

# Avon Pension Fund Committee

**Date: Friday 27th June 2025**

**Time: 10.00am**

**Venue: Council Chamber - Guildhall, Bath**

**Bath and North East Somerset Councillors:** Toby Simon (Chair), Shaun Stephenson-McGall (Vice-Chair), George Leach, Chris Dando and Joanna Wright

**Co-opted Voting Members:** Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Councillor Fi Hance (Bristol City Council), Charles Gerrish (Academies), William Liew (HFE Employers), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

**Co-opted Non-voting Members:** Edmund Cannon (Parish & Town Councils), Shona Jemphrey (Unison) and James Hillary (Unite)

Chief Executive and other appropriate officers

Press and Public



**Mark Durnford**

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## NOTES:

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

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

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

### **3. Recording at Meetings:-**

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

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

### **4. Public Speaking at Meetings**

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

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

Further details of the scheme can be found at:

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

### **5. Emergency Evacuation Procedure**

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

### **6. Supplementary information for meetings**

Additional information and Protocols and procedures relating to meetings

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

**Avon Pension Fund Committee - Friday 27th June 2025**

**at 10.00am in the Council Chamber - Guildhall, Bath**

**A G E N D A**

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

- (a) The agenda item number in which they have an interest to declare.
- (b) The nature of their interest.
- (c) Whether their interest is **a disclosable pecuniary interest** or an **other interest**,  
(as defined in Part 4.4 Appendix B of the Code of Conduct and Rules for Registration of Interests)

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 28TH MARCH 2025 (Pages 7 - 36)

8. DRAFT PENSION BOARD MINUTES: 3RD JUNE 2025 (Pages 37 - 46)

The Committee are asked to note the draft minutes of the Pension Board which met on 3<sup>rd</sup> June 2025.

9. DRAFT FUNDING STRATEGY STATEMENT 2025 (Pages 47 - 160) (20 mins)

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.

10. FUND GOVERNANCE FRAMEWORK (Pages 161 - 206) (15 mins)

This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

11. INVESTMENT STRATEGY (FOR PERIODS ENDING 31 MARCH 2025) (Pages 207 - 260) (15 mins)

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

12. PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT (Pages 261 - 270) (10 mins)

The purpose of this report is to present the Fund's administration performance for the period up to and including 30th April 2025 vs key performance indicators (KPI's).

13. RISK MANAGEMENT PROCESS & RISK REGISTER (Pages 271 - 282) (10 mins)

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

14. GOVERNANCE UPDATE (Pages 283 - 308) (15 mins)

**EXEMPT REPORTS**

15. STRATEGIC INVESTMENT REVIEW (Pages 309 - 348) (30 mins)

16. LGPS POOLING - UPDATE (Pages 349 - 368) (30 mins)

The Democratic Services Officer for this meeting is Mark Durnford who can be contacted on 01225 394458.



Bath and North East Somerset Council

**AVON PENSION FUND COMMITTEE**

**Minutes of the Meeting held**

Friday 28th March 2025, 10.00 am

**Bath and North East Somerset Councillors:** Paul Crossley (Chair), Toby Simon, Chris Dando and Joanna Wright

**Co-opted Voting Members:** Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Councillor Fi Hance (Bristol City Council), Charles Gerrish (Academies), William Liew (HFE Employers), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

**Advisors:** Steve Turner (Mercer)

**Also in attendance:** Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Carolyn Morgan (Governance and Risk Advisor), Nicky Russell (Technical & Compliance Advisor), David Richards (Finance & Systems Manager (Pensions)), Jeff Wring (Director of Financial Services, Assurance & Pensions) and Claire Newbery (Pensions Operations Manager)

**46 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer announced the emergency evacuation procedure.

**47 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Shaun Stephenson-McGall and Councillor Kate Kelliher had sent their apologies to the Committee.

**48 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

## 50 ITEMS FROM THE PUBLIC - TO RECEIVE STATEMENTS, PETITIONS OR QUESTIONS

Elaine Pierpont addressed the Committee a summary of her statement is set out below.

*A case made for divesting from suppliers to Israel is their illegal settlements.*

- *If illegality is an argument then divest from suppliers to the UK as UK passed laws last month which break the Refugee Convention and International Law*
- *If Europeans or others settling without regard to existing residents is an argument then it also applies to New Zealand, Australia, Canada, USA, and many other nations, in which case we would have to divest from their suppliers.*
- *With no objective reason applying solely to Israel, such divestment is anti-Semitic.*

*A case made that Israel is committing genocide against the Palestinians*

- *She referred to a Guardian article 3rd December 2023, which pointed out that Israel was dropping leaflets warning Palestinians to move - hardly the act of a nation committing genocide.*
- *She referred to news reports that Egypt and Hamas effectively took it in turns to close the Rafah Crossing, thereby trapping Palestinians and raising the casualty rate.*
- *This is a continuation of a policy going back decades. She referred to a video clip she had seen made by a woman who grew up in Gaza in the 1950s, when it was still part of Egypt, in which she stated Arab nations wanted the Palestinians stuck in Palestine to be a problem for Israel.*

*An argument that it is, in fact, Hamas, who want to exterminate the Jews*

- *She referred to the same video clip in which she said children were taught to hate Jews.*
- *She referred to a statement by a Hamas leader shortly after the mass rape, murders, and kidnappings of 7th October 2023 in which he applauded the actions of the participants and said Hamas would do it again and again until there were no Jews left alive. That is a declaration of genocide.*

*She concluded with a quote from Benjamin Disraeli "God treats the nations as the nations treat the Jews", and a warning that carrying out anti-Semitic divestments risks having the remaining investments perform badly.*

Dr Eldin Fahmy addressed the Committee a summary of his statement is set out below.

