> </ul>	<p><b>Work completed and in progress</b></p> <p>Project work is progressing and remains on target and remedial work identified that needs to be carried out to ensure Pension Dashboard readiness. The Fund is awaiting a Dashboard Data readiness report from the software provider Heywood to further identify any additional actions that may be required in line with regulatory guidance.</p> <p>Resources will be established to help resolve errors/warnings.</p> <p>Final regulations and standards are expected later in the year</p> <p>The date to connect to the Dashboard Ecosystem remains at 30/9/2024.</p>								

	<ul style="list-style-type: none"><li>• Complying with all PDP Standards and connection criteria (finalised compliance criteria and guidance will be published once Regulations passed). Providing evidence of compliance to TPR prior to registration and connection.</li><li>• Backlog minimization, data cleansing and reduction of refund liability as recommended by the PDP.</li><li>• Completion of data-centric projects</li><li>• Ensuring BAU admin processes are sufficient to maintain minimal backlog and accurate data quality prior to and following connection.</li><li>• Increased use of digital and automated processes.</li><li>• Preparedness for increased admin traffic once Dashboard goes public.</li><li>• Advance communications with our membership re. Dashboards via website, newsletter etc.</li></ul>	
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<b>Bath &amp; North East Somerset Council</b>		
MEETING	<b>AVON PENSION FUND PENSION COMMITTEE</b>	
MEETING	<b>17 March 2023</b>	Agenda Item Number
		<b>13</b>
TITLE:	<b>Update on Legislation</b>	
WARD:	<b>All</b>	
<b>AN OPEN PUBLIC ITEM</b>		

## **1 THE ISSUES**

- 1.1 The purpose of this report is to update the Pension 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 Pension 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 and Pension Dashboards, including brief comment on what the implications are for the Fund and what next steps will be. Brief comment on a couple of current consultations are also provided, one of which could have implications in the short-term for the administration team. 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 04/01 Regulatory Update.

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
<p><b>McCloud Judgment</b></p>	<p>Whilst further consultations, guidance and regulations are still to be issued by DLUHC, there continues to be movement in relation to the McCloud Judgment and the implementation of the remedy.</p> <p>SAB guidance on data issues is expected by the end of February.</p> <p>The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 have now been laid setting out the tax treatment for members impacted by McCloud where benefits are remedied.</p> <p>The Judicial Review (brought by the British Medical Association and the Fire Brigades Union) over the government proposed method of paying for costs incurred by the McCloud Judgment has now begun, the outcomes of which may have implications for the LGPS.</p>	<p><a href="https://legislation.gov.uk">The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 (legislation.gov.uk)</a></p>	<p>The Fund to continue work on collating/analysing data from employers in relation to implementing the remedy. A SAB guidance paper has been published March 2023 giving Funds principles to apply in their treatment of incorrect or missing data from employers.</p> <p>An officer from the Fund is represented on the scoping group setup to discuss how Funds can implement the remedy.</p> <p>Any delays in the relevant stages may have administrative implications given the time available to respond/progress may be shortened.</p> <p>The inclusion of certain Teachers in relation to the LGPS remedy will also add to the administrative burden and further guidance awaited on how to deal with such cases.</p>
<p><b>Pension Dashboard</b></p>	<p>The Pension Dashboard Programme gathers pace with developments in a number of areas.</p> <p>At the end of November 2022, The Pensions Dashboard Regulations 2022 were made and came into force from 12 December 2022.</p> <p>Other developments over recent months have been the publication of guidance on early/deferred connections and consultations released in relation to how TPR will ensure compliance (and how it will deal with non-compliance), how dashboard operators can provide additional services to consumers and</p>	<p><a href="https://legislation.gov.uk">The Pensions Dashboards Regulations 2022 (legislation.gov.uk)</a></p> <p><a href="#">Early connection guidance   Pensions Dashboards Programme</a></p> <p><a href="https://www.gov.uk">Pensions Dashboards: guidance on deferred connection - GOV.UK (www.gov.uk)</a></p>	<p>The Fund will continue its preparations towards meeting the necessary Pensions Dashboard requirements and awaits further guidance from central bodies e.g. LGA in relation to what action LGPS Funds should be considering.</p> <p>On 2<sup>nd</sup> March, DWP announced delays by the way of a Ministerial written statement stating that they will be re-setting the Dashboard and are looking to give an update before the summer recess. This delay is due to the technicalities of connecting to the Dashboard but it is not known yet what this will mean for the LGPS.</p>

