

Pension Board

Date: Tuesday, 13th September, 2022

Time: 10.00am

Venue: Kaposvar Room - Guildhall, Bath

Board Members: Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (Member Representative), Tony Whitlock (Employer Representative), Stuart Anstead (Employer Representative) and Alison Wyatt (Member Representative)

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

NOTES:

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

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

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

3. Recording at Meetings:-

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

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

4. Public Speaking at Meetings

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

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

Further details of the scheme can be found at:

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

5. Emergency Evacuation Procedure

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

6. Supplementary information for meetings

Additional information and Protocols and procedures relating to meetings

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

Pension Board - Tuesday, 13th September, 2022
at 10.00am in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE
2. APOLOGIES FOR ABSENCE
3. DECLARATIONS OF INTEREST
4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR
5. ITEMS FROM THE PUBLIC
6. ITEMS FROM MEMBERS
7. MINUTES OF PREVIOUS MEETING: 9TH JUNE 2022 (Pages 7 - 16)

8. BRUNEL UPDATE (VERBAL)

The Board will be provided with a verbal update on this item at the meeting.

9. FUNDING STRATEGY UPDATE (Pages 17 - 76)

The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The Pension Board is asked to consider the FSS in terms of its compliance with regulations and CIPFA guidance and provide feedback to the Pensions Committee.

10. ADMIN STRATEGY UPDATE

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

11. PENSION FUND ADMINISTRATION (Pages 77 - 92)

The purpose of this report is to present the Fund's performance for the three months to 30th June 2022 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

12. CIPFA REPORTING

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

13. RISK REGISTER UPDATE (Pages 93 - 98)

The purpose of this report is to update the Pension Board with the latest risk register as at September 2022.

14. PENSION BOARD'S ANNUAL REPORT (Pages 99 - 110)

The purpose of this report is to review and approve the Pension Board's annual report.

15. PENSION BOARD WORKPLAN & TRAINING PLAN (Pages 111 - 118)

The purpose of this report is to receive regular updates on Training and Work Plan issues from the Board and request high level training needs from Board Members.

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

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 9th June, 2022

Present:- Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (Member Representative), Tony Whitlock (Employer Representative) and Alison Wyatt (Member Representative)

Also in attendance: Jeff Wring (Service Director - Commercial and Governance), Geoff Cleak (Pensions Manager), Claire Newbery (Employer Services Manager) and Liz Woodyard (Group Manager for Funding, Investment & Risk)

1 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

2 APOLOGIES FOR ABSENCE

There were none.

3 DECLARATIONS OF INTEREST

Alison Wyatt informed the Board that she had recently been appointed as Chief Financial Officer for a Multi Academy Trust in Chard and was therefore part of the Somerset Pension Fund Scheme.

The Service Director for Commercial and Governance commented that there was currently no conflict of interest with this appointment.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC

There were none.

6 ITEMS FROM MEMBERS

There were none.

7 MINUTES OF PREVIOUS MEETING: 22ND MARCH 2022

The Board approved the minutes of the previous meeting.

8 BRUNEL UPDATE (VERBAL)

The Service Director for Commercial and Governance addressed the Board. He explained that Tony Bartlett, former Service Director for Financial Control and Pensions had now left the Council and administration arrangements for the Avon Pension Fund was now within his work area.

He said that they were in the process of recruiting for the position of Head of Pensions and that in the interim he was undertaking this role with the support of the lead Pensions officers and their teams.

Tony Whitlock asked what the likelihood was of being able to make an appointment to this position.

The Service Director for Commercial and Governance replied that a number of applications have already been received and that the closing date was 16th June 2022.

The Group Manager for Funding, Investment & Risk addressed the Board. She said that the conflict in Ukraine and the impact that has had on inflation globally, alongside rising bond yields remains a concern as this has a big impact on investment markets.

She said that when sanctions were imposed as a result of the conflict that this meant a certain number of assets were unable to be sold. She added that the Fund had a limited exposure of this nature, around £150,000. She said that managers would now value these assets at zero.

She stated the main impact though is inflation and rising bond yields and the effect this had on our investment performance in the quarter up to March 2022 and in the current quarter. She said that the Fund has very little exposure to sectors and stocks that would do well in an inflationary environment, such as oil, gas, materials and energy and this was because of the tilt the Fund has towards ESG companies.

Therefore, it was difficult for the Equity Portfolios at the present time and that Brunel were monitoring this closely. She said that they would not expect a change in investment approach from managers as they were appointed on the basis of how they invest.

She stated that she felt that a prolonged state of inflation was now to be expected and therefore consideration needs to be given to how this will impact investment returns we achieve versus what is needed for the valuation.

She explained that all benefits are inflation linked and this will have a major pressure on our liabilities which will be a lot higher (will have an impact when the pensions increase rate is set in September).

She said that the period ahead would be challenging but felt the Fund has the ability to ride out this difficult period and should not look to make any knee jerk reactionary decisions.

She informed the Board that Brunel were operating just inside their budget and that discussions were ongoing with regard to their strategic direction and client priorities

for the next 2-3 years. She added that there was a consensus that they should continue to deliver on responsible investing, climate solutions and better reporting.

She stated that a big project was also taking place with Brunel on the Climate Stocktake to review their climate policy, how successful it has been and what the focus should be over the next 2-3 years. She added that this work was due conclude later in the year and then the Fund would use this policy as part of the Strategic Review to ensure we can achieve our own climate objectives.

The Chair commented that it was good to see the ESG focus remain with Brunel but asked if there was a risk should they not redirect themselves sufficiently that they will not be able to meet its fiduciary duty in terms of returns to the Fund.

The Group Manager for Funding, Investment & Risk replied that it was set to be a testing time and said that the Avon Pension Fund did previously have a UK Equity Portfolio which had no investments in oil or gas. She added that the portfolio underperformed for a long period of time but they persisted with it as they believed it would produce the returns required in the long term.

She said that there could be difficult discussions ahead with clients that maybe are not so ESG imbedded as a driver of returns if the situation persists for up to a year, which it could.

She stated that she felt we were in a time of significant market disruption over the next couple of years due to Covid and deglobalisation and inflation. She added that she could not see Brunel swaying from their ESG stance and it would be a case of how they and we manage that risk in terms of our strategic decision making.

The Board **RESOLVED** to note the update.

9 LEGISLATION UPDATE

The Pensions Manager introduced this report to the Board and highlighted the following areas.

Stronger Nudge

With effect from 1 June 2022, the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022 (SI 2022/30) will be introduced – known as the “Nudge Regulations”.

The regulations introduce additional requirements on administering authorities to assist members making decisions in relation to their Defined Contribution investments i.e. AVCs in the LGPS.

Alongside updating processes and procedures in relation to increased requirements for administering authorities on transfer values, the administration team is also considering the required changes in relation to the Stronger Nudge requirements relating to members with AVCs.

The extra requirements (alongside those already effective in relation to transfers) will increase time taken by the administration team to process AVC cases and hence there may be implications on KPIs and resource needed for other projects, which will need to be monitored going forwards.

The Chair commented that it was important to make sure that any members with AVCs were not inappropriately advised and that officers were not undermined in the advice given to members.

The Pensions Manager said that officers could possibly face a challenge from financial advisors, but that it was their role to encourage members to seek independent advice and to record that they had done so.

Annual Allowance

In March 2022, the LGA issued its response to the HMRC consultation on the Registered Pension Schemes (Miscellaneous Amendments) Regulations 2022, which coupled with changes emerging from the Finance Act 2022 mean there are now additional requirements on administering authorities (and members) in relation to dealing with retrospective changes to pension input amounts for past pension input periods.

In line with guidance issued by the LGA, the administration team will need to ensure that policies and processes are updated in order that retrospective cases can be dealt with in the right manner and within the necessary timescales.

Depending on the number of cases to emerge, these requirements may be an additional burden on the administration team alongside the work associated with issuing 2022 Pension Saving Statements in the autumn.

The Chair said that this presented officers with an onerous task that could see them going back a number of years for the information required.

The Pensions Manager replied that he felt that around 60 – 80 cases of this nature a year were dealt with by officers currently and that this issue would put more reliance upon them to provide members with appropriate guidance.

Ukraine - (Responsible Investment and administration)

In light of events in Ukraine and the sanctions being imposed on Russia by the UK government, LGPS Funds were advised by SAB to consider the implications for their investment portfolios.

The conflict has also required the administration team to consider payment of benefits to overseas members. The impact on funding strategy will be considered further as part of the 2022 actuarial valuation.

In relation to administration, the Fund has undertaken a series of overseas indicator reports to ascertain that there aren't any pensioner or dependant members with accounts in Russia.

Any further implications of the conflict (impacting investment, funding, covenant and administration) will be considered as and when they arise by the relevant teams.

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

10 PENSION FUND ADMINISTRATION

The Employer Services Manager introduced this report to the Board and highlighted the following areas.

Workload & Performance

With Increasing volumes of work the Fund continues to operate below its desired target of >90% for most case types and the case-by-case breakdown demonstrates an overall general maintenance from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year.

A contributory factor relating to underperformance can be associated with the inclusion of the current backlog project and the processing of historic workload cases impacting KPI's.

The Backlog project has exceeded the original six-months allocated timeframe. The final cases are more complex requiring Senior Pensions Officer's sign off and cases waiting for outstanding information that will be dealt with outside the backlog project.

McCloud Judgement

The Fund continues to work on collating/analysing data from employers in relation to implementing the remedy.

Resource Recruitment & Training

Recruitment and retention remain a key factor impacting business operations. Employer Services currently have 4 FTE vacancies and member services teams have 3 FTE vacancies in addition the Technical & Compliance post remaining unfilled. The administration is also carrying three maternity absences across the service at this time.

The Fund is currently engaging with a specialist recruitment agency to secure 4 technical posts on a temporary basis pending ongoing recruitment campaigns.

Recruitment continues to backfill vacant posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.

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.

Alison Wyatt asked what can be done in terms of McCloud and the data that is still outstanding from 2 of the main 4 Unitary Authorities.

The Employer Services Manager replied that in particular, one of the UA's does not yet have a workable solution for their data. She added that they have around 5,000 active members and have setup an internal project to attempt to complete this work by the deadline of 31st August 2022.

Steve Harman said that he believed that the issue should be escalated to the highest level within that Authority as it was putting the Fund in a difficult position.

The Employer Services Manager replied that Senior HR Officers and Financial Directors have been advised and they will look to go further if required.

The Chair said that the Board would support officers in their pursuit of this information.

The Employer Services Manager said that this matter would not affect the Annual Benefit Statements. She added that they were due to meet with that Authority within the next two weeks.

Steve Harman commented that he acknowledged that the Fund was not where it wanted to be in terms of performance, but said that this was in no way a criticism of officers who were continuing to work hard under pressure.

The Employer Services Manager replied that she believed that the Digital Strategy would ease a number of these issues. She added that the amount of monthly data received by the Fund is vast.

Alison Wyatt asked if it was known why there had been such an increase in cases recently.

The Employer Services Manager replied that membership was increasing slowly, but that it had been evidenced that there had been a 50% increase in leavers over the past two years.

The Pensions Manager added that there had also been a recent explosion of employers and that more short-term contracts were in effect, especially since the pandemic.

Helen Ball asked that with such a wide range of employers had any consideration been given to applying any additional charges so that this could be added to the budget of the Pension Fund.

The Pensions Manager replied that the long term aim of the admin strategy was to offer a consultancy service to employers where support from the Fund was needed and that this would be chargeable.

He advised the Board that they were seeking to procure a new AVC provider having served notice with current provider Aviva. He added that discussions are ongoing with Hymans Robertson regarding support in procuring a new provider.

He said that officers recognise that performance figures are not where the Fund would want to be with regard to KPIs and that APF do participate in national benchmarking with CIPFA. He added though that many schemes were not, with less than 20%, so access to comparable data was not easy.

Steve Harman said that he was an advocate of benchmarking and offered the support of the Corporate Team to the Fund to help where possible.

The Chair suggested using information that is available from submission of the SF3 form by Local Authorities for cost comparison and the Fund Annual Reports (all held on the SAB website) for service delivery KPI comparison.

The Pensions Manager said that they could use SF3 to compare costs data and would also carry on with CIPFA in terms of performance.

The Board **RESOLVED** to note the Fund performance for the three months to 31st March 2022.

11 ANNUAL REVIEW OF COMMITTEE & PENSION BOARD GOVERNANCE ARRANGEMENTS

The Pensions Manager introduced this report to the Board and highlighted the following areas.

Pension Board

The annual review of governance arrangements for the Pension Board have been undertaken and a summary of the findings are set out in Appendix 1.