*'The Board make many contentious political judgements in their report about the claimed beneficial purposes of the arms trade. These are well beyond their remit. The claim that the arms trade protects us is not substantiated. The implication that thousands of jobs are at risk if APF divests is not credible. Sadly, business at UK arms manufacturers including in Bristol is booming.*

*The claim that arms investments protect the UK and NATO are contentious, unevidenced, and beyond the Board's remit. Whether arms investments protect the welfare of UK residents is a political judgement – and one which should properly be exercised by members.*

*We are witnessing a global arms race fuelled by arms companies for profit. If APF Board decide not to consult members, they will send a powerful message that they wish to facilitate this trade for political reasons, and that they do not value members views.*

*Instead, the Board must protect members' interests by canvassing their views. The Board say there is no evidence of members' support for divestment but acknowledge there is no evidence of members' support for arms investments.*

*There is ample evidence of wider support for arms divestment. This is shown by support for divest motions by elected representatives across Bristol and N Somerset and beyond, and in local surveys of fund members in Devon and Wiltshire. APF Board present no evidence that their members' views are likely to differ from those of the wider public.*

*Ultimately, this is about consumer choice. Pension funds customers should have a choice about how their deferred earnings are invested, and especially where there is controversy.*

*At a minimum, consultation must involve a comprehensive survey of members views using well-validated survey instruments. It also requires qualitative consultation with members and their representatives including trades unions. And it involves committing in advance to respecting the result of any rigorous consultation.'*

Toni Mayo addressed the Committee a summary of her statement is set out below.

*When I began my journey as a children's social worker 18 years ago, and joined Avon Pension Fund two years later. I was young and idealistic. I knew that the system I was entering had problems, but I believed that we could change it by being caring and principled, and we could make children and their families safer in their homes. That we could support them to live dignified lives, free from harm and fear.*

*For almost 20 years, I have worked flat out this job. I have seen many of my contemporaries and those who came after me leave, crushed by the pain and injustice that we come across, feeling powerless within this system. The job has aged me and haunted me. But I do still feel like in a small way, I am making a difference, and I really do not know what else I would do.*

*Our terms and conditions have been attacked by austerity, and we have lost a lot of the limited benefits of being council social workers, but our pensions remain something worth having, and something worth defending.*

*So, there is a huge moral outrage for me, that the money I have earned by trying, tirelessly and at great personal cost, to keep children safe, is being used to fund the weapons that kill my brothers and sisters' children abroad. That every day I work, where I find small satisfaction in what I achieve, despite the bureaucracy, workload and vicarious trauma, I am unwillingly contributing to genocide and war. I am unwillingly complicit in the slaughter of babies, children, and their families.*

*In Gaza, eleven hundred people have been killed in the last 5 days, including four hundred children. I oppose this with every fibre of my being, as a social worker, as a mother, as a trade unionist and as a human being. I am dumbfounded, as well as appalled, as to how I am funding, with my deferred wages, something that I oppose so strongly.*

*I am clearly in the majority. My branch, B&NES Unison, along with other trade union branches for members of the pension fund across the region, has passed motions calling for our pension money to be divested from the arms trade. North Somerset and Bristol Councils have passed motions calling for their staff's pension money to be divested from the arms trade.*

*As well as immoral, it is completely unnecessary to invest pension money in the arms industry. We could see our money invested in Green industries and jobs.*

*This sector desperately needs investment, and Avon Pension Fund is in a position to do something hugely positive on an international scale. That way, our money could be used to contribute to protecting the climate and social justice, to improving life, and not to death.*

Dan Smart (UNISON South Glos) addressed the Committee a summary of his statement is set out below.

He said that union members were shocked and horrified that these investments were in place as part of the Fund. He added that he felt that pension funds should not be investing in arms at all and that he was not aware of any member who support such a decision

He stated that this was a great opportunity to make a meaningful difference and urged the Committee to support divestment from all Aerospace & Defence companies.

He concluded by encouraging the Fund to make more ethical investments.

Julia Thomas addressed the Committee a summary of her statement is set out below.

*'I'm a member of the Avon Pension Fund. I am here today, to request that the Committee take into account members' views, and to ensure a rigorous and robust consultation regarding where our money is being invested.*

*I wish to argue for divestment from arms manufacturers because of their disastrous impact on the climate. The APF's Investment Strategy Statement states that:*

*"By 2030, the Fund will divest from all developed market equity holdings in high-impact sectors that are not achieving net zero or aligning to achieve net zero by 2050. High-impact companies held in the portfolios will be monitored annually and divested before 2030 if they fail to demonstrate alignment."*

*The production of weapons contributes to deforestation, biodiversity loss, and resource extraction. Arms manufacturers thrive on war and conflict. The impact of*

*armed conflicts causes significant environmental harm with disastrous consequences for ecosystems and the people and animals that depend on them.*

*The global military sector and its supply chain are estimated to account for 5.5% of global greenhouse gas emissions. Reducing arms production would contribute to clean energy efforts and help reduce emissions.*

*If this Committee is to successfully achieve its ambitious and welcome climate objectives, it must actively consider the need to divest from arms companies.*

*And, just as the Committee conducted a consultation on whether to divest from companies due to their negative climate-related impact, I now urge you to do the same regarding the arms industry.'*

Jane Samson addressed the Committee a summary of her statement is set out below.