	<p>what the regulatory framework would need to be for them to do so and also on design standards.</p>	<p><a href="#">CP22/25: Proposed regulatory framework for pensions dashboard service firms   FCA</a></p> <p><a href="#">Dashboards compliance and enforcement policy: consultation   The Pensions Regulator</a></p> <p><a href="https://www.pensionsdashboardsprogramme.org.uk/standards/design-standards-consultation/">https://www.pensionsdashboardsprogramme.org.uk/standards/design-standards-consultation/</a></p>	<p>A separate update will be provided on this item in the administration report in relation to what actions have/are being taken by the Fund.</p>
<p><b>Current Consultations</b></p> <p>Page 241</p>	<p><b>CARE Revaluation Date</b>  A short consultation has been issued in February 2023 to move the annual in-service CARE revaluation date from 1 April to 6 April to align with the tax year and reduce the number of members who would potentially breach the annual allowance as a result of the 10.1% CPI increase being awarded.</p> <p><b>SAB Cost Management Process</b>  DLUHC have published a consultation setting out proposed updates to the SAB cost management process for the LGPS. This follows from GADs report into the HMT cost management process and the resulting policy and legislative changes that followed.</p>	<p><a href="https://www.gov.uk/government/consultations/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps">https://www.gov.uk/government/consultations/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps/annual-revaluation-date-change-in-the-local-government-pension-scheme-lgps</a></p> <p><a href="#">Local Government Pension Scheme: Changes to the Scheme Advisory Board cost management process - GOV.UK (www.gov.uk)</a></p>	<p>Once outcomes of the CARE revaluation consultation are known, there is likely to be knock-on implications for the administration team, which will need to be considered as required in terms of resource management / stakeholder communication / process changes etc.</p> <p>Mercers will be responding to the consultation which is due to close Friday 24<sup>th</sup> March.</p>

#### **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.

<b>Contact person</b>	<i>Nicky Russell, Technical and Compliance Advisor; Tel 01225 395389</i>
<b>Background papers</b>	<i>LGA Bulletins SAB Meeting Minutes National Technical Group Meeting Minutes</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## Bath & North East Somerset Council

MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>17 March 2023</b>
TITLE:	<b>Risk Management Process &amp; Risk Register</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – Risk Framework &amp; scoring assessment</b></p> <p><b>Appendix 2 – Risk Register – High level matrix</b></p> <p><b>Appendix 3 – Risk Register</b></p>	

### 1. THE ISSUE

1.1. The purpose of this report is to update the Committee with the quarterly review of the risk register.

### 2. RECOMMENDATION

2.1. That the Committee notes the report.

### 3. FINANCIAL IMPLICATIONS

3.1. There are no direct implications related to the Committee in connection with this report.

### 4. REPORT – RISK MANAGEMENT PROCESS & RISK REGISTER

**4.1.** The Fund has in place a documented risk management policy setting out the Fund's approach to risk, process for review and update of the risk register. It also sets out the roles and responsibilities of all those involved in the management of risk within the Fund including the role of the Pension Board and Pension Committee.

**4.2.** A new risk framework has been introduced to assist risk owners to assess the risk and score. This is attached as appendix 1.

**4.3.** Following feedback from Committee and Pension Board members pre mitigation scores have also been added to the risk register.

**4.4.** A high level matrix showing the distribution of risks by score is attached as appendix 2.

**4.5.** The complete risk register is attached as appendix 3.

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. It also sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed quarterly or when there has been a material change to the risk.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Manager
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

4.5.1. All risks are linked to the relevant Fund strategy documents and how they are reported to Pension Committee and Pension Board.