Avon Pension Fund Committee

Annually in June the Avon Pension Fund Committee review its governance arrangements.

Following recommendations from the SAB's Good Governance Review and gap analysis conducted by Hymans Robertson (see Appendix 11) a draft Conflicts of interest policy (appendix 7), Training Strategy Policy (Appendix 8), Representation Policy (Appendix 9 which will be an appendix to the Governance Compliance Statement) and a decision making matrix (Appendix 10) have been drafted for the Committee's approval in June.

The Service Director for Commercial and Governance explained that this report was due to be discussed by the Avon Pension Fund Committee later in the month. He added that it was important to focus on the good Governance and the Gap Analysis.

Helen Ball suggested that the Board focuses on the two areas outlined for improvement, Conflict of Interest and Representation and reviews the other areas on a less frequent basis.

The Chair commented that to have obtained full compliance for the Administration Strategy was a solid foundation to build upon.

The Service Director for Commercial and Governance said that the Conflicts of Interest Policy (Appendix 7), Training Strategy Policy (Appendix 8), Representation Policy (Appendix 9) had been drafted to address those gaps that have been identified.

The Board **RESOLVED** to note and approve the report and its appendices ahead of the upcoming meeting of the Avon Pension Fund Committee.

12 RISK REGISTER UPDATE

The Pensions Manager introduced this report to the Board and highlighted the following areas.

The Risk Register is reviewed every quarter by the pension management team. All risks with a review date are re-evaluated using the evaluation form and updates agreed and made to the risk register. Any new risks identified or changes to any other risks are also considered and the necessary amendments made.

He stated that a new risk had recently been added as follows:

Stagflation - Risk of stagflation (persistently high inflation and low growth/recession) is rising globally but especially in the UK. This could have material negative impact on the Funding Level especially if prolonged. Stagflation over next 3 years could see significant rises in employer contributions (assuming asset values do not keep pace with inflation) at the 2025 valuation. Funding and investment strategies are continuously monitored to mitigate risk.

He said that this risk has been given a score of 12.

Steve Harman asked if the data returns from the two Unitary Authorities mentioned earlier in the meeting should be covered in the Register.

The Pensions Manager replied that this would be covered under McCloud (R63).

Tony Whitlock asked how many vacancies there were currently within the team and acknowledged that recruitment was a real issue for Local Government.

The Pensions Manager replied that it was around 8 or 9 and said that the current turnover of staff is also quite high.

The Chair asked if the Fund took part in the recent pay consultation.

The Pensions Manager replied that they had and that it had been identified that they were in the lower pay quartile. He added that a lot of Funds were suffering the same fate and that home working was a factor that was allowing people to take up better paid roles without necessarily moving to the locality of the employer.

He added that as part of the Transformation Plan they were carrying out a review career grades and pay.

Alison Wyatt asked if it was considered that cyber risk was covered enough in the Risk Register.

The Service Director for Commercial and Governance replied that this is a key risk to all organisations currently. He advised that a review of the Fund's current status had recently been carried out against the Cyber Essentials standards and that this was an accreditation that the Council were working towards achieving.

He said that following this they will be looking at what next steps might be required, including investment in additional officers or processes. He added that he had seen a draft report on this issue which was positive in terms of the Fund's current ability to manage cyber risk and that it was likely that a report on this matter would come back to a future meeting of the Board.

The Chair added that a workshop on cyber risk was also due to be held for the Board in the coming months.

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

13 PENSION BOARD WORKPLAN & TRAINING PLAN

The Pensions Manager introduced this report to the Board and highlighted the following areas.

He reminded members that there was to be workshop on 17th June relating to the Funding Strategy Review & Valuation.

He advised that Members were asked to complete module 1, Introduction to the LGPS, module 2, LGPS Governance & Regulators and module 3, Administration & Fund Management by the June meeting and that the full timetable for completion of all modules was contained in Appendix 2.

The Chair commented that where required further workshops will be scheduled and said that he felt that the training from Hymans was excellent.

Helen Ball said that she felt that the tests involved in the training were straightforward enough, but that the content itself implied that a level of finance knowledge was already required and therefore overall completing a module can be hard work.

She added that the module on Administration & Fund Management showed just how constantly it changes and how complex it is.

The Pensions Manager replied that it is not comparable to when he started his career as the intensity of the work involved now has increased so much.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2022/23
- ii) Note the dates for future meetings.

The meeting ended at 11.42 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	13 September 2022	AGENDA ITEM NUMBER
TITLE:	DRAFT FUNDING STRATEGY STATEMENT 2022	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Funding Strategy Statement Appendix 2 – FSS Checklist		

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the Fund's Actuary has used in preparing the actuarial valuation and the policies adopted by the Administering Authority.
- 1.2 The draft FSS approved by the Committee at its June meeting has been circulated to the employing bodies for comment. The comments arising from the consultation will be reported to the Committee meeting on 23 September 2022 when the FSS will be approved.
- 1.3 The Pension Board is asked to consider the FSS in terms of its compliance with regulations and CIPFA guidance and provide feedback to the Pensions Committee. The FSS checklist is included in Appendix 2 to assist the Board.

2 RECOMMENDATION

- 2.1 **The Board reviews the draft FSS for compliance with the LGPS Regulations 2013 and CIPFA guidance and provides any comments to the Pension Committee to consider at the committee meeting on 23 September 2022.**

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct implications related to the Pension Board in connection with this report.

4 BACKGROUND AND PROCESS

- 4.1 The LGPS regulations require each administering authority to prepare and publish a Funding Strategy Statement. The key requirements for preparing the FSS are as follows:
 - After consultation with all relevant interested parties involved with the Fund, the administering authority must prepare and publish their funding strategy
 - In preparing the FSS, the administering authority must have regard to:

- (i) Guidance issued by CIPFA for this purpose
 - (ii) The Investment Strategy Statement (ISS) for the Fund published under the LGPS (Management and Investment of Funds) Regulations 2016
 - The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS.
 - The Fund's Actuary must have regard to the FSS as part of the valuation process.
- 4.2 The FSS sets out all the key assumptions which the Actuary will use in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where it has discretion to manage the funding position of the Fund.
- 4.3 The draft FSS attached as Appendix 1 is based on preliminary information that can only be finalised once the valuation, consultation processes and associated analysis have been completed.
- 4.4 The draft FSS was circulated to employers and interested parties for consultation during July and August. Comments will be considered by Officers and reported to the next committee meeting (23 September 2022) where the FSS will be approved. Under the governing regulations, the Fund's Actuary cannot finalise the valuation until the FSS has been approved by the Committee. The 2022 valuation outcome will be reported to Committee in March 2023.
- 4.5 The Pension Board must consider whether the Administering Authority has complied with the LGPS Regulations 2013 and CIPFA guidance when drafting the FSS.

5 DRAFT FUNDING STRATEGY STATEMENT

- 5.1 The FSS is an important document for the Fund and its employers. It sets out a clear and transparent funding strategy that will identify how each employer's pension liabilities will be met going forward. Therefore the policies and information contained within the FSS will have a financial and operational impact on all participating employers within the Fund. In addition it contains the key policies by which the Fund manages funding, employer and financial risk.
- 5.2 The FSS is the key governance document as it sets out the risk management strategy by which the administering authority ensures the solvency of the Fund for all employers. The other key strategy, the investment strategy, influences the FSS as the Actuary must allow for the investment return expectations when finalising the discount rate assumption adopted in the funding strategy.
- 5.3 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 professional advice provided by the Actuary.
- 5.4 The objective of the FSS is to secure the solvency and long term cost efficiency of the Fund. In doing this it seeks to balance solvency with affordability of the employing bodies. The purpose of the FSS is therefore
- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities
 - To establish contributions at a level "to secure the solvency of the pension fund" and the "long term cost efficiency"

- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

5.5 The key financial and demographic assumptions in the FSS are set following advice from the Fund Actuary after consultation with the administering authority. Some of the demographic assumptions have yet to be finalised but the Actuary has done some preliminary analysis to inform on the “direction of travel”.

5.6 The format of the FSS has been changed this year so that the main actuarial and valuation principles are clearly set out at the beginning of the report. The FSS also includes all the funding related policies, even though the regulations do not require them all to be included; this is to provide a single reference document for employers and to ensure consistency with the Funding Strategy itself. The Board are not required to review and comment on Appendices A-J of the FSS.

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 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 The report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with Actuary
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

FUNDING STRATEGY STATEMENT

AVON PENSION FUND

[DATE]

BATH AND NORTH EAST SOMERSET COUNCIL

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

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

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

This Funding Strategy Statement has been prepared by Bath and North East Somerset Council (the Administering Authority) to set out the funding strategy for the Avon Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1

GUIDE TO THE FSS AND POLICIES

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

1. Actuarial Method and Assumptions (Appendix A)

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

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [here].

3. Employer Types and Admission Policy for New Employers (Appendix C)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [here].

4. Termination Policy for Exiting Employers (Appendix D)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here].

5. Review of Employer Contributions between Valuations (Appendix E)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here].

6. Employers Moving between Investment Strategies (Appendix F)

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

7. New Academy Conversions and Multi-Academy Trusts (Appendix G)

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

8. Covenant Assessment and Monitoring Policy (Appendix H)

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

9. Notifiable Events Framework (Appendix I)

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

10. III 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"> • manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, mandatory, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes • maximise the returns from investments within reasonable risk parameters taking into account the above aims. 	<ul style="list-style-type: none"> • receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

RESPONSIBILITIES OF THE KEY PARTIES

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

KEY PARTIES TO THE FSS

The Administering Authority should:	The Individual Employer should:
<ul style="list-style-type: none"> • operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund's actuary • prepare and maintain a FSS and an Investment Strategy Statement ("ISS"), both after proper consultation with interested parties • monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice. 	<ul style="list-style-type: none"> • deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable) • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund. • understand the pensions impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality. • comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving / transferring employer).

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> • prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund. 	<ul style="list-style-type: none"> • notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

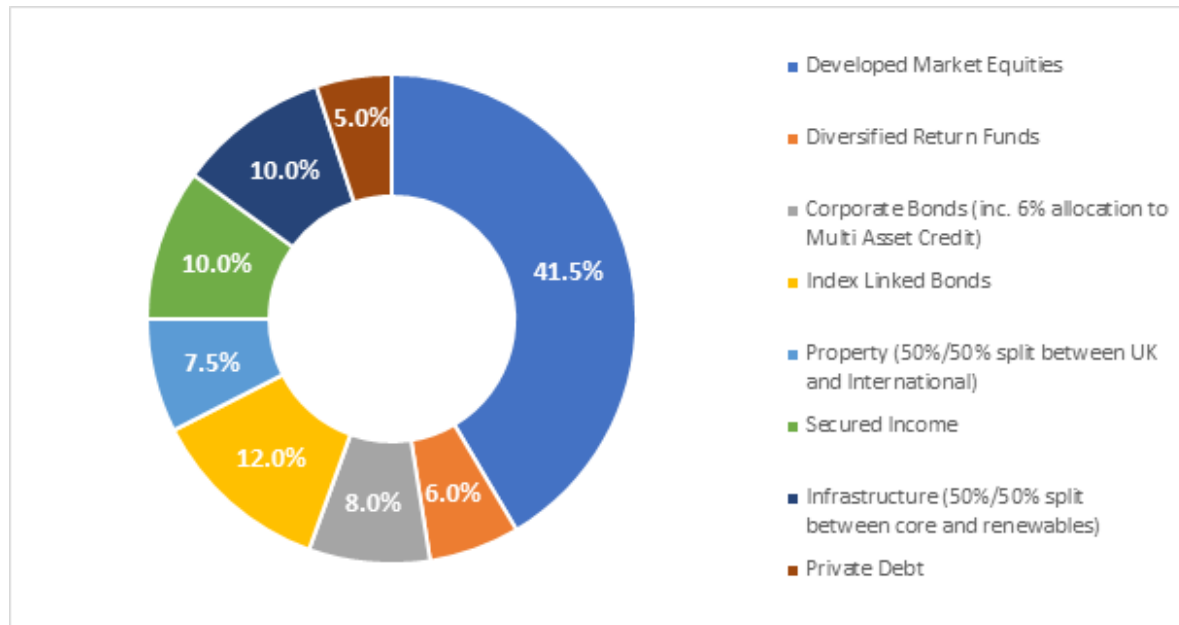
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

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

The results of the 2022 valuation show the liabilities to be [xx%] covered by the assets, with the funding [deficit] of [x%] being covered by [future deficit contributions].

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance taking into account the investment strategy adopted by the Fund, as set out in the ISS.