*'We know that Avon Pension Fund invests thousands of pounds of our pension monies in arms companies. The Committee must seek a thorough consultation from its members about whether it should continue with these investments. As for me as a member of the Avon Pension Fund say I believe that investing in arms companies is contradictory to the Committee's Strategic Statement requirements.*

*Though arms companies must comply with certain UK laws on where and who to sell to, implementation is weak and the loopholes are many. Arms companies are less scrutinised than other companies even though weapons used in conflicts and wars are often traceable. We know that weapons end up in volatile regions, war lords, authoritarian governments and conflict and war zones. Arms companies hide behind governments and do not take responsibility, like other corporations would be required to, for compliance with the human rights frameworks.*

*According to one estimate, by the Stockholm International Peace Research Institute, the UK was the seventh largest exporter of major conventional weapons (behind the US, Russia, China). When asked by Amnesty International, 22 arms companies were unable to provide answers to how they comply with UN Guiding Principles on Business and Human Rights.*

*The level of scrutiny, corporate responsibility and their lack of transparency has meant that there is next to no accountability of these companies. They make thousands of pounds of profit on their products; products that end up being used often against civil populations.*

*It is our responsibility to do everything we can to stop supporting, even if we do so indirectly, an industry that profits from violence and destruction.'*

Fay Pafford addressed the Committee a summary of her statement is set out below.

*I urge this Committee to ensure that a thorough and wide consultation is carried out with members before the Fund considers investing further in arms companies.*

*The committee is not required to be driven solely by returns and the members views must be taken into account as to where they would like their money invested. I am sure if you ask the majority of members "would you like your money to be invested in*

*arms manufacturing when we know that arms directly and significantly contribute towards wars, conflicts, human death and suffering and destruction of life and the planet,” most members will say divest for arms.*

*Arms manufactures are driven by profit and they benefit from prolonged conflicts and wars – for the simple reason that their products remain in demand. The production of advanced arms manufacturing has led to deadlier conflicts and wars that have become more and more difficult to resolve.*

*Avon Pension Fund, for example, invests in BAE systems. BAE has supplied weapons to Saudi Arabia which are used in the war on Yemen. These weapons have therefore contributed to the death and suffering of the Yemeni civilians.*

*Similarly, APF invests in Lockheed Martin (US), a company that makes F-35 jets, missiles and bombs which are supplied to Israel, Saudi Arabia, and other conflict zones.*

*The use of these weapons has never led to anything good. Their use has only resulted in extreme human rights violations, violence, loss of life, displacement of people, and destruction of communities.*

*Surely, Responsible Investment Principles as stated in the Strategy Statement should not, cannot allow for investment in companies that directly contribute to global instability, violence and human suffering.*

Loulou Brouard addressed the Committee a summary of her statement is set out below.

*‘I’m here today to scrutinise Avon Pension Fund’s Investment Strategy Statement on Responsible Investing (RI) and to advocate for member consultation.*

*Paragraph 8.1 of the APF Investment Strategy Statement:*

*“APF invests in line with its Responsible Investing (RI) principles where it defines RI as the integration of Environmental, Social and (Corporate) Governance...”*

*Paragraph 8.2 - “We believe in investing responsibly to make a real world impact” - Are we talking positive impact or negative impact here? It doesn’t state so I’d like reassurance that APF’s commitment is to positive impact and not just impact.*

*Paragraph 8.3 - “APF’s approach is to integrate RI across its investment decision-making process for the entire portfolio.”*

*Does this decision making process, that is integrated across its entire portfolio, take account of the loss of lives in the pursuit of profits?*

*Does the committee consider that the fund is responsibly invested in an industry that profits directly from: War? Land mine dispensing machines? Killer AI technology? The bombing of schools, hospitals and homes? Environmental destruction? Does this sound like a list of responsible investing?*

*Paragraph 8.2 of the APF Investment Strategy Statement: “APF aims to be transparent and accountable” Have APF members been made aware that they may be financially contributing to the arms industry?*

*Or is there an assumption that APF members would a) be aware that their money is being invested in weapons and b) consent to their money being invested in weapons and c) feel morally aligned with investing in an industry, whose profits directly correlate with the increase of conflict and wars, mass deaths and suffering.*

*Should members be consulted on investments that directly result in Loss of human life? Environmental devastation? War profiteering? The bombing of schools and hospitals and homes?  
Or is it assumed that they already know and/or would find that perfectly acceptable?*

*I am an Avon Pension Fund member and you may not assume that I knew my pension was invested in the arms industry, nor may you assume that I am even vaguely okay with that.*

*I demand to be consulted on investments that will have repercussions of magnitude: socially, morally and environmentally. I demand to be consulted, if the investments I make or have made through Avon Pension Fund will leave blood on my hands.'*

Eileen Kay addressed the Committee a summary of her statement is set out below.

*'I stand here today because the Avon Pension Fund is invested in an industry that profits from mass murder. Weapons produced by arms companies are used in war crimes, genocide, and the massacre of civilians.*

*In the past few days, we've witnessed some of the most savage attacks- families obliterated in their tents while they're sleeping, people killed while waiting in breadlines. We've seen the most unspeakable images of parents clutching pieces of their children, of orphaned little ones screaming for their mothers and fathers who have been violently butchered. These horrors are the direct result of weapons.*

*We are watching the complete collapse of international law, setting a terrifying precedent for how wars will be waged in the future. People on a mass scale are horrified. Members of this very pension fund have had the same visceral reaction upon realising they are financially implicated in these atrocities.*

*Wars in Gaza, Sudan, Yemen, and the Congo would not be possible without the arms industry.*

*Beyond the unimaginable human cost, war is destroying our planet. The UK's military-industrial sector emits more carbon emissions than 60 nations combined. Bombings destroy entire ecosystems, contaminate water, and leave landscapes toxic for generations.*

*Divesting from arms removes financial backing from companies that profit from death and pressures governments to change course. People deserve a say in where their pensions go. Institutions worldwide—universities, churches, city councils—are already divesting. The Avon Pension Fund must now consult its members.'*

Roger Thomas addressed the Committee a summary of his statement is set out below.