## 5. QUARTERLY REVIEW OF RISK REGISTER

5.1. Following the quarterly review of the risk register no new risks were identified, one risk was removed and there were a few changes to the current risk scores.

5.2. Risk NR15 – ‘Liquidity levels within the Fund are insufficient to support investment and risk management strategies’ has been removed from the register as it is sufficiently covered under risk NR14 – ‘Liability driven investing- regulatory pressure and/or reputational risk leads to managers withdrawing from the market’

5.3. As a result of using the new framework to assess the impact and likelihood of risks there have been several changes to scores as set out on the risk register.

5.4. The most critical risks are currently:

- NR01 – ‘Ability to deliver admin service to members and employers within agreed standards’ The current factors impacting this risk are set out in item 13 – Pension Fund Administration report.
- NR12 – ‘Failure to achieve decarbonisation targets in the required timescales in accordance with climate change priorities’ Government climate policies not moving fast enough or sufficiently enforced.

## 6. EQUALITIES

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 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.

### 1 OTHER OPTIONS CONSIDERED

1.1 None

### 2 CONSULTATION

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

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

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**Assessment of Impact**

		Service/Operational	Assets	Legal Obligations	Project	Duty of Care – Clients & Staff
1	<b>Negligible</b>	Minimal disruption not impacting on an important service which can be resolved	Capital loss potential up to 1% of assets	Litigation, claims or fines Services up to £10k Corporate £25k	Minimal impact on APF delay < 1 month	Minimal or no impact on Services Duty of Care requirements.
2	<b>Low</b>	Brief disruption of important service /service area	Capital loss potential up to 5% of assets	Litigation, claims or fines Services up to £25k Corporate £50k	Some impact on APF delay < 3 months	Consideration required re. Duty of Care unlikely to have adverse impact meeting overall requirements.
3	<b>Medium</b>	Major effect to an important service area	Capital loss potential up to 15% of assets	Litigation, claims or finesx Services up to £50k Corporate £100k	Adverse impact on APF significant slippage > 3 months	Duty of Care issues may have impact meeting requirements.
4	<b>High</b>	Complete loss of an important service area	Capital loss potential up to 25% of assets	Litigation, claims or fines Services up to £125k Corporate £250k	Significant impact on APF major delay of 6+ months	Significant impact on meeting Duty of Care responsibilities.
5	<b>Critical</b>	Major loss of whole service	Capital loss potential > 25% of assets	Litigation, claims or fines Services up to £250k Corporate £500k	Complete failure of project extreme delay > 12 months	Not meeting legal responsibilities placing individuals at risk.

**Assessment of Likelihood**

1	Rare	0 – 5% probability
2	Unlikely	6 – 20% probability
3	Possible	21 – 50% probability
4	Likely	51 – 80% probability
5	Almost Certain	81 – 100% probability

**Overall Score**

		1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost Certain
5	Critical	5	10	15	20	25
4	High	4	8	12	16	20
3	Medium	3	6	9	12	15
2	Low	2	4	6	8	10
1	Negligible	1	2	3	4	5

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Appendix 2 - Risk Register - High Level Matrix

IMPACT

PROBABILITY

	NEGLIGIBLE	LOW	MEDIUM	HIGH	CRITICAL
ALMOST CERTAIN	0	0	0	0	0
LIKELY	0	0	0	2	0
POSSIBLE	0	1	3	4	0
UNLIKELY	0	1	3	1	1
RARE	0	0	0	0	0