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



RISK MANAGEMENT STRATEGY

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

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

Lower risk investment strategy	<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>
---------------------------------------	---

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

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

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

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

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary’s formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL	DEMOGRAPHIC
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> Investment markets fail to perform in line with expectations Protection and risk management policies fail to perform in line with expectations Market outlook moves at variance with assumptions Investment Fund Managers fail to achieve performance targets over the longer term Asset re-allocations in volatile markets may lock in past losses Pay and price inflation significantly more than anticipated Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. <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"> Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy. <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>

GOVERNANCE	REGULATORY
<p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level 	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme, Changes to national pension requirements and/or HMRC Rules Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a

<ul style="list-style-type: none"> • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or a bond which is not adequate. <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>large increase in the number of academies in the Fund due to Government policy.</p> <ul style="list-style-type: none"> • 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 <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>
---	--

MONITORING AND REVIEW

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- if there have been material changes in the ISS

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

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

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

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

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

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

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

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

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

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

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

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

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

Life expectancy assumptions

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

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

OTHER DEMOGRAPHIC ASSUMPTIONS

Commutation	It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
-------------	--

Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding [0.6%] of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

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

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

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

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

taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

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

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer in either the higher risk or lower risk strategy, a pro-rata principle is adopted. This involves applying the appropriate individual employer investment strategy to each employer unless this is varied by agreement between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares maybe restated for changes in data or other policies.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

EMPLOYER RECOVERY PLANS– KEY PRINCIPLES

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

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment.

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

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

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

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

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

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

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

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

3. However, where an employer is expected to exit the Fund then in normal circumstances, the deficit would be recovered over the remaining period to exit (if shorter than the recovery period determined by points 1. and 2. above).
4. For closed employers, the deficit recovery period will be linked to the expected average future working lifetime of the active membership (if shorter than the recovery period determined by points 1. to 3. above).
5. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
6. Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish.
7. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
8. Where there has been a significant increase in deficit, in exceptional circumstances, the Fund may allow an employer to extend their recovery period. The Fund will take into account affordability and covenant considerations when making the decision.
9. For new admitted bodies with a guarantee from the outsourcing Scheme employer the Administering Authority will discuss the appropriate deficit recovery period, where applicable, with the outsourcing Scheme employer. Generally the deficit recovery period will be the length of the commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If the Scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the Scheme employer's. The terms of the Scheme Employer's contract with the admission body may be a factor in these cases where this is made known to the Fund.
10. For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 12 year period in line with the medium term recovery period target for the whole Fund, subject to a total employer contribution minimum of zero. If an employer is expected to exit the Fund before this period,

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

11. The applicable investment strategy for each employer will be reflected in the relevant employer's notional asset share, funding basis and contribution requirements.
12. The Fund's policy is not to allow the prepayment of employee contributions. The prepayment of primary contributions may be allowed at the Fund's discretion. A copy of the primary contribution prepayment policy can be provided by the Fund upon request.
13. Where increases in total employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, any increase in the primary contribution rate (from the rates of contribution payable in the year 2023/24) may be implemented in steps over a period of 3 years, depending on affordability of contributions as determined by the Administering Authority. The minimum step will be 0.5% of pay per annum (i.e. the increase in primary contribution rate must be at least 1.5% for this facility to apply). However, where total contributions (primary plus secondary) have reduced, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
14. The secondary contributions may be set with reference to a different funding target, subject to the discretion of the Fund.
15. For employers that do not have a financial year end of 31 March 2023 (e.g. 31st July 2023 or 31st August 2023), the Fund can, at the employer's request before 28th February 2023, allow the employer to continue to pay at their current contribution level (i.e. the 2022/23 contribution rate) until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 if the year-end is 31 July 2023).
16. As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
17. It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
18. For those bodies identified as having a relatively weak covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.

19. The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes as a result of any benefit costs being insured with a third party or internally within the Fund.
20. Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C – EMPLOYER TYPES AND ADMISSION POLICY

ENTRY TO THE FUND

MANDATORY SCHEME EMPLOYERS

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

DESIGNATING BODIES

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

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

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

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

ADMISSION BODIES

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

Admitted bodies can join the Fund if

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

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

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

RISK MANAGEMENT OF “NOT FOR PROFIT” ADMISSION BODIES

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

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

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

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

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

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

academisation programme in recent years has led to a number of Children's Centres being run by an Academy or Academy Trust.

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

RELEVANT LEGISLATION

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

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

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

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

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARAGRAPH 8

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

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

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

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

- (a) a person who funds the admission body in whole or in part;
- (b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;
- (c) a person who—
 - (i) owns, or
 - (ii) controls the exercise of the functions of, the admission body”.

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

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

EXITING THE FUND

TERMINATION POLICY

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an “exiting employer” under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

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

1. The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). Further detail is set out below.
2. At the discretion of the Administering Authority, instalment plans over a defined period may be agreed but only when there are clear issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

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

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

	higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to [2.25% p.a.]. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
McCloud	[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]	
Additional Costs	<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.</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>	
Default policy once the termination certificate has been provided	<ul style="list-style-type: none"> In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process. 	The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute between the interested parties.

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

DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR)

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

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

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

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

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

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

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

DESIGNATING BODIES AND CONNECTED AND CONTROLLED ENTITIES

In the event of cessation:

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

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

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

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

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

For the avoidance of doubt, the Fund will not agree to a request for a DSA or DDA which arises because of a decision taken by an employer to exit the Fund prematurely. This applies unless it is clear that continued participation in the Fund puts the solvency of that employer at risk in the foreseeable future and therefore to do so is in the best interest of the Fund in terms of managing risks to the remaining employers and therefore the taxpayer. As part of the evidential requirements

backing a DDA/DSA request by an employer (see below), the Fund will expect employers to be in a position to demonstrate that alternative flexibility with other existing and new sources of finance (including banks and funders) have also been explored and the reasons for why these are not viable.

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

POLICY FOR SPREADING EXIT PAYMENTS

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

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information to use as part of their covenant review. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
 - b. The initial and annual payments due and how these will change over the period
 - c. The interest rates applicable and the costs associated with the payment plan devised
 - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
 - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Actuary, covenant, legal and any other specialists necessary
 - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

- h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.
 7. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

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

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

1. The Administering Authority will request updated covenant data from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.
3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date (for example when the Employer's active membership has reduced below 5 members and it appears likely that termination could be triggered within the next [6-9] months).
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the

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

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

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

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.
6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer as part of the arrangements and contribution requirements. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

APPENDIX E - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

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

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

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

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

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

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

SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

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

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

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

This includes but is not limited to the following scenarios:

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

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

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

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

This includes but is not limited to the following scenarios:

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

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

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

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any

specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

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

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

In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

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

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

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

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

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

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

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

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

APPENDIX F - EMPLOYERS MOVING BETWEEN INVESTMENT STRATEGIES

The Fund currently operates two investment strategies for employers:

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

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

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

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

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

CHOOSING TO MOVE TO ANOTHER STRATEGY

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

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

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

future service and deficit contributions).

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

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

OTHER CONSIDERATIONS

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

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

This determination is based on:

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

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

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

via a deduction in the notional asset share.

IMPLEMENTING THE MOVE TO THE LOWER RISK STRATEGY

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

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

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

APPENDIX G - ACADEMIES / MULTI-ACADEMY TRUST POLICY

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

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

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

MULTI ACADEMY TRUSTS

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

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

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

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

APPROACH TO SETTING CONTRIBUTION RATES

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

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

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

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

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

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

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

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

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

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

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

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

APPENDIX H – COVENANT ASSESSMENT AND MONITORING POLICY

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

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

RISK CRITERIA

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

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

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

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

ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to

meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

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

The employer covenant will be assessed based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/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

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

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

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

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

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

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

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

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

EVENTS THAT MUST BE NOTIFIED TO THE FUND

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

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

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

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

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

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

2) Significant changes to the employer covenant

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

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

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

ii. A change in the employer's circumstances

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

- a. A merger of the employer with another organisation

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

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

WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

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

WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

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

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

Employers will kept informed of all steps throughout the process.

APPENDIX J – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENT

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

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

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is [1.00]% of pay per annum
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

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

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

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where 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.

APPENDIX K - GLOSSARY OF TERMS

ACTUARIAL VALUATION: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

ADMISSION BODIES: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

BENCHMARK: a measure against which fund performance is to be judged.

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

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

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI and the method of calculation is different. The CPI is expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

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

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

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

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

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

DEFICIT: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

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

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

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

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

EMPLOYING BODIES: Scheme employers that participate in the LGPS.

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

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

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

FUNDING OR SOLVENCY LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document which the Administering Authority is obliged to prepare and publish that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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

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

HIGHER RISK VALUATION FUNDING BASIS: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the expected long term return achieved on the Fund's investments. This is expressed as an expected return over CPI.

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

INVESTMENT STRATEGY: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, accumulated to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

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

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

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

MANDATORY SCHEME EMPLOYERS: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities and academies.

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

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

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

MINIMUM RISK FUNDING BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PHASING/STEPPING OF CONTRIBUTIONS: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually "stepped" or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

POOLING: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members compared to their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be sufficiently prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

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

Funding Strategy Statement Checklist 2022

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

Requirements of regulation 58	Confirmation of Compliance	Comments
1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.	✓	The draft FSS was circulated to all employers and Pension Board.
2) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.	✓	The FSS is reviewed at each valuation.
3) In preparing, maintaining and reviewing the statement, the administering authority must have regard to: <ul style="list-style-type: none"> a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012 b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. 	✓	<p>A checklist against the CIPFA guidance is set out below.</p> <p>Section 3 of the FSS references the current Investment Strategy Statement.</p>

CIPFA Guidance	Confirmation of Compliance	Reference to FSS section
CIPFA states that the FSS should be prepared having regard to the guidance given on the following matters:		
<p>1) The purpose of the FSS in policy terms including the processes by which the admin authority:</p> <ul style="list-style-type: none"> a) Establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward b) Supports the desirability of maintaining as nearly constant a primary contribution rate as possible as defined in Reg 62(5) of the LGPS Regulations 2013 c) Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met d) Takes a prudent longer-term view of funding those liabilities 	✓	Section 2 & 3
2) The aims and purpose of the pension fund	✓	Section 3, p.6
3) The responsibility of the key parties including the administering authority, individual employers and fund actuary	✓	Section 3, p.6
<p>4) Solvency issues, target funding levels and long-term cost efficiency. The funding plan must be prudently appropriate, relevant to local circumstances, balanced with the short-term and long-term funding requirements of the pension fund, including the ability to meet pension obligations as they fall due.</p> <p>Securing solvency and long-term cost efficiency is a regulatory requirement whereas as constant as possible primary contribution rate remains a desirable outcome</p> <p>Long-term cost efficiency will be met if the rate of employer contributions is sufficient to for the cost of current benefit accrual with and appropriate adjustment for any surplus/deficit.</p>	✓	Section 3, p.8
<p>5) Links to the investment policy set out in the Investment Strategy Statement</p> <p>The required investment returns to meet the aspirations set out in the FSS must be compatible with the investment policy set out in the ISS and this should be confirmed and explained in the FSS</p>	✓	Section 3, p.8
6) Identifications of risk and countermeasures including investment, employer, liquidity/maturity, liability, regulatory and compliance risks	✓	Section 3, p.10

Bath & North East Somerset Council	
MEETING:	LOCAL PENSION BOARD
MEETING DATE:	13 September 2022
TITLE:	PENSION FUND ADMINISTRATION Overview & Summary Performance Report
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: 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 performance for the three months to 30th June 2022 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

2 RECOMMENDATION

The Pension Board is asked to Note:

- 2.1 Fund performance for the three months to 30th June 2022.

3 BUSINESS CONTINUITY

- 3.1 Officers are undertaking a more blended working approach in line with arrangements introduced by Bath & North East Somerset Council. The Civic Centre has now re-opened for collaborative working and temporary working arrangements remain in place for staff to use 15 workstations in the Guildhall.
- 3.2 Arrangements for future long term accommodation have now been agreed with a move back to Keynsham Civic Centre expected to take place from early October.

4 WORKLOAD & PERFORMANCE

- 4.1 **Appendix 1** provides details of APF performance to the end of the last quarter for KPI's measured against the current SLA. The Fund continues to operate below its desired

target of >90% for most case types (Annex 1) and the case-by-case breakdown (Annex 2) demonstrates an overall general maintenance from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year (Annex 3).