He informed the Committee that he joined the Fund in 1979 and said like most members his role was to make people's lives better.

He said that wars were no longer fought army -v- army and that so many more civilians were becoming innocent casualties. He added that no family should have to suffer like they are doing so now.

He stated that arms manufacturers were only interested in how much profit they can make and called for the Fund to carry out a full member consultation on the issue of divestment.

Youssef Ibrahim addressed the Committee a summary of his statement is set out below.

He demanded that the Fund divest from all arms companies and said that their involvement in acts of war, genocide and environmental damage must be considered in the strongest terms possible.

He said that members of the Fund must have the right to choose how their money is invested.

He called for the Fund to consider their climate obligations in line with the Paris Agreement and said that elected members were likely to see that communities will support divestment and would put pressure on them to make that decision.

The Chair, on behalf of the Committee, thanked all the public speakers for their statements.

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

There were none.

## **52 MINUTES: 13TH DECEMBER 2024 (PUBLIC & EXEMPT)**

The Committee **RESOLVED** that the minutes of the meeting on 13<sup>th</sup> December 2024 be confirmed as a correct record and signed by the Chair.

## **53 DRAFT PENSION BOARD MINUTES: 4TH MARCH 2025 (PUBLIC & EXEMPT)**

The Committee **RESOLVED** to note the draft minutes of the Board meeting held on 4th March 2025.

## **54 INVESTMENTS IN AEROSPACE & DEFENCE**

The Head of Pensions began by thanking the public speakers for delivering a clear articulation of their views and said that the Fund welcomed the scrutiny of this issue.

He said that member consultation will take place following whatever decision the Committee makes today.



He explained that in December 2024 public statements were made to the Committee largely regarding the supply of arms to Israel and that today the Committee debates a report on whether it should exclude all Aerospace & Defence (A&D) companies from the Fund's investments.

He said that this was a complex issue and that there were many layers to the decision which the Committee needs to consider.

He explained that within the report the Committee were being asked to consider supporting one of two options.

- **Option A:** Exclude all Aerospace & Defence (A&D) companies
- **Option B:** Continue to apply current policies on responsible investment and exclusions

He said that any decision made by the Committee would be in principle and subject to further legal advice and consultation with Fund members.

He explained that, to divest from A&D companies which supply Israel, the Committee should note that such a decision could set a precedent, potentially forcing the Committee to consider other conflicts in a similar way. He added that the Committee should also note the referred to legal opinions stating that, if a decision were taken on non-financial grounds, there should be no risk of significant financial detriment to the Fund, and scheme members in aggregate should support the decision within a wider context of related issues.

He said that any such decision based on non-financial factors is likely to be controversial among a material body of the scheme's membership and open to legal challenge.

He informed the Committee that they could decide to set broader and more robust criteria covering conflicts in general, to avoid unique focus on Israel-Palestine. He said that this would require a definition of what constitutes a conflict and assessment of the companies involved. Such an approach may need to cover multiple conflicts, e.g. Israel-Palestine, Kashmir, Sudan-Darfur, Myanmar.

He stated that this approach could be very complex to execute, even if stock selections and exclusions were undertaken by external asset managers with independent expert advice. He said that officers do not recommend investment criteria covering conflicts in general.

He outlined the two options that were before the Committee for their consideration.

#### Option A: Exclude all Aerospace & Defence (A&D) companies

The Committee could decide to apply an A&D exclusion policy across the whole Fund, which would entail divesting from existing holdings and excluding these stocks in future. This option would substantially reduce risk of exposure to conflict zones and the risk of inconsistent application with potential legal challenge triggered by narrow focus on Israel.

Such a policy could be implemented through new funds which exclude the whole A&D sector. In assessing Option A, the Committee should consider related consequences, as set out in the report.

The Committee needs to decide if Option A is merited in order to convey important points of principle, set against points outlined elsewhere in this paper, e.g. incremental costs, armaments required for UK defence, local employment, etc.

#### Option B: Continue to apply current policies on responsible investment and exclusions

More than 90% of weapons sales by relevant A&D companies are to the UK government and NATO partners. Such weapons are core to NATO's defence architecture, designed to shield western democracies against external threats from autocratic and hostile states.

Furthermore, the A&D companies in question supply weapons and equipment to Ukraine which have become critical in their defence.

The Committee needs to consider if the case for UK & NATO defence is part of the divestment debate and, if so, whether APF divesting from and excluding A&D companies can be consistent with the following:

- UK & NATO countries purchasing weapons manufactured by the relevant companies.
- Assisting Ukraine's defence with weapons manufactured by the relevant companies.
- More generally using equipment manufactured by the relevant companies for UK defence, noting that the UK government has decided to raise defence spending to 2.5% of national income.

If the Committee cannot reconcile the above points with divestment from A&D companies, it should decide to continue applying the Fund's current investment exclusions for conflict-affected and high-risk areas (CAHRAs) underpinned by exclusion for controversial weapons.

The Head of Pensions highlighted the following other points from the report.

#### Alternative fund costs – to accommodate divestment from A&D companies

Portfolios with relevant A&D companies are held through Brunel in the passively managed Paris-aligned equity portfolio, with some exposure in Multi-Asset Credit and High Alpha Equity. The Fund also holds equity derivatives in the Risk Management Portfolio which include A&D companies, for which it would be more complex to apply an exclusion policy, so for the purpose of the cost analysis we have assumed these are physical equity holdings.