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Appendix 3 - Risk Register

Number	Function	Risk	Impact	Pre Mitigants			Mitigating Actions / Control Framework	Post Mitigants			
				Impact	Likelihood	Score		Impact	Likelihood	Score	Trend
NR01	Admin	Ability to deliver service to agreed standards	Poor member outcomes and/or breach of regulations.	Critical	Almost Certain	25	- KPIs & complaints monitored and acted on - plan to digitise will improve self-serve & ops efficiency - actions to improve staff recruitment & retention	High	Likely	16	↓
NR12	Investments	Failure to achieve decarbonisation targets	Government climate policies not moving fast enough or sufficiently enforced Significant reputational and financial risks to value of investments	Critical	Almost Certain	25	- ISS/RI Policy embedded by the Fund - Brunel's climate change policy and approach to investing - use of professional advice - IIGCC developing investment framework for climate risk - policy advocacy	High	Likely	16	↓
NR05	Governance	Failure to manage personal data per regulations	Personal data corrupted, compromised or illegally shared Fines and reputational damage.	Critical	Almost Certain	25	- One West is Data Protection Officer for Fund and advises re. data protection - record of processing and privacy notice set out how data is managed - processes in place re. data breaches and protection - regular officer training.	High	Possible	12	→
NR10	Investments	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise.	Critical	Likely	20	- diversified asset allocation - professional and independent investment advice - risk management strategy supports funding strategy - FRMG & Investment Panel monitor performance and risk - periodic strategic investment review	High	Possible	12	↑
NR14	Investments	LDI leverage	Managers withdraw from the market LDI strategy may have to be unwound Inability to raise hedge ratio.	High	Likely	16	- maintain collateral at prudent level with materia buffer vs risks - set hedge ratio at level that can be adequately collateralised	High	Possible	12	↑
NR11	Investments	Brunel fails to deliver client objectives re. service delivery	Affects Fund's ability to achieve investment objectives	Critical	Possible	15	- Brunel governance framework - robust performance reporting - Avon-Brunel working group	High	Possible	12	→
NR06	Governance	Cyber attack	Fund is unable to operate Members do not receive pension payment on time.	Critical	Almost Certain	25	- disaster recovery plan in place - business continuity plan - B&NES cyber security policy and system defence	Critical	Unlikely	10	↓
NR08	Funding	Employers unable to meet financial obligations to Fund	Financial cost to other employers in the Fund.	High	Possible	12	- policies on employer financial stability set out in FSS & ISS - covenant framework - quarterly review and mitigating action	Medium	Possible	9	↑
NR07	Funding	Employers not comply with regulatory responsibilities	Poor member data Fines and greather scrutiny by TPR. Employer liabilities incorrect if data is incorrect.	Critical	Likely	20	- management of employers set out in admin strategy/MOU - employer KPIs recorded and monitored vs TPR standards - employer training	Medium	Possible	9	→
NR09	Investments	Operational risks of investment managers, custodian and other investment suppliers	Loss of assets Inability to trade is assets inaccessible	High	Possible	12	- due diligence and audits of partners - controls embedded in investment management agreements - diversification across different asset managers - quarterly service & risk review with Brunel and suppliers	Medium	Possible	9	↑
NR16	Finance	Cashflow profile is maturing	Not enough cash in bank to meet pension payments.	Critical	Almost Certain	25	- monthly monitoring & forecast of cashflow - prudent cash buffer - tradeable assets can be swiftly sold	High	Unlikely	8	↑
NR17	Finance	Late / incorrect contributions from employers	Cashflow shortfalls, employer funding deficits / default, TPR breach.	Medium	Possible	9	- monthly reconciliations of contributions - management reviews and action. - Mercer funding monitor tool. - larger employers pre pay contributions.	Low	Possible	6	→
NR03	Governance	Pension Committee cannot operate effectively	Delays in decision making for the Fund Failure to meet MIFID & TPR regulations.	Medium	Almost Certain	15	- representation of PC set out in Fund's representation policy - knowledge requirements in Training Policy - compliance vs regulations defined in Compliance Statement - decisions responsibilities set out in decision matrix	Medium	Unlikely	6	→
NR04	Governance	Governance of Fund not in accordance with APF policies Controls not adequate	Fines for non-compliance Disciplinary issues and reputational risk	Medium	Likely	12	- internal and external audits - APF officers undertake training re. APF's codes of practices	Medium	Unlikely	6	→