5 RESOURCE RECRUITMENT & TRAINING

- 5.1 Recruitment and retention remain a key factor impacting business operations. Employer Services currently have 5 FTE vacancies and Member Services team have 4 FTE vacancies in addition the Technical & Compliance post has now been re-advertised. The administration is also carrying three maternity absences across the service.
- 5.2 Recruitment continues to backfill vacant posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.
- 5.3 To mitigate operational workload some project work has already been outsourced. In particular; GMP reconciliation project and the address tracing project. In addition, consultancy engagement has now been procured to provide ongoing support with McCloud remedy and the Annual Allowance tax charges review project. Mercer consultants continue to provide Technical & Compliance advice and guidance.

6 YEAR END & VALUATION

- 6.1 100% of Employer year end returns have now been received and the team have completed all required checks and validations before submitting to the scheme actuary. Mercer have reported the data is of a high standard with minimal data queries coming back to the Fund.
- 6.2 Employer returns are being scrutinised for penalty fines for late or poor data returns, further details will be reported to the Board in the December report.

7 ANNUAL BENEFIT STATEMENTS.

- 7.1 The Public Service Pensions Act 2013 requires Funds to produce Annual Benefit Statements by 31st August annually.
- 7.2 Statements are produced in-house and sent externally for printing and postage. All statements for deferred members were issued on 10 June, with those for active members being dispatched in three tranches on 8th, 15th and 22nd August, ahead of the statutory deadline.
- 7.3 As part of the digital transformation project 11,384 statements were published digitally to members signed up with access to My Pension Online.

UK Breakdown

Statement type and collation	Total Statements	Total Mailing
Single Statements	28686	28686
Double Statements	4366	2183
Triple Statements	1083	361
Four Statements	224	56

Five Statements	70	14
Seven Statements	7	1
PSOD Single Statements PSOD Single Statement Letter	21	21
Totals	34557	31322

Overseas Breakdown

Statement type and collation	Total Statements	Total Mailing
Overseas Single Statements	2	2
Totals	2	2

7.4 A supplementary re-run to manage any data corrections is planned for October.

8 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

6.1 The Fund continues to maintain a Common Data score above 95%, the TPR DIP report provides an overview and annual trending view of the outstanding cases for the last 12 months, please refer to **Appendix 2**.

9 PROGRESS ON KEY PROJECTS

9.1 **Appendix 3** provides the current position on a number of key operational projects currently in progress with an outline of further actions to be taken.

9.2 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.

10 MEMBER AVC ARRANGEMENTS – CHANGE OF PROVIDER

10.1 The Fund is in discussions to change the Additional Voluntary Contribution (AVC) provider as the current provider Aviva will no longer accept new business.

10.2 Officers have engaged consultancy support to source a new provider and facilitate any subsequent transfer process. Further details will be provided to the Pension Board as the situation develops.

11 RISK MANAGEMENT

11.1 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.

12 EQUALITIES STATEMENT

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

13 CLIMATE CHANGE

- 13.1 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.

14 OTHER OPTIONS CONSIDERED

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

15 CONSULTATION

- 15.1 The Report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

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

Annex 1

Overall Performance by Case Type

		Cases Last Quarter				
		Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	Quote - 15 days	244	152	62.30%	36	77.05%
	Payment - 15 days	191	130	68.06%	34	85.86%
Retirement (from Deferred)	Quote - 30 days	69	24	34.78%	10	49.28%
	Payment - 15 days	209	157	75.12%	14	81.82%
Deaths	Notification - 5 days	105	54	51.43%	39	88.57%
	Payment - 10 days	72	48	66.67%	8	77.78%
Refund of contributions	Quote - 10 days	717	113	15.76%	65	24.83%
	Payment - 10 days	206	107	51.94%	51	76.70%
Deferreds (early leavers)	30 days	590	442	74.92%	148	100.00%
Transfers In	Quote - 10 days	136	15	11.03%	8	16.91%
	Payment - 10 days	66	10	15.15%	5	22.73%
Transfers Out	Quote - 10 days	721	183	25.38%	190	51.73%
	Payment - 10 days	25	6	24.00%	0	24.00%
Estimates	Member - 15 days	198	158	79.80%	18	88.89%
	Employer - 15 days	40	28	70.00%	8	90.00%
Divorce	Quote - 45 days	74	37	50.00%	0	50.00%
	Actual - 15 days	0	0	100.00%	0	100.00%
Starters	40 days	819	819	100.00%	0	100.00%
		4482	2483	55.40%	634	69.54%

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	12	51	61	40	36	30	21	5
	Payment - 15 days	8	65	28	37	34	16	9	2
Retirement (from Deferred)	Quote - 30 days	10	34	3	4	4	3	4	17
	Payment - 15 days	9	92	47	18	14	20	11	7
Deaths	Notification - 5 days	11	54	39	6	1	1	1	3
	Payment - 10 days	5	33	15	8	4	7	2	3
Refund of contributions	Quote - 10 days	32	43	70	65	62	72	83	322
	Payment - 10 days	15	84	23	51	14	11	0	23
Deferreds (early leavers)	30 days	13	143	85	58	77	42	37	148
Transfers In	Quote - 10 days	25	10	5	8	7	2	7	97
	Payment - 10 days	36	8	2	5	1	2	4	44
Transfers Out	Quote - 10 days	39	132	51	190	175	104	61	8
	Payment - 10 days	20	0	0	0	3	2	1	6
Estimates	Member - 15 days	12	103	36	19	18	8	4	10
	Employer - 15 days	7	17	7	4	8	3	1	0
Divorce	Quote - 45 days	23	9	7	3	3	1	3	48
	Actual - 15 days	0	0	0	0	0	0	0	0
Starters	40 days	24	775	38	2	1	2	1	0

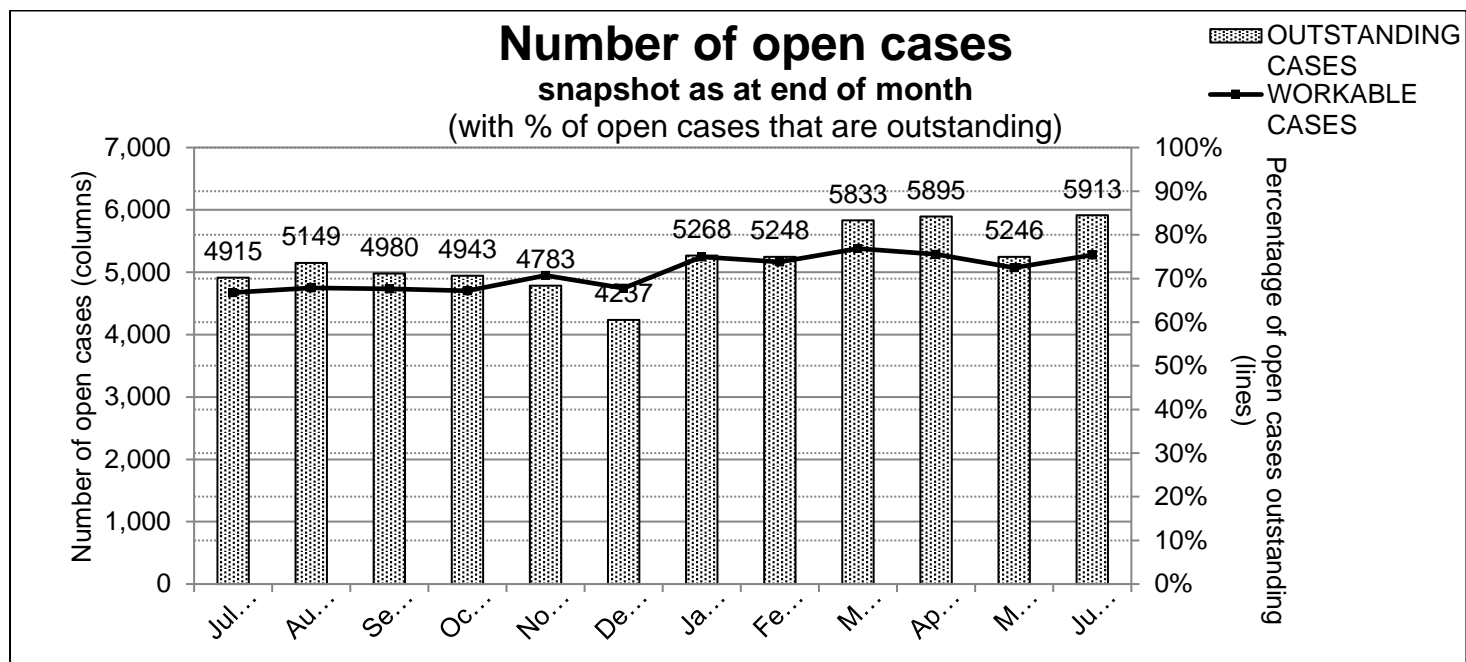
RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

Annex 3 Trend in Overall Performance

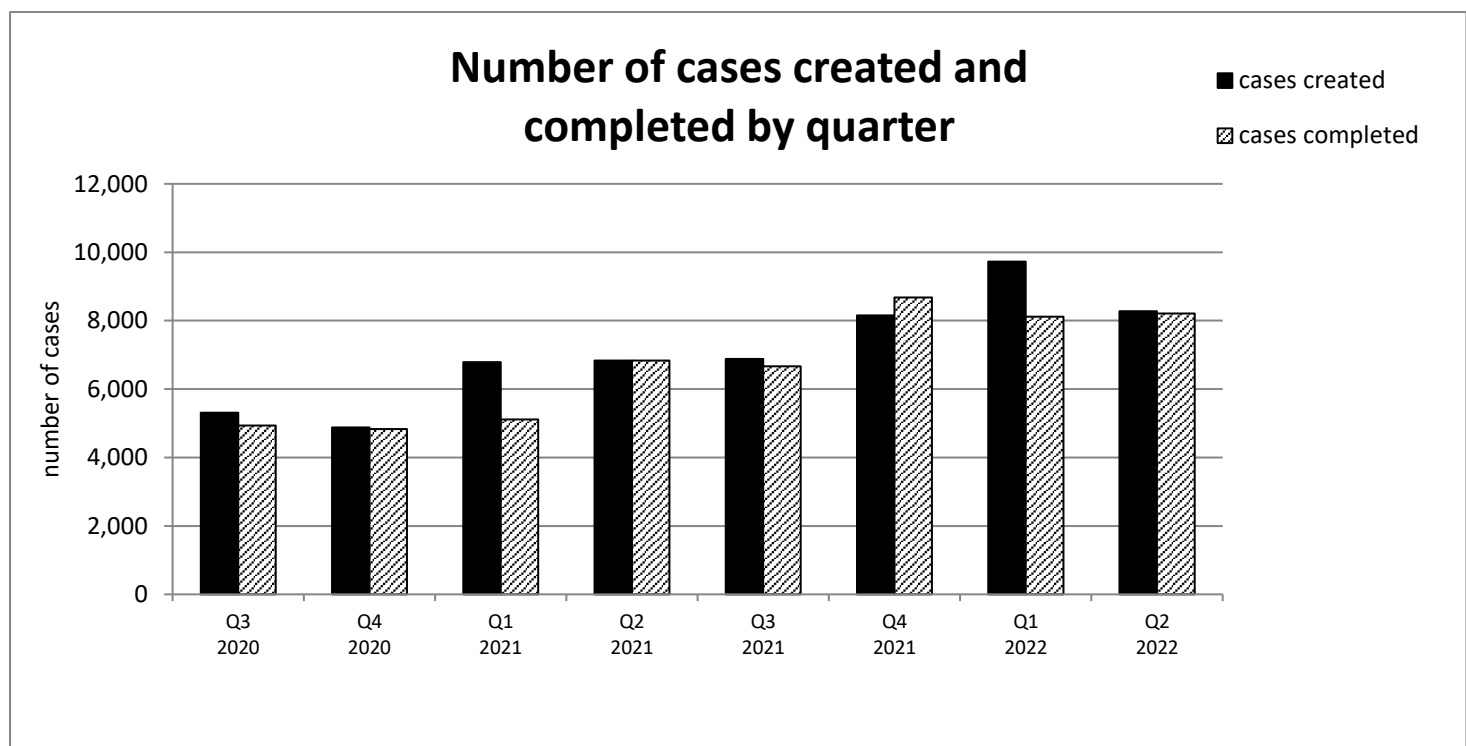
SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q3 Jul 21 - Sept 21	Q4 Oct 21 - Dec 21	Q1 Jan 22 - Mar 22	Q2 Apr 22 - Jun 22	Trend
Retirement (from Active)	Quote - 5 / 15 days	45.05%	80.65%	60.80%	62.30%	
	Payment - 5 / 15 days	87.39%	90.22%	82.59%	68.06%	
Retirement (from Deferred)	Quote - 30 days	31.52%	37.50%	44.44%	34.78%	
	Payment - 5 / 15 days	82.93%	82.07%	73.18%	75.12%	
Deaths	Notification - 5 days	93.68%	83.51%	46.24%	51.43%	
	Payment - 5 / 10 days	97.73%	90.28%	79.63%	66.67%	
Refund of contributions	Quote - 10 days	9.50%	26.68%	15.26%	15.76%	
	Payment - 10 days	65.22%	77.65%	50.46%	51.94%	
Deferreds (early leavers)	Notification - 20 / 30 days	65.78%	95.28%	93.00%	74.92%	
Transfers In	Quote - 10 days	1.36%	21.92%	13.85%	11.03%	
	Payment - 10 days	1.61%	0.00%	60.00%	15.15%	
Transfers Out	Quote - 10 days	10.13%	38.57%	33.23%	25.38%	
	Payment - 10 days	63.64%	55.56%	47.62%	24.00%	
Estimates	Member - 10/15 days	87.86%	81.87%	85.00%	79.80%	
	Employer - 15 days	76.47%	73.68%	74.65%	70.00%	
Divorce	Quote - 45 days	93.94%	92.59%	76.92%	50.00%	
	Actual - 15 days	100.00%	50.00%	100.00%	100.00%	
Starters	40 days	97.91%	100.00%	100.00%	100.00%	
Total Cases Processed		4224	5483	4277	3456	