In the case of Paris-aligned equity, divestment would require the asset manager to create a new fund excluding A&D companies, in which APF would initially be the sole investor, with indicative annual costs of 8 bps (0.08%) which is 5 bps (0.05%) higher than the current fund, an additional c.£750,000 per year. Discussions with other LGPS funds and trade bodies indicate that no other LGPS can commit to such

a new fund. However, if other investors were to join over time and total assets reached c.£5 billion, additional annual costs would be nearer 0.03% or £450,000. Hence a reasonable cost range is £450,000 - £750,000.

While further work would be needed to assess exclusion costs for other impacted funds, total additional costs would settle into a range of £0.75m - £1.25m per annum, with a mid-point of £1 million.

The Committee should also note that we assume one-off transition costs of moving to new funds would be 0.02% or c.£500,000.

In theory such additional costs would be borne through employer contributions which would be higher than otherwise, i.e. versus not divesting from A&D companies. This is hypothetical, assuming everything else being equal, and indicates the impact at an employer level.

### Local Employment

The Committee may want to note that the Avon region has deep industrial heritage in A&D.

One of the companies which petitioners want the Fund to divest from is BAe Systems, which employs c.1,000 people in highly skilled roles across the region, along with many others through the supply chain.

The Committee needs to decide if local employment is relevant to its decision and, if so, whether APF divesting from A&D companies including BAe Systems is consistent with supporting 1,000 local jobs.

### Legal Context

It should be noted that there is no legal issue with the Fund applying its current exclusions policy and sustaining investments in A&D companies, i.e. Option B:

- The Fund is acting lawfully by investing in A&D companies.
- The A&D companies in question are operating within the law of relevant jurisdictions.
- Israel is not subject to economic sanctions, differing from previous divestment from Russia which was triggered by sanctions imposed by the UK government.
- As confirmed in the opinion of Nigel Giffin KC in October 2024 (Counsel opinion on the LGPS and current events concerning Gaza Nov 24 lgpsboard.org) LGPS funds and Committee members are not liable as a result of holding investments in A&D companies including those which supply Israel.

If the Committee decides to implement an exclusions policy, the decision would need to have no risk of significant financial detriment to the Fund.

Faith Ward, Chief Responsible Investment Officer of Brunel Pension Partnership, addressed the Committee and commented that Brunel are responsible for managing the implementation of Avon Pension Fund's Investment Strategy, alongside 9 other LGPS funds.

She explained that in implementing the strategy, a range of responsible investment tools are applied, tailored to asset class, geography and level of operational control, including:

1. Restricting investment in companies that breach UN Global Compact Principles as well as specific exclusions of controversial weapons.
2. Integrating human rights risks into investment decision making, particularly in conflicted affected and high-risk regions.
3. Engaging with companies operating those regions.

Global Standards Screening identifies companies that are violating or are at risk of violating international norms as enshrined in the UN Global Compact Principles. These assessments are undertaken by a third-party provider - Sustainalytics - who have a dedicated team with extensive experience and expertise in human rights, law and international business.

The assessments are underpinned by references to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their many underlying conventions.

Brunel apply an Avoid or Explain policy on all active listed market portfolios. All non-compliant companies are detailed in routine reporting with an “explanation” – this is discussed at Brunel Investment Committee level prior to application of the avoid or explain policy.

In addition, a product involvement screen for Controversial weapons which is used in conjunction with the human rights analysis supports exclusion criteria – examples of exclusions are included in the report.

The investment managers appointed by Brunel, in most cases, deploy similar screening exercises and this supports their integration into investment decision making and engagement.

In addition to asset managers Brunel are supported by a specialist engagement provider; their programme of work includes engaging with companies operating in high-risk regions with the purpose of enhancing human rights due diligence - and seeking appropriate disclosure by those companies.

The service provider has a dedicated programme of work focusing on companies operating in the Occupied Palestinian Territories.

The approach to managing risks that Brunel adopts on behalf of its partner funds related to human rights is in line with its responsible investment principles, however it is accepted that there is much more work to do by the investment industry.

Human rights therefore is one of Brunel’s top three Responsible Investment priorities.

Brunel use the strength and position of the partnership in the industry to increase the assessment and understanding of human rights and social risks, and by extension,

the capacity to manage those risks and contribute to a reduction in actual or potential harms arising in our portfolios.

Councillor Chris Dando said that this was a very emotional issue and could not fail to be moved by the attacks that had taken place in Gaza. He added though that weapons from the same companies were also being used in the Ukraine so that they could defend themselves from the invasion by Russia.

He thanked the officers for a comprehensive report and the public speakers for their statements. He reiterated that members of the Fund would be consulted following the decision made by the Committee today.

He said that he welcomed the comments from Brunel and hoped they would continue to develop ways in which to hold companies to account.

Councillor Dando moved that the Committee should choose Option B: Continue to apply current policies on responsible investment and exclusions.

Councillor Mike Drew seconded the motion for the Committee to choose Option B. He said that he had sympathy with the public speakers

He welcomed that the views of Fund members would be sought following a decision in principle by the Committee and said that the Fund should continue to act as a responsible investor in the future.

Councillor Fi Hance wished to thank all involved on this issue and said that she agreed with many of the public views that had been raised. She said that she did not feel that the issue of costs were relevant to such a discussion and that while it was a matter for Fund members to decide upon, she would encourage the Committee to support Option A.

Councillor Joanna Wright thanked both the officers and the public speakers for their work on this matter. She called for the Government to address the conflict seriously and said that sanctions were required against Israel.