NR13	Investments	Treasury investments	Loss of capital or income on cash Delayed return of principle or investment income	Medium	Possible	9	- adopt B&NES Treasury management policy - due diligence on banks - diversification across multiple suppliers - consultation with treasury management advisors.	Medium	Unlikely	6	→
NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers	Low	Possible	6	- regulatory changes monitored via LGA and professional advisors - officers attend SWAPOG/Tech Group - regulatory projects included in service plans - officers respond to consultations.	Low	Unlikely	4	→

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>17 March 2023</b>
TITLE:	<b>Governance</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – Committee Work plan</b></p> <p><b>Appendix 2 – Investments Panel Work plan</b></p> <p><b>Appendix 3 – Training Programme</b></p>	

## **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 2023 is included as Appendix 3.

## **2 RECOMMENDATION**

- 2.1 That the committee:
- 2.2 Approves the proposal for committee members to study and complete all Hymans Learning Academy modules within twelve months of becoming a committee member.
- 2.3 Approves the proposal for committee members to restudy and repeat the completion of the modules every three years.
- 2.4 Notes the Committee & Investment Panel workplans and training programme

**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) 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 2023 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).
- b) The Committee is asked to approve the proposal for all Committee members to complete all training modules within twelve months of becoming a Committee member and repeat the completion of the modules every three years.

**5 FUTURE MEETING DATES**

5.1 Pension Committee meetings as currently scheduled:

<b>2023</b>
17 March
23 June
22 September
15 December



5.2 The provisional dates for the Investment panel meetings are:

<b>2023</b>
8 March
14 July
08 September
01 December

**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.

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

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**Appendix 1**

<b>Committee Workplan</b>	<b>Mar-23</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>
<b>Governance</b>				
Pension Board minutes				
Governance Update (workplans & Risk register)				
Review of Risk Register				
Roles & Responsibilities of the Committee, Governance Compliance Statement				
Internal Audit Plan & Reports				
Approval of Committee's Annual Report to council & PB Annual Report for noting				
Update on Legislation				
<b>Administration &amp; Budget</b>				
Administration – performance indicators				
Budget & Cash flow Monitoring (as needed)				
Budget and Service Plan				
Treasury management Policy				
Review of Admin Strategy				
<b>Investments &amp; Funding</b>				
Agree Investment Strategy				
Approve Investment Strategy Statement				
Review of Investment Strategy & Performance				
Brunel Corporate update (presentation by Brunel)				
Annual Responsible Investing Report				
Annual Review of Risk Management Strategies				
Annual Employer Update				
Interim valuation Results / Section 13				
FRC Stewardship Code				
Approve FSS (after consultation) for Death in service policy				
2022 valuation outcome& final FSS				
Noting of Final Accounts 2022/23				
CMA Order Compliance (for Investment Consultant)				

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**Appendix 2**

<b>Investment Panel Workplan</b>	<b>Jul-23</b>	<b>Sep-23</b>	<b>Nov-23</b>
<b>Quarterly monitoring Items</b>			
Review performance & RM Framework			
<b>Annual Items</b>			
Annual Risk Management review			
<b>Strategic items</b>			
Update on Brunel's revised Climate Policy			
Review of LDI triggers given new liability benchmark (post 2022 valuation)			
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)			
LDI Review			
Local Impact Portfolio			
TCFD Statement			
Update on 2022 Stocktake project			
Training Session (TBA)			

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**Appendix 3  
Committee Training Plan**

Type of training	Date	Content
Workshop	Feb-23	Investment Strategy Review
Workshop	TBC	Induction - Admin & Governance
Workshop	TBC	Induction - Investment & Funding
Workshop	TBC	Induction - Brunel & Climate Change

Hymans Learning Academy	To be completed by	Title of Module	Content
Module 1	Jun-23	Intro to the LGPS	Intro to LGPS (12 mins) Role of a Councillor (20 mins)
Module 2	Jun-23	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-23	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	Sep-23	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	Mar-23	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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