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

Annex 4



Annex 5



Appendix 2

TPR Improvement Plan Data

As of 30th June 2022

Annex 1 – TPR Errors by Member Numbers

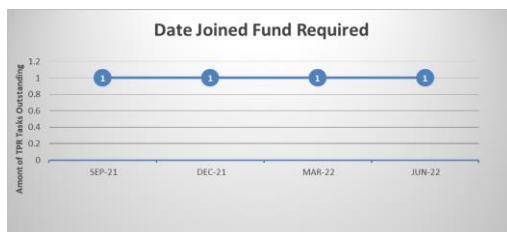
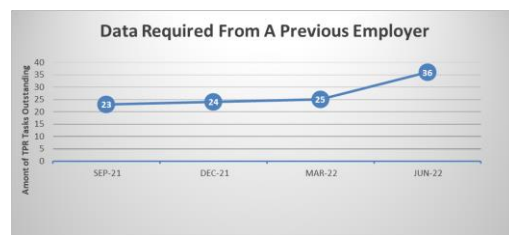
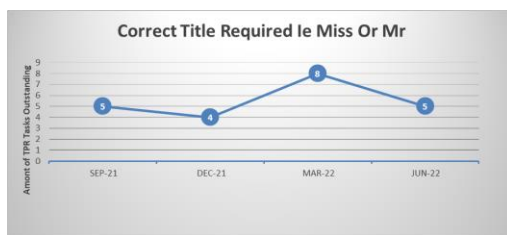
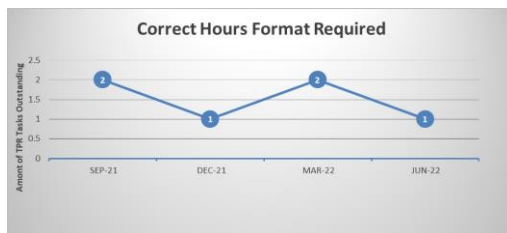
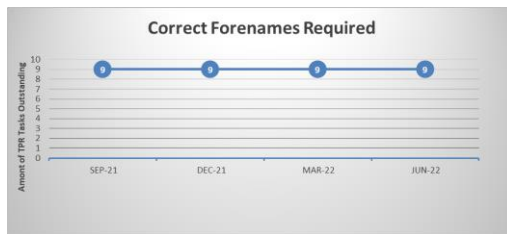
	Mar-22				Jun-22				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	39537	215	0.54%	99.46	39516	171	0.43%	99.57	- 44
UNDECIDED	5271	390	7.40%	92.60	5783	422	7.30%	92.70	+ 32
DEFERRED	43152	3730	8.64%	91.36	43475	3707	8.53%	91.47	- 23
PENSIONERS	34691	289	0.83%	99.17	35097	298	0.85%	99.15	+ 9
DEPENDANTS	5235	151	2.88%	97.12	5303	159	3.00%	97.00	+ 8
FROZEN	4704	1599	33.99%	66.01	5066	1668	32.93%	67.07	+ 69
TOTALS	132590	6374	4.81%	95.19	134240	6425	4.79%	95.21	+ 51

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

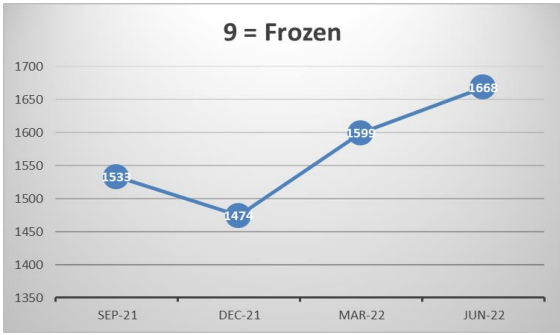
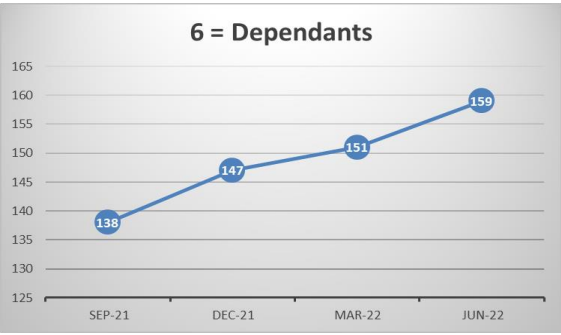
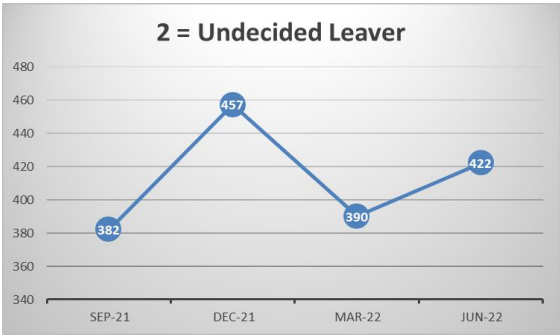
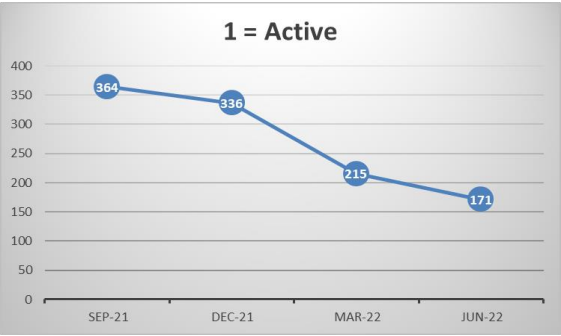
	Mar-22		Jun-22		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	72	1.12%	80	1.23%	+ 8
Care Pay For 2014-2015 Required	5	0.08%	4	0.06%	- 1
Care Pay For 2015-2016 Required	4	0.06%	2	0.03%	- 2
Care Pay For 2016-2017 Required	6	0.09%	4	0.06%	- 2
Care Pay For 2017-2018 Required	24	0.37%	24	0.37%	0
Care Pay For 2018-2019 Required	9	0.14%	9	0.14%	0
Care Pay For 2019-2020 Required	7	0.11%	8	0.12%	+ 1
Care Pay For 2020-2021 Required	12	0.19%	16	0.25%	+ 4
CARE pay for 2021-2022 required	0	0.00%	13	0.20%	+ 13
Missing data on leaver form - Escalation	0	0.00%	0	0.00%	+ 0
Casual Hours Data Required	0	0.00%	1	0.02%	+ 1
Correct Address Required	5300	82.08%	5305	81.43%	+ 5
Correct Forenames Required	9	0.14%	9	0.14%	0
Correct Gender Required	1	0.02%	0	0.00%	- 1
Correct Hours Format Required	2	0.03%	1	0.02%	- 1
Correct Nino Required	204	3.16%	212	3.25%	+ 8
Correct Title Required ie Miss Or Mr	8	0.12%	5	0.08%	- 3
Data Required From A Previous Employer	25	0.39%	36	0.55%	+ 11
Date Joined Fund Required	1	0.02%	1	0.02%	0
Historic Refund Case	487	7.54%	485	7.44%	- 2
Leaver Form Required	278	4.31%	298	4.57%	+ 20
Pay Ref Required	3	0.05%	2	0.03%	- 1
Grand total	6457	100%	6515	100%	

*Trend is influenced by number of errors

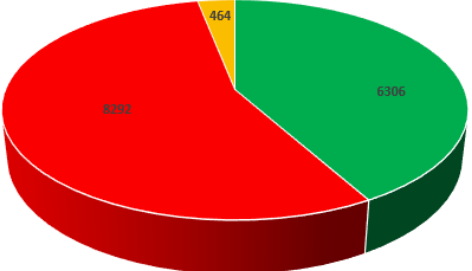
TPR Error Numbers by Error Type



TPR Error Numbers by Status



This page is intentionally left blank

	<p style="text-align: center;">Members Completed</p>  <p> ■ Members updated 41.87% ■ Members not updated 55.05% ■ Members - no contact details 3.08% </p>	
i-Connect – Monthly Data Returns Page 88	<p>Current IC statistics as at August 2022:</p> <p>Employers on IC – 325 (72% of Employers) Employers targeted for IC – 128 (28% of Employers) Active Members covered by IC – 34,417 86% of active membership covered by IC</p>	<p>In the last quarter 51 more employers have gone live with i-Connect with 128 now remaining.</p> <p>The handing back of loading data extracts has gone well and the team have adapted to new ways of monitoring employer output.</p> <p>Progress to engage with employers not using IC has recommenced following a successful year end process and most employers have responded in a positive manner. In the last 2 weeks employers have been written to and advised of the deadline to go live with IC and implications of non-compliance (as per PAS).</p>
Pensions Dashboards Project	<p>KEY AIMS: 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</p>	<p>Work completed and in progress</p> <ul style="list-style-type: none"> • Pension Dashboard Project lead officer in place • Initial Centralised Project Plan and Scope in place and agreed • New reporting put in place. Initial analysis of member and task data with recommended actions collated in April 2022. Confidence in member data is high.

	<p>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"> • 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. • 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. • Backlog minimization, data cleansing and reduction of refund liability as recommended by the PDP. • Completion of data-centric projects • Ensuring BAU admin processes are sufficient to maintain minimal backlog and accurate data quality prior to and following connection. • Increased use of digital and automated processes. • Preparedness for increased admin traffic once Dashboard goes public. • Advance communications with our membership re. Dashboards via website, newsletter etc. 	<ul style="list-style-type: none"> • Initial meetings to discuss areas needing attention are taking place. Plans to address backlogs and look at work processes will be put in place by the teams responsible where necessary. • Required data-centric projects are being identified, project plans created and monitored centrally to ensure completion by Dashboard Compulsion date. • Steps to ensure correct levels of resource and support are being worked on under the restructure project. • Published Regulations, bulletins from the PDP, LGA, TPR, Heywood and other pensions bodies are analysed along with issued Regulations, Guidance, Calls for Input and Consultation documents, which are responded to. All webinars attended and Heywood are contacted with any current queries. • All areas affecting Dashboard compliance will be monitored and progress recorded centrally within the Project Plan.
--	--	--

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	13 September 2022	AGENDA ITEM NUMBER 7
TITLE:	Risk Management Update – Risk Register	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 Avon Pension Fund Risk Register		

1. THE ISSUE

- 1.1. The purpose of this report is to update the Pension Board with the latest risk register as at September 2022.

2. RECOMMENDATION

- 2.1. That the Board notes the report.

3. FINANCIAL IMPLICATIONS

- 3.1. There are no direct implications related to the Pension Board in connection with this report.

4. REPORT – RISK MANAGEMENT PROCESS & RISK REGISTER

- 4.1. The risk register identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.
- 4.2. The Risk Register is reviewed every quarter by the pension management team. All risks with a review date are re-evaluated using the evaluation form and updates agreed and made to the risk register. Any new risks identified or changes to any other risks are also considered and the necessary amendments made.
- 4.3. The risk register including likelihood, impact and mitigating actions is included in Appendix 1.
- 4.4. The risks identified fall into the following general categories:
- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
 - (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

5. QUARTERLY REVIEW OF RISK MANAGEMENT & REGISTER

5.1. The quarterly review took place in August 22 and the management team agreed the following changes and updates:

5.2. R68 - Failure to achieve 2025 & 2030 decarbonisation targets

5.2.1. A new risk has been added to the register to reflect the reputational risk to the Fund of failing to achieve 2025 and 2030 decarbonisation targets.