She said that the emissions that were created in the process of manufacturing weapons should be considered as part of the climate change debate and that their levels were against our current investment advice. She called for the Committee to support Option A.

Councillor Toby Simon commented that it had been an interesting debate and that he had been touched by the testimony from the public speaker who was a Social Worker.

He said that he believed it was a priority to be able to defend ourselves as a nation and greater Europe. He explained that as outlined in the report both Lockheed Martin and RTX are excluded from Brunel portfolios.

He said that having considered the issues raised and the content of the report, in particular matters of Defence, Costs and Local Employment he was minded to support Option B.

Robert Payne commented that he supported Option A and that he would have liked the views of Fund members to have been sought prior to this meeting.

Jackie Peel said that from a governance role Responsible Investing will continue to evolve and that the monetary costs of any change were negligible.

She said that the Committee have to be mindful of any impending Government decisions relating to Fit for the Future and that she would support Option B.

William Liew stated that these issues had been on his mind for some time and that the actions that have been carried out in Gaza cannot be defended.

He said that he did not feel that it would be justifiable to exclude all Aerospace & Defence companies and would support Option B followed by a full member consultation.

The Chair said that the consultation should clearly set out what the options for the Committee were and that the decision they make is not a final decision.

Councillor Dando concluded the debate by stating that the consultation must be on meaningful and legal options. He reiterated the point made by the Chair that it must be made clear that whatever the decision of the Committee today it is not a binding one at this stage and that they are promoting a way forward on this matter.

The Committee **RESOLVED** to make a decision in principle of selecting Option B, which is to continue to apply current policies on responsible investment and exclusions. (Voting: 10 in favour, 3 against)

This decision is now subject to member consultation to allow the Committee to reflect on members' views.

Officers will carry out a scheme member survey based on the approach the Committee has decided to adopt. Conclusions from the survey will be considered by Committee later in the year.

## **55 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT**

The Pensions Operations Manager introduced the report to the Board and highlighted the following points.

- Recruitment – final stages in progress. 4.5 vacancies across the department.
- McCloud - During Q1 2025 APF have written to around 27,000 members (18,000 via email) who are all out-of-scope requesting details of any additional public service pension that may put them in scope of the remedy. 800 replies have so far been received.

Councillor Toby Simon referred to the subject of recruitment and asked if the Committee could receive information at its next meeting on how the B&NES

incoming personnel policy changes have had any impact on Avon Pension Fund staff.

The Pensions Operations Manager replied that this process remains ongoing and that if concluded in time they would provide information to the next meeting of the Committee.

#### SLA monthly performance average Jan 2024 to January 2025

- Averaging between 87% - 90%
- Increase in some areas of activity over the Christmas period

She informed the Committee that a Pension Board member had raised that there had been a notable drop in the figures recorded for Retirement (Active) – Quote (46% in Jan 25 down from 86% in Dec 24). She explained that this was due to the number of enquiries that had been received at this time of year as members look to potentially change their circumstances as they enter a New Year and staff being on annual leave and sickness.

#### KPI cases outstanding under 31 days – Oct 2023 – Feb 2025

- Cases continuing to go down

#### KPI's case by age %

- Attempting to keep below 10%

Jackie Peel referred to slide 8 (KPI's outstanding over 31 days – Oct 2023 to Feb 2025) and asked if there were a core of cases that are stuck in this category.

The Pensions Operations Manager replied that there were a number of outliers, but that the figures are a true reflection and that more are being resolved generally. She added that they do plan to review the KPIs as part of the Admin Strategy.

#### Service performance – plan v's actual – 2nd Feb 2025

- The Fund remains ahead of the plan as of Q3 2024.

### **Strategic Roadmap & Business Change 2025-26**

#### 2024 / 2025 – Highlights and Achievements

- People:
  - Restructure done
  - 16 New starters
  - 24 Promotions within existing team
  - Creation of Business Change function
- Performance:
  - Backlog reduction of KPIs
  - 39 new employers onboarded to the fund
  - Webinar based training introduced for scheme employers

- Process:
  - All employers now on i-Connect
  - Policy approvals for GMP / Unders and overs
- Digitalisation
  - New Employer website live
  - New employer webforms introduced to improve data submissions
  - Bank Account Validation implemented

### 2025 and beyond, Priorities & Objectives

- People:
  - Fully resourced
  - Fully trained
  - Ongoing development and opportunities
- Performance:
  - Within SLA for all KPIs
  - Meet needs of **Pensions Dashboards**
  - Compliance with regulatory changes **i.e. McCloud**
- Process:
  - Effective controls, proportionate to risk
  - All process mapped
  - Clear and concise user guides & training
- Digital Transformation:
  - Automation of key processes
  - **Member portal upgrade** to unlock the digitalisation of processes
  - **Transition to hosting solution**

**Note: In bold denotes priorities.**

### Regulatory & key enablers

- Regulatory – Pensions Dashboard / McCloud Remedy / GMP Remedy
- Key Enablers - Hosting Pension Admin Systems / Admin Strategy refresh / Process control framework / Unified Comms (Phase 1)

Jackie Peel commented that the three regulatory pieces of work were substantial and commended staff for considering the range of other work to be undertaken.

The Pensions Operations Manager replied that there are plans in place to pursue the enabler tasks. She added that the Business Change Team has made a real difference to how they work and helped to improve engagement.

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely



disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The members of the Committee were briefed in exempt session regarding appointing a pension administration software provider.

### Communications Strategy

The Head of Pensions addressed the Committee, a summary of the presentation is set out below.

### Our Audiences

- Primary – Members / Employers / APF Officers
- Secondary – Local media / Pensions media / Committee & Board

### Aims and objectives in 2025

- Members - Deepen understanding of pensions
- Employers - Raise digital engagement
- APF Officers - Improve efficiency & pride in work

### Key Themes

- Responsible – As responsible investors, we care about the future of our members and the world. Our commitment to the environment informs how we work.
- Local – We're devoted to serving local members and employers, to deliver pensions that work for everyone.
- Constant – We're long-lasting, strong and reliable. You can count on us every step of the way.
- Service – Your pension is our priority – we want to help you understand your benefits and choices.

### Communication channel selection

- Use post, telephone and email for correspondence / information distribution.
- No social media as too resource intensive.

Wendy Weston asked for further information regarding the staff survey for officers.

The Head of Pensions replied that this had recently been carried out in February.

The Pensions Operations Manager added that there had been a good response to the survey, but that it would hard to summarise briefly at this time.

The Head of Pensions said that a further survey was planned for November 2025 and then likely to take place annually.

William Liew asked that officers be mindful of costs when deciding on methods of communication. He asked if members have the option to opt out of paper forms of communication.

The Head of Pensions replied that members are encouraged to do so.

The Board **RESOLVED** to note the service performance for the period ending 31st January 2025.

## 56 2025 - 28 PLAN & BUDGET

The Head of Pensions introduced the report to the Committee and highlighted the following objectives for the year ahead and the 2025-28 period.

### Investments & Funding

- Proposed changes to the LGPS – ‘Fit for the Future’ - In 4Q24 the government launched its ‘Fit for the Future’ proposals for the LGPS and pools. Following consultation we await the government’s final plans – expected during Q2 2025. The direction of travel leads towards greater authority over investments by the pools which will select all asset managers and provide investment advice for LGPS funds including the Avon Pension Fund.
- Triennial Valuation This will be struck based on the Fund’s financial position on 31 March 2025 and it sets out the Fund’s valuation and funding plan. It will embed prudence into assumptions for future investment returns, to reduce the risk of the funding level going back below 100% over the medium term.
- With the funding level currently 105%, the Fund and its employers face a strategic choice between: a) sustaining the current investment strategy with lower employer contributions, vs b) adopting a lower risk investment strategy which could lock in greater certainty of employer contributions near their current level.
- Local Impact Portfolio - The Fund will continue to deploy capital into its local investments across its three subsectors: renewable infrastructure, affordable housing, small company (SME) funding. Having already deployed £40m, the Fund expects to deploy the full £175m by the end of the 2026-27 financial year.

### Governance

- *Good Governance Review (GGR)* - The Scheme Advisory Board’s review (now within Fit for the Future proposals) sets out recommendations to improve LGPS governance. Statutory guidance for the recommendations to take legal effect is expected to be published this year. The Fund has already taken action to comply with the draft requirements and during 2025 the Fund will complete this process.

- The Audit Plan for 2025-26 will focus on the following areas: System Access Control / Payroll – year-end processes / Contributions & Member Information / Business Continuity Preparedness / Transfers Out from Deferred Pensions / Follow ups, risk management & governance.

### Business Change

- Change Programme - The newly formed Business Change team's key focus for 2025-26 is to work with the Administration and Technical teams to deliver the following projects: Pensions Dashboard connection / McCloud remedy / Pension administration software hosting transition / Member portal upgrade.

We will progress transformation and digitalisation projects where resources allow.

### Budget & Cashflow Forecast 2025-28

- The 2025-26 budget of £34.6m is £3.2m (+10%) above the £31.4m budget of 2024-25.
- Investment Fees - 2025-26 investment management fees of £24.7m are £2.0m (9%) higher than the £22.7m for 2024-25.
- Increased investment fees are driven by: a) higher asset values, b) the build out of the Local Impact portfolio and c) additional capital invested in private market portfolios. In aggregate this represents a 4 bps increase on investment management fees to 42 bps, projected to stay at this level for the following 2 years.
- Cashflow - As Fund membership matures, monitoring cash flow trends becomes increasingly critical. The Fund has now passed through an inflection point from being cash flow positive (contributions exceed benefits) to cash flow negative. The Fund is expected to experience £22.9m of net cash outflows in 2025-26, with full details outlined in Appendix 3.
- Due to the likelihood of the fund heading into actuarial surplus from the new valuation period commencing April 2026, for planning purposes deficit recovery payments have been set to zero from 1 April 2026.

Charles Gerrish asked if the consultation relating to Aerospace & Defence Investments had been costed into this current budget.

The Group Manager for Funding, Investment & Risk replied that it was not.

The Head of Pensions added that although not specifically included there is money reserved in the budget for work such as this consultation.

The Committee **RESOLVED** to approve the 3 Year Plan & Budget 2025-28 for the Avon Pension Fund.

## 57 TREASURY MANAGEMENT POLICY

The Finance Manager for Pensions & Investments introduced the report to the Committee and highlighted the following points.

- The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management Strategy. The Fund's Treasury Management is delegated to the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.
- The Council's Treasury Management investment policy incorporates ESG criteria where it lends to banks via bank deposits on longer maturity terms. In contrast the Fund requires more liquid cash management which means it utilises money market funds rather than bank deposits meaning that the Council's use of ESG criteria is less applicable to the Fund. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
- The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers Arlingclose. All potential counterparties are continuously monitored using the advice of external consultants.

Charles Gerrish asked how long Arlingclose had been advising the Council and when was the contract due to be renewed.

The Director of Financial Services, Assurance & Pensions replied that he believed that it was 5-6 years, and the contract renewal process would take place within the next 12 months.

The Committee **RESOLVED** to approve the Treasury Management Policy set out in Appendix 1.