5.2.1.1. The risk is mitigated by active policy advocacy at domestic and international levels via membership to groups such as IIGCC and LAPFF which ensures policy remains supportive of the low carbon transition.

5.2.1.2. Asset allocation to renewables and low carbon transition aligned equities give the Fund the best chance of achieving targets (while capturing upside as demand for renewables increases).

5.2.1.3. Following disclosures/reporting/transparency best practice to keep all stakeholders informed of potential risks to climate change targets.

5.2.1.4. Tactical decisions made by underlying managers to capture exposure to commodities e.g. DRF portfolio exposure to commodity based currencies.

5.2.1.5. Long-term investment approach focused on real-economic decarbonisation provides strong rationale for not taking short-term positions in order to decarbonise portfolio in isolation.

5.3. R57 - Introduction of Cost Transparency Disclosures

5.3.1. The decision has been taken to remove this risk from the register. CTI disclosures are received from all managers for year ending March 22 including all private market portfolios so remove from the register, therefore the risk is now negligible.

5.4. R29 - Service delivery efficiency & customer service

5.4.1. This risk was reviewed and left unchanged in terms of risk score. The Fund continues to maintain satisfactory levels of service to customers whilst trying to focus on more digital ways of communication to improve the service.

5.4.2. Annual pension (benefit) statements have been made available to download from My Pension Online for both deferred and Active members

this year. The Fund is continuing its efforts to sign up more members to its online portal.

- 5.4.3. Challenges over recruitment remain and professional advisors have been used to assist with key projects so that customers are not impacted.

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.

8. CONSULTATION

- 8.1. The Report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

Contact person	Carolyn Morgan - Governance & Risk Advisor – 01225 395240
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Risk	Risk Number	Impact	RAG	Trend	Mitigating Action
Recruitment of staff	R28	Fund's ability to develop & implement service plan and administer the Fund		◀▶	Quality Assurance Team; loss of total resource following resignation of Team Leader and Senior Officer (Dec 21 & May 22) and maternity of Senior Officer (March 22). Fund has engaged with specialist temp recruitment agency for technical resource. Mercer still providing technical support as required.
McCloud/Sargeant Judgements resulting in the extension of protections	R63	Increase in workload on administration side and for scheme employers		◀▶	On 13 May 2021, a Written Ministerial Statement outlining some key remedy policies was issued. A formal response to the consultation will be published later this year, and the new LGPS regulations giving effect to the changes are expected to come into force on 1 April 2023, and be retrospective to 1 April 2014. Home Office decision to enable FPS members to have early release of benefits under McCloud. LGA & FBU adopt a MOU and Immediate Detriment Framework agreement for relevant Fire Pension Scheme Members subject to approval by Avon Fire Authority. Additional admin resource and reprioritisation of workload required to ensure IDF can be delivered. Engagement with Aon consultants to provide project management support for McCloud remedy.
Failure to earn investment returns	R26	scheme cannot meet liabilities, employer conts could rise		◀▶	In response to the developing Russia / Ukraine crisis Brunel have stated that ensuing sanctions and investor responses are expected to have a negative impact on broad asset markets and there is a risk of stranded assets. Q321 - No material underperforming managers • Agreement by Panel/Cmt in Sept to exit EM allocation due to the financial risk posed by climate change in the region. Advice commissioned to ensure expected investment returns not impacted by decision. • Sept FRMG discussed indicative changes to inv. strategy that would see risk/return increase to help support current valuation assumptions: agreed to adopt 2.7% reduction in contriutions, aligned to a 25bps decrease in the discount rate and to maintain current inv. strategy and review as part of broader IS review next year.
Political Pressure to reform the scheme & direct investment decisions eg ESG	R42	National decisions are not in best interests of the scheme		◀▶	Participate in Brunel pool, ISS aligned with Fund's Climate Change policy. Have good local governance but national decisions could impact e.g. ability of SoS to direct investments, levelling up agenda. Ensure advisors engage on national LGPS issues. Brunel PP have issued a statement to say that amongst a number of other measures they will begin to divest from all Russian controlled and owned assets, bonds and equities as well as prohibiting any new investments to Russian assets.
Deterioration in financial stability of employers (employer Covenants)	R23	employers not able to meet their liabilities impact on rest of Fund		◀▶	Have ongoing Covenant Review of employer identified as high risk. No immediate concerns about employers not being able to meet their liabilities. No contribution queries at present. The covenant cycle for 2021 is presently being finalised with no new issues. Only UoB is in USS and having made enquires we do not believe debt arrangements affect them. Deferred Debt Arrangement policy is in place and a DDA is being developed by us for use.
Increase in employers	R56	increased resources needed to support more employers		◀▶	Fund seeing a great deal of employer churn, one of the reasons is believed to be Council contracts including CPI inflation clauses, which will make the contracts more expensive, are where possible being retendered in particular in the leisure and care sectors. Also the Government is planning that all maintained schools will convert to Academies and SGC are considering how and when to do so. This is and will generate more work.
Climate Change Emergency	R60	Significant financial risk to the value of the investments assets		◀▶	SAA revised to a higher allocation to climate positive investments. Unable to control global markets in general only through strategy. Additional measures to now be undertaken on an annual basis to assess portfolios alignment with net zero and interim decarbonisation targets (Mercer ACT) from bottom up perspective.
Failure to achieve 2025 & 2030 decarbonisation targets	R68	Reputational risk (investment risks covered elsewhere on the register)		NEW	Policy advocacy work; Diversified portfolio with ability to take advantage/protect from short-term shocks/volatility; Real world decarbonisation as priority; allocations to renewables that are best placed to benefit from ramp up in demand
Risk of stagflation (persistently high inflation and low growth/recession) is rising globally but especially in the UK	R67	This could have material negative impact on the Funding Level especially if prolonged i.e. for more than 5 years, however this is not the central case scenario. Of particular concern given benefits are CPI linked; assets only partially hedged for inflation. Stagflation over next 3 years could see significant rises in employer contributions (assuming asset values do not keep pace with inflation) at the 2025 valuation.		◀▶	The funding and investment strategies are continuously monitored for emerging risks. The FRMG holistically monitors on monthly basis, Panel monitor the performance of the existing strategy quarterly and Committee undertakes strategic reviews at least every 3 years. Current investment strategy includes allocation to inflation linked /sensitive assets (secured income and infrastructure).The portfolio has inflation hedging in place providing a partial hedge. The hedge ratio is kept under review by FRMG. Wage inflation (both short term and long term salary growth assumptions) is discussed as part of the Funding strategy/plans and consideration of potential economic scenarios is taken into account.
Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	R05	Personal data is corrupted, compromised or illegally shared resulting in fines & reputational damage.		◀▶	Cyber security benchmarking exercise completed with AON and results analysed August 2021. An action plan is currently being developed and a full report will be taken to Pension Board in May 2022 & Committee in June 2022. More training for staff & better process notes being developed to identify SARs and data breaches as a couple have not been picked up on receipt.
Sustainability of working arrangements during Covid 19 outbreak	R64	Unable to deliver service to members and employers		◀▶	Steps taken to mitigate the risk of Coronavirus impacting on the service as set out in our business continuity plan. Work has now started on re-design of Keynsham Civic Centre but not likely that staff will be regularly in the office until April 22. Roll out of new IT equipment for all staff is still in progress. Review of future working arrangements, admin strategy and digital transformation plans in place.
Implementation of changes arising from scheme cost cap mechanism	R47	Additional burden on administration. Awareness of members & employers		◀▶	On 16 July 2020 the Government made an announcement confirming that the cost control mechanism pause will be lifted for public sector schemes and the objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination. The SAB further agreed that the LGPS cost cap arrangement should be un-paused in the same way as the HMT arrangement, but no action should be taken until the HMT Direction, on how McCloud costs are to be considered, is published early next year along with the final remedy details.
Iconnect data from employers	R59	Incorrect member data on records and valuation of employer liabilities		◀▶	Iconnect Team has been set up and extracts are now loaded inhouse. New tolerances in IC will stop a load proceeding without the fund's approval enabling loading to be handed back to some employers. Plans being developed to hand back loading to Employers.
Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	R25	delays in decision making for the Committee & Fund. Failure to meet MIFID & TPR regs		◀▶	Undertaken gap analysis with Hymans re good governance review. Action plan taken to Committee & PB. New Hymans LOLA will provide more structure to ensuring Committee, PB, officer knowledge and understanding. Training strategy policy & representation policy now in place as part of good governance review.
Brunel fails to deliver its objectives to clients in terms of service delivery	R65	Affects the Fund's ability to achieve its own investment objectives and/or implementing its strategy		◀▶	Client assurance framework is in place providing detailed monitoring by Client Group and Brunel Oversight Board. Avon Panel monitors investment performance and related investment issues; Committee monitors overall service delivery, financial aspects, RI aspects and effectiveness of the governance framework. Avon has Brunel Working Group to discuss any issues or emerging risks and to agree response to SRM/RMs
Service delivery efficiency & customer service	R29	poor member outcomes		◀▶	Annual pension (benefit) statements are now available to download from our online portal for both deferred and Active members. 2022 is the first year Active members have had access to this facility. The Fund has continued this year in its efforts to sign up more members to its online portal. Impact on service of Fire immediate detriment work will be monitored. Vacancies in QA Team could also impact ABS/AA project so additional planning required this year.
Late / incorrect contributions from employers	R10	cashflow, employer funding position, TPR breach		◀▶	Monthly reconciliations of contributions continue to be undertaken. Late payers are also monitored and reported to committee/Pension Fund Manager. There is no significant increase in late payers. The top 34 employers are still paying on time.
Disaster Recovery & Business Continuity	R01	Fund is unable to operate and members do not receive pension payments in time		◀▶	Business continuity plan currently being reviewed by Audit, draft plan now received for review. Cyber security benchmarking exercise completed with AON and results analysed August 2021. Further internal assurances required from IT. An action plan is currently being developed and a full report will be taken to Pension Board in May 2022 & Committee in June 2022.
Government plans to reform the LGPS eg The introduction of the exit payment cap	R53	This will place an additional burden on the administration resource		◀▶	MHCLG have confirmed that no action will be taken following the consultation they held on the Further Reforms to Exit Payments proposed for the LGPS, instead further consultation is expected in the future. In April 2021, MHCLG wrote to councils requesting for them to provide data on exit payments, which will be used to inform delivery of the Government's policy to end excessively high exit payments in the public sector.
The Fund has not completed all the necessary work in readiness for the implementation of the Pensions Dashboard	R66	The Fund will be in breach of the regulations if it is not able to go live by the compulsion date, likely to be between Sept 2023 & March 2024		◀▶	Project lead officer appointed & project plan in place. Focus of project will be data quality, reducing backlogs and ensuring resources & processes are in place to deal with the expected increase in member queries following the implementation date. Data protection impact assessment to be carried out.

Loss of capital or income on treasury investments	R39	Delayed return of principle or investment income		◀▶	Annual report to Committee to obtain approval for the fund's Treasury Management Policy. POST COVID : Cash held primarily in money market funds and although should not fall in value they could face liquidity issues if sudden increase in withdrawals if market volatility increases. A bank removed from the list last year has been added back in.
failure of employers to meet statutory responsibilities	R19	Potential fines, greater scrutiny and more reporting		◀▶	Employer training, reconciliation of member data at year end and regular reporting in line with TPR requirements
Governance risk of Investment Managers, custodian & other investment suppliers	R20	loss of assets or inability to trade due to assets being inaccessible		◀▶	Robust procurement & contract management processes to protect Fund. However much of the risk has transferred to Brunel, monitored by Client Group and Brunel Oversight Board. Fund retains full oversight of legacy managers and advisors.
Ineffective stakeholder communication	R07	poor public relations with members & employers. TPR breach		◀▶	Recently introduced mass email communication to the fund for the first time, which was used in May/June 2021 to communicate with Deferred members regarding the introduction of Annual benefit statements being available to download from online portal. This will be extended to Active members next year alongside a campaign to extend email communications to a greater portion of the membership. Also plan to introduce social media (LinkedIn) Plan to ensure that adequate controls & resources in place to deal with active ABS online.
Internal Controls are not adequate & independently checked	R08/R09	committee & employers do not receive independent assurances		◀▶	Internal Audit reported to Pension Board in September 21 regarding audits performed in last year. Audits completed on IConnect, Scheme of delegation, Altair IT System, Risk Management & COP14. Each received an assurance level of 4 'Good' External audit of final accounts and annual report currently taking place. Audits currently taken place or planned for Pensions Payroll, Business Continuity, Digital Strategy Review.
System Failure of BACs or Cseries	R14	pensions cannot be administered & paid		◀▶	APF uses BANES corporate system. Risk mitigation in line with BANES corporate policy for making payments. Payments system (Cseries) recently upgraded
Cashflow profile is maturing	R40	not enough cash in bank account to meet pension payments		◀▶	Unitary authorities and now Universities are paying their FSR in advance for 22/23. With deficits also paid in advance this will mean approximately 40% of contributions for the year will be received in April. Our cash limit has due to be increased by £10m, so this will mean we can hold more cash to offset need for regular drawdowns. Cashflow is monitored daily and the Investments team are warned in advance of future expected divestments
Exit credits - disputes between exiting employer & outsourcing employer	R62	Court cases to decide who should receive exit credit		◀▶	There is an ongoing risk of a challenge to an exit credit determination, this would only be a risk if it was a large exit credit. At the moment there are no large exit credits in sight and we have a clear policy. However with more employers in surplus, the risk increases.
GMP Reconciliation	R51	Incorrect pension liability retained		◀▶	Project plan in place to reconcile GMPs with HMRC info and carry out necessary rectification. Mercer appointed to complete project.
Failure to comply with Council's policies & codes of practice	R41	fines for non-compliance, disciplinary issues & reputational risk		◀▶	Managers & staff undertake training in accordance with Council's codes of practices and standards
Investment Strategy impact by MIFID II	R52	restrictions on investments as retail investor		◀▶	Fund given Elected Professional status from all Managers, annual review & Officer / Member training in place
Introduction of Cost Transparency Disclosures	R57	full disclosure requirements may not be met (presentation of data in AR on a best endeavours basis)		▼	This risk is now outdated. We get CTI disclosures from all managers for y/e March 22 including all private market portfolios so remove from the register. The risk is negligible now.

Bath & North East Somerset Council			
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND		
MEETING DATE:	13 September 2022	AGENDA ITEM NUMBER	8
TITLE:	Pension Board – Annual Report 2022		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix A – Local Pension Report Annual Report 2022			

1 THE ISSUE

- 1.1 The purpose of this report is to review and approve the Pension Board's annual report.

2 RECOMMENDATION

That the Board

- 2.1 Approves the report.

3 FINANCIAL IMPLICATIONS

- 3.1 There are direct implications related to the Pension Board in connection with this report, however these are all currently within the planned budget for the operation of the Board.

4 REPORT

- 4.1 The Public Service Pensions Act 2013 required the Council to establish a local pension board to assist the administering authority with the effective and efficient management and administration of the scheme.
- 4.2 The Pension Board reports annually to Council on the work it has undertaken in the previous twelve months and reference is also made in the report to the future work programme.
- 4.3 The report will be taken to Council on 17th November 2022 along with the Pension Committee's annual report to Council.
- 4.4 Appendix A contains the draft report for review and approval by the Pension Board.

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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

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 Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 CONSULTATION

8.1 Reports and its contents have been discussed with the Head of Business Finance & Pensions representing the Avon Pension Fund and Service Director – One West representing the administering authority.

Contact person	Carolyn Morgan – Governance & Risk Advisor – 01225 395240
Please contact the report author if you need to access this report in an alternative format	

Avon Pension Fund – Local Pension Board – Annual Report 2021/22

1. Chairman's Summary

Welcome to the Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 arising from the Public Sector Pension Act 2013 and Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of the Board is to assist the Administering Authority (BANES Council) of the Avon Pension Fund (APF) secure compliance with the LGPS regulations and requirements of the Pensions Regulator (TPR) and ensure efficient and effective governance and administration of the fund.

This report covers the period 1st August 2021 to 31st July 2022 within which the Board has held four formal meetings & joined the committee in two Valuation Workshops.

The year saw a few changes to board members, with Pete Sloman retiring in November 21 and Mark King standing down, following the completion of his second term at the end of April 22. The Board was pleased to welcome Stuart Anstead as its new employer representative and Alison Wyatt as its new member representative, replacing Pete and Mark respectively.

The LPB has continued to focus on the Fund's operational arrangements as the post Covid new normal saw services delivered in a mixed environment of virtual and office working. The Board has challenged officers over key performance indicators with a view to ensuring that the Fund delivered a good service to members and employers, whilst considering the wellbeing of staff and acknowledging the challenges the Fund faces with ongoing recruitment.

I am pleased to say that with the support of the officers to the APF, the LPB has made good progress in fulfilling its terms of reference and continuing to support the administering authority in its statutory duties. During this period the members of the LPB have also continued to develop their knowledge and understanding of the LGPS and governance arrangements as required by law.

Over the year it has reviewed a wide range of LGPS regulations, governance requirements and received regular updates on its pooling arrangements with the Brunel Pensions Partnership. Of particular note it reviewed key issues around data quality for both the McCloud remedy and the introduction of the Pensions Dashboard, as well as the Fund's plan for the implementation of the SAB's Good Governance Review.

In November 2021 it carried out a review of all the Fund's statutory annual requirements covering the year end process, issue of annual benefit statements and pension savings statements. It also had a more detailed look at the risk register and the breaches log and made recommendations as appropriate.

In March 2022 the LPB welcomed an update on the proposed three-year service plan including more detailed plans for a revised operating model to deliver the Fund's digital transformation project.

Looking ahead the LPB will continue to assist and support the APF and will be particularly looking at how the Fund implements the requirements of the Good Governance review and the Pension Regulator's single code of practice. Following the introduction of Hymans' LGPS Online Learning Academy, Pension Board members have started to study modules to improve their understanding of various topics discussed at meetings.

Last but not least could I thank my fellow Board members for their commitment to their roles on the LPB and I commend this report to you.

Nick Weaver
Independent Chair

2. Legal basis of Local Pension Board

Background

At the request of central government Lord Hutton conducted a review into public service pensions in 2010 and published his findings in March 2011 which recommended significant change to the governance of the pensions *‘to make...schemes...more transparent’*.

Subsequently legislation was introduced in the form of the Public Sector Pension Act 2013 along with the Local Government Pension Scheme (Governance) Regulations 2015. These required each Local Government Pension Scheme (LGPS) administering authority to establish a new body known as a Local Pensions Board (LPB) to assist the Council (LGPS Administering Authority).

One of the key aims of the reform was to raise the standard of management and administration of public service pension schemes and to achieve effective representation of employer and employee interests. The LPB must have equal representation of scheme members and scheme employers.

The APF LPB is a separate legal entity from the APF Pensions Committee (Section 101 committee) to which as administering authority (BANES Council) has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 sets out the requirements for the establishment of a LPB with the responsibility for assisting the LGPS local scheme manager (BANES) in relation to the following:

- a) Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation and:
- b) To ensure the effective and efficient governance and administration of the Scheme.

The LPB assists the ‘scheme manager’ by monitoring and advising on compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the scheme.

The role of the LPB can be likened to that of a “critical friend” but is not a decision making body. It has an important advisory role for the APF and works with the Pensions Committee to scrutinise its decision making processes and to ensure the Fund’s compliance with all its legislative requirements.

The Pension Regulator (TPR)

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore, one focus for the LPB is ensuring the fund’s compliance with TPR Codes of Practice. This is split into several areas which covers governance, risk management and resolving issues.

The LPB as part of their work plan has needed to consider these areas, to ensure the Fund is compliant and if not to make recommendations to the APF Pensions Committee to address these requirements.

Terms of Reference

Terms of Reference for the LPB are available through the following link.

<http://www.avonpensionfund.org.uk/>.

3. Establishment of Local Pension Board

The requirement for an Independent Chair and Board Membership was outlined in the terms of reference to the LPB which were agreed by full BANES Council on the 15th January 2015.

One member of the Pension Board retired this year and one member left on completion of their second, four year term. Following a successful recruitment campaign a replacement member and employer rep were appointed.

Details of the Local Pension Board Members

Independent Chairman:

Nick Weaver. Appointed 1st November 2019. Term of office 4 years.

Employer Member Representatives:

Steve Harman, active member. Appointed 1st July 2015. Term of office extended to 30th June 2023.

Tony Whitlock, active member. Appointed 1st May 2016. Extended to 1st May 2024

Pete Sloman, active member. Appointed 1st March 2020. Retired 30th Nov 2021

Stuart Anstead, active member. Appointed 1st Dec 2021. 4 year term of office to 30th Nov 2025

Scheme Member Representative:

David Yorath, retired member. Appointed 1st July 2015. Extended to 30th June 2023.

Mark King, active member. Appointed 1st May 2016. Term ending 30th April 2022

Helen Ball, retired member. Appointed 1 March 2020. 4 year term of office to 28th February 2024

Alison Wyatt, retired member. Appointed 1st May 2022. 4 year term of office to 30th April 2026

Details of each Board members experience and register of interests are available through the following link.

<http://www.avonpensionfund.org.uk/>.

Attendance at Local Pension Board Meetings – August 2021 – July 2022

Due to the Covid 19 Pandemic all meetings & workshops over the last year continued to take place remotely.

Role	Board Member	Attendance
Independent Chairman	Nick Weaver	4/4
Employer Representative	Steve Harman	3/4
	Tony Whitlock	2/4
	Pete Sloman	1/1
	Stuart Anstead	2/3
Member Representative	David Yorath	3/4
	Mark King	2/3
	Helen Ball	3/4
	Alison Wyatt	1/1

4. Training

Background

In accordance with the Pension Regulator (TPR) Code of Practice 14 every member of a LPB must:

- Be Conversant with the rules of the local government pension scheme (LGPS) &
- Have knowledge and understanding of the law relating to pensions

These responsibilities begin from the date the LPB member takes up their role. The knowledge and understanding requirements apply to every individual member of a LPB rather than as a group.

Degree of Knowledge and Understanding

The legal requirement is that members of the LPB must be conversant with the rules of the LGPS and any document recording policy about the administration of the fund. This is implied as a working knowledge so that members are aware of which legislation/policies to refer to when carrying out their role.

Areas of Knowledge and Understanding

LPB Members should be conversant with, but not limited to the following areas:

- a) Scheme approved policies
- b) Risk assessment/management
- c) Scheme booklets/members communications
- d) Role of LPB Members and the scheme manager
- e) Policies in relation to discretions
- f) Communications with scheme members and employers
- g) Key policy documents on administration, funding and investment

Training Undertaken

During the year on-going technical training was provided to LPB members by officers from or advisors to the APF on a full range of topics covering the LGPS framework and TPR requirements.

The Pension Board joined the Committee for a couple of workshops held by Mercer explaining the valuation process and the results of the interim valuation.

Training also took place to introduce Pension Board members to Hymans' LGPS Online Learning Academy. Members are undertaking a series of modules to improve knowledge and understanding as recommended as part of the SAB's Good governance review and in line with upcoming agenda items.

Throughout the year members attended various seminars and conferences such as CIPFA's Pension Board autumn & spring events, LGE's Trustee Fundamentals and Governance Conference plus Brunel Investor Days. These events help to broaden understanding of topics of relevance to the LGPS and the role of a pension board member.

Avon Pension Fund – Local Pension Board – Annual Report 2021/22

The LPB training plan is a topic at each board meeting and a training log is maintained to assist in the identification of on-going training needs.

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members have signed up to BANES Council's Code of Conduct policy, which emphasises that as a holder of public office there is an expectation that LPB members will comply with the 'seven principles of public life', also known as the 'Nolan Principles'.

Conflicts of Interest

All LPB members have also signed up to the Fund's Conflicts of Interest Policy. This requires all members to notify BANES Democratic Services team of any potential conflict of interest arising as a result of their position on the Board.

All meetings of the LPB include a standing item titled 'Declaration of Interests' at the start of the meeting where any declaration in relation to the items on the agenda should be made.

All LPB members have formally completed their declaration of interest forms and at the four formal meetings which have been held during the year only one conflict was declared, but agreement was reached that this did not constitute a conflict of interest. For more information on conflicts of interest and declarations at each meeting please use the following link –

<https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563>

6. Pension Board Costs & Budget

In meeting the requirements of the Public Sector Pension Act (2013) and establishing a Local Pensions Board, Bath & North East Somerset approved terms of reference and necessary supporting arrangements at its meeting of its full Council on the 15th January 2015.

The LPB agrees a budget on an annual basis to enable the Board to perform its duties and a summary of the costs is included below:

Summary Financial Table

Budget Area	2021/22 Budget	2021/22 Actual Spend
LPB Members Allowances	£8,000	£7,306
LPB Members Training Costs & External Support	£6,000	£195
Pension Board Recruitment	£25,000	£0
LPB Meeting & Democratic Services Costs	£20,700	£8,252
Total	£59,700	£15,753

As with all elements of the public sector there is exceptional pressure to ensure value for money can be demonstrated and the Board will continue to consider this in its future operations.

7. Local Pension Board Compliance with the Pension Regulator’s Code of Practice No.14

In 2021 Internal Audit carried out a governance review against the requirements of TPR’s Code of Practice and their report is available via the following link <http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=5944&Ver=4>

Overall, the control framework in place and operating for the management of the ‘Governing your Scheme’ section of Code of Practice 14 was found to be effective and given an assurance rating of “**Substantial Assurance**”. A total of 3 audit recommendations, and 1 area of good practice, are detailed in the Action Plan.

Amongst the strengths identified were:

- The Terms of Reference for the Pension Board can be found in The Council’s constitution.
- Pension Board members are asked to declare any conflicts of interest at the start of each meeting. This is recorded in the minutes of the meeting.
- Members are expected to observe the general principles of conduct identified by the Committee on Standards in Public Life (Nolan Principles) and signed declarations can be evidenced.
- There are more than four participants, on the Pension Board, with an equal split between employers and members. This structure complies with the requirements of the Local Government Pension Scheme regulations.
- When new members to the board are appointed, they are provided with detailed training material as well as attend an induction training session. Attendance at the training was 100% for new members.
- A “Training and Attendance” log is maintained and kept up to date.
- The Pension Board’s work plan and training plan forms part of the standard Pension Board agenda.
- There are several communication channels to inform and educate Board Members, such as a the LGE monthly bulletin that explains any regulatory updates and changes to the scheme, LGPS regulatory update is a standard agenda item for Pension Board meetings, Invitations and attendance at LGPS seminars and workshops.

The following weaknesses were identified:

- Internal Audit was informed that all original members have completed the Pension Regulator’s Toolkit, but this could not be evidenced for all members.
- One out of three new Board Members had not completed a Register of Interest Form and signed a declaration that they agree to abide by the Code of Conduct.
- An Independent Officer has not provided assurance that the declarations are not in conflict based on the interest declared and the members responsibility.

Internal Audit also identified the following opportunity

- A checklist should be developed that would enable measurement of the Pension Board’s governance arrangements, including the requirements of COP-14, against governance best practice.

Following the audit an annual governance check was put in place to capture the requirements of the audit recommendations. The first governance review was reported to the LPB in May 2022. The report can be found here <http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=6200&Ver=4>

8. Pension Fund Communications

Effective member and employer communications form a core part of the role of the APF. During the year the Board reviewed at a high level the APF’s communications strategy and website.

Avon Pension Fund – Local Pension Board – Annual Report 2021/22

The Board continue to work with APF officers on assessing all methods of communication both with Members and Employers, especially where issues have been identified and greater engagement or training is required.

Reviewing the strategy and approach to how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

9. Risk Management

Risk management processes for the APF follow the framework laid down by the LGPS administering authority (BANES Council) as well as CIPFA guidance. The APF Risk Register identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the mitigating action taken to manage down each risk.

The Register is reviewed regularly and the key risks fall into one of the following categories –

- (i) Failures in the fund administration & control of operational processes and strategic governance processes and TPR compliance
- (ii) Service delivery partners not delivering in line with their contracts or SLAs
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian
- (iv) Changes to the LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

The LPB's ongoing review of the risk register concurred with the Pensions Committee that the top risks facing the fund revolve around –

- Brunel PP Governance, asset pooling and benefit realisation
- Delivering the future funding & investment strategies
- Significant growth of new employers, especially Academies as well as the ongoing financial stability of employers (employer covenants)
- Recruitment and Retention of staff
- Compliance with Legal Timeframes & service delivery to members
- Data Protection & Cyber Security
- Business Continuity in response to the Covid-19 outbreak
- Impacts of McCloud Judgement
- Climate change emergency

The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service and the arrangements in place are supported by external and internal audit reviews.

The LPB has actively engaged on the key risks facing the APF and supports increases in resources to mitigate some of these risks as well as discussing issues around capacity, skills gaps and recruitment and retention.

The LPB will continue to ensure that a review of the funds risk register will remain a regular agenda item at each meeting.

Avon Pension Fund – Local Pension Board – Annual Report 2021/22

10. Review of Areas Covered in 2021/22 & Recommendations Made

Over the last year of operation of the LPB was focussed on key governance themes of legal compliance, risk management, and best practice as well as monitoring the significant developments connected to asset pooling and the Brunel Pensions Partnership. A summary of the areas covered is as follows: –

Review of LPB Arrangements	Review of Pension Fund Activities	Review of Pension Fund Administration	Independent Assurance
Review of LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches Review of Training Requirements Review of Work Plan	Review of Avon Pension Fund Committee & Investment Panel Minutes Review of Project Brunel, Brunel Oversight Board Review of Funding Strategy Statement Review of Investment Strategy Statement Review of Scheme Employers & Admitted Bodies Review of Business Continuity	Review of Compliance Reports & legal timeframes at all meetings Review of Risk Register at all meetings Review of Service Plan annually Review of Statutory Annual Requirements eg ABSs & PSS Review of McCloud remedy implementation plan Review of Annual Report	Review of TPR, SAB & CIPFA external benchmarking exercises Review of External Audit plan and reports Review of Internal Audit plan and reports Hymans' gap analysis of requirements of the SAB's Good Governance Review
Meeting	Area	Action/Minutes	
21/09/21	LGPS Regulatory Update Fund & Employer Performance Brunel Update Annual audit review Pension Board's Annual Report Risk Register Update PB's Workplan & Training Plan	http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=5944&Ver=4	
30/11/21	Update on Legislation Fund & Employer Performance (including service plan update) Brunel Update Annual review of regulatory & data breaches Review statutory annual requirements APF Communications Update Risk Register Update PB's Workplan & Training Plan	http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=5945&Ver=4	
22/03/22	Regulatory Update Pension Fund Administration: Overview & summary performance report plus update on Service Plan Brunel Update Risk Register Update PB's Workplan & Training Plan	http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=6177&Ver=4	
09/06/22	Brunel Update Regulatory Update Pension Fund Administration: including update on CIPFA benchmarking & Admin Strategy Annual review of committee & PB governance arrangements Risk Register Update PB's Workplan & Training Plan	http://vm-civ-mgov/ieListDocuments.aspx?CId=563&MId=6200&Ver=4	

Avon Pension Fund – Local Pension Board – Annual Report 2021/22

11. Forward Plan for 2021/22

The work plan for the next 12 months is detailed as follows and will be kept under regular review.

AGENDA ITEM	13/09/22	08/12/22	02/22	05/22
Board Governance				
Terms of Reference (Governance) review				X
Code of Conduct/ Conflicts of Interest policy				X
Work Plan (to be dynamically updated)	X	X	X	X
Annual budget setting and monitoring				X
Training Plan (to be updated as required)	X	X	X	X
Annual Report to PC and Council approval	X			
Scheme and Fund Governance				
Legal, policy, regulatory developments	X	X	X	X
Minutes PC, IP, BOB	X	X	X	X
Annual Service Plan				X
Risk Register review	X	X	X	X
Governance Review				X
TPR Code 14 Compliance updates	X	X	X	X
Internal Audit plan/reports on APF	X			
External Audit Governance Report and Accounts	X			
Funding/Investments				
BPP update (delivery/savings)	X	X	X	X
Benefits Admin/Comms				
Admin Strategy Review			X	
Fund and employers' compliance/TPR reporting	X	X	X	X
Breaches policy/register/TPR reporting		X		
GDPR compliance		X		
Record keeping, data security, business recovery		X		
ABS process annual review		X		
Admin performance benchmarking			X	
Comms policy statement and website review		X		
Complaint's policy, IDRs, PO cases review		X		

Pension Board Training Plan

Training Plan	Type of Training	Date planned / delivered
Trustee Fundamentals	Seminar	Autumn 2022
Brunel Investor Days	Seminar	Autumn 2022
Governance Conference	Conference	19 & 20 January 2023
Hymans' LGPS Online Learning Academy	Online modules	2022
Cyber Security Review	Workshop	TBA

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	13 September 2022	AGENDA ITEM NUMBER
TITLE:	Pension Board – Training and Work Plan Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Pension Board Workplan 2022/23		
Appendix 2 – Pension Board Training Plan 2022/23		

1 THE ISSUE

- 1.1 The purpose of this report is to receive regular updates on Training and Work Plan issues from the Board and request high level training needs from Board Members.

2 RECOMMENDATION

That the Board

- 2.1 Notes the workplan & training plan for 2022/23
- 2.2 Notes the dates for future meetings

3 FINANCIAL IMPLICATIONS

- 3.1 There are direct implications related to the Pension Board in connection with this report, however these are all currently within the planned budget for the operation of the Board.

4 REPORT

4.1 Work Plan

- a) In developing a work plan the Board should reflect the need to maintain a balance between building the knowledge and understanding of Board Members along with delivery of the statutory obligations of the Board.
- b) The views of the Board are vital in informing the nature, frequency and cyclical nature of items as well as the timing of certain time-critical issues for consideration such as Project Brunel.

- c) An outline of the Work Plan is attached at Appendix 1 for consideration and will continue to be worked on and re-presented at each meeting as the year progresses using the comments and feedback of the Board, Officers and other stakeholders such as the Pension Fund Committee to inform its contents.

4.2 Modern Gov & Library

- a) All Pension Board members have been asked to access meeting papers via Modern Gov from January 2022 onwards.
- b) It is intended that some of the more routine monitoring reports will be available on the Modern Gov library and will not form part of the meeting reports pack.
- c) In order to ensure all members have the correct access to Modern Gov and the library, The APF Communications Team, led by Jason Morel, have been contacting members to provide the relevant support & training required.

4.3 Future Meeting Dates

- a) Next meeting dates for 2022 are as follows:
- 13th September at 10am
 - 8th December at 10am
- b) Any suggestions from members regarding the style and format of meetings is welcomed.

4.4 Training

- a) In developing a training plan Board Members should reflect on their own statutory requirements as set out in previous reports. In summary Board Members should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Board is given. They should also be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Board's duty to assist the Avon Pension Fund.
- b) As agreed at previous Board meetings individual board members should retain their own training log to evidence how they are fulfilling their responsibilities and update these on a quarterly basis to the Governance & Risk Advisor to aid future training needs analysis.
- c) Appendix 2 contains the proposed training programme for the year ahead. The workshops will be held jointly with the APF Pension Committee.
- d) Members are asked to consider any other training needs through the rest of 2022/23 to fit into the working cycle of the Board.

4.5 Hyman's LGPS Online Learning Academy (LOLA)

- a) The SAB's Good Governance Review is expected to include additional knowledge and skills requirements for Committee, Pension Board and Officers. Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

- b) The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. (The training will be updated to reflect the Single Code of Practice once published)
- c) Included in the modules are sessions on:
 - 1. Introduction to the LGPS
 - 2. LGPS Governance & Regulators
 - 3. Administration & Fund Management
 - 4. Funding & Actuarial Matters
 - 5. Investments
 - 6. Current Issues – McCloud, Goodwin and Cost Sharing
- d) The full timetable for completion of all modules is contained in Appendix 2.

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. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

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.

8 CONSULTATION

- 8.1 The Report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

Contact person	Carolyn Morgan – Governance & Risk Advisor – 01225 395240
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Appendix 1

Pension Board Workplan	22/02/22	09/06/22	13/09/22	08/12/22
Quarterly Updates				
Administration Update (KPIs)				
Regulatory Update				
Brunel Update				
Risk Register review				
Workplan & training plan				
Annual Updates				
Breaches Log - review of regulatory & data Breaches				
Statutory annual requirements (year end/ABS/PSS)				
Annual review of committee & PB governance arrangements				
Pension Fund annual report & statement of accounts				
Pension Board's annual report				
Review of Audit reports				
CIPFA Benchmarking				
Update on service plan				
Administration Strategy				
Funding Strategy				
Investment Strategy				

This page is intentionally left blank

Appendix 2
Pension Board Training Plan

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

Hymans Learning Academy	Title of Module	Content	To be completed by
Module 1	Intro to the LGPS	Intro to LGPS (12 mins) Role of a Councillor (20 mins)	Feb-22
Module 2	Governance & Oversight	LGPS governance (20 mins) LGPS Oversight Bodies - TPR (15 mins) LGPS Oversight Bodies - DLUHC & GAD (10 mins) Business Planning (10 mins)	May-22
Module 3	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)	May-22
Module 4	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)	Sep-22
Module 5	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)	Dec-22
Module 6	Current Issues	Understanding McCloud (8 mins) Understanding Goodwin (4 mins) Cost Sharing (10 mins) Climate Change & TCFD (13mins)	ongoing

This page is intentionally left blank