## 58 LGPS POOLING: FIT FOR THE FUTURE - UPDATE

The Group Manager for Funding, Investment & Risk introduced the report to the Committee.

- The government has consulted on changes to the pooling arrangements for the LGPS funds.
- The proposed changes broadly cover three areas:
  - a) Reforming LGPS asset pools
  - b) Boosting LGPS investment in their localities and regions of the UK
  - c) Strengthening governance of both LGPS and pools

- The deadline for LGPS fund responses was 16 January 2025. The pools had to submit their business plan for implementing the proposals by 01 March 2025.

She explained that the pools have all met with the Treasury recently, but that no further information had been provided as part of the Spring Statement by the Chancellor.

She said that she believed that there is the intention to lay the Pensions Bill in Parliament before summer recess.

Jackie Peel asked if any comment had been received regarding the issue that Administering Authorities were being asked to fully delegate implementation of investment strategy to, and take principal investment advice from, the pool.

The Group Manager for Funding, Investment & Risk replied that there had been much push back on the issue of receiving principal investment advice from the pool and that they were awaiting clarity from the Government on this.

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

## 59 RISK MANAGEMENT PROCESS & RISK REGISTER

The Governance & Risk Advisor introduced the report to the Committee and highlighted the following points.

- The quarterly review of the risk register has taken place and no changes have been made to scores for this quarter.
- The Fund has just completed its review and testing of its Business Continuity Plan. As part of this work risks identified in the plan have been checked for consistency against the risk register. As a result of this risk NR06 has been reworded to better reflect the risk of losing IT, which could be due to a cyber attack, but also due to other factors such as loss of power.
- The top three risks remain:
  - NR06 – the loss of IT including cyber attack and loss of power. The fund is planning to move its admin system to a Heywood hosted solution and appropriate data protection and cyber assessments are being carried out.
  - NR01 – Poor service levels below agreed standards. The current factors impacting this risk are set out in the Pension Fund Administration report. As part of the Business Continuity Plan review a service level plan and crisis communication plan have also been agreed.
  - NR05 – Failure to manage personal data per regulations. The volume of personal data the Fund manages in day-to-day processing keeps this risk high on the register. The Operations Teams plan to introduce

process changes to remove duplication of checking and bulk processing. Additional data protection assessments will be carried out as part of the implementation.

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

## 60 GOVERNANCE UPDATE

The Governance & Risk Advisor introduced the report to the Committee and highlighted the following points.

- The training plan sets out the timeframes for studying the Hymans training modules as set out in Appendix 2. The plan will be refreshed in April 2025.
- Committee membership – Councillor Kate Kelliher has resigned from the Committee, the Parish & Town Councils are being consulted with regard to allocating another representative.
- Unison and Unite have been approached to assign representatives to the Committee and it is hoped that these will be in place by the next meeting.

Nick Weaver, Chair of the Pension Board stated that the Board were very keen that the training programme is maintained by all members.

The Committee **RESOLVED** to note the workplan & training programme.

## 61 EMPLOYER EXIT - VERBAL UPDATE

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

The Committee **RESOLVED** to note the update that had been provided.

The meeting ended at 1.33 pm

Chair(person) .....

Date Confirmed and Signed .....

Prepared by Democratic Services

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

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**BATH AND NORTH EAST SOMERSET**

**PENSION BOARD**

Tuesday 3rd June 2025

**Present:-** Nick Weaver (Chair), Helen Ball (Member Representative) and Steve Harman (Employer Representative)

**Also in attendance:** Nick Dixon (Head of Pensions), Jeff Wring (Director of Financial Services, Assurance & Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Claire Newbery (Pensions Operations Manager), Carolyn Morgan (Governance and Risk Advisor), Rebecca Clark (Member Services Manager) and Claire Moon (Digital Services Manager), Anne Black (Business Change Manager), Viki Merrill (Project Officer) and Richard Hopkins (Project Manager)

**53 EMERGENCY EVACUATION PROCEDURE**

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

**54 APOLOGIES FOR ABSENCE**

The Democratic Services Officer informed the Board that apologies had been received from Jon Evans (Employer Representative) and Alison Wyatt (Member Representative).

**55 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

**57 ITEMS FROM THE PUBLIC**

There were none.

**58 ITEMS FROM MEMBERS**

There were none.

**59 MINUTES OF PREVIOUS MEETING: 4TH MARCH 2025 (PUBLIC & EXEMPT)**

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

## 60 PENSION FUND ADMINISTRATION PERFORMANCE REPORT

The Pensions Operations Manager introduced the report to the Board and highlighted the following points.

- Recruitment – The fund has successfully recruited 11 new officers joining the Operations and Business Change teams in the last month, 10 of which were in Administration. This leaves a further 4.5 vacant posts including 1 within Business Change team, recruitment is ongoing.
- McCloud - The team are on track to complete the known McCloud cases before the 31st August. We have remediated more than 2/3rds of the 360 pensioner cases identified and have also completed the death cases, trivial commutations and certain types of transfers out (Non club and interfunds). There are still some complex cases to work through including club transfers and divorce cases.

### SLA monthly performance average April 2024 to April 2025

- Average at around 80%
- High influx of member inquiries had an impact on staff resources. Letters sent re: McCloud and tracing a factor in the increase.
- Team is working as hard as ever and we remain above our projected expectations.

### Total KPI's outstanding – Apr 2024 to Apr 2025

- 1897 (as at 27/4/25) – This figure did rise a little but is now decreasing.

### KPI's outstanding over 31 days – Apr 2024 to Apr 2025

- Around 300 as of 2/6/25
- Pensions Increase led to additional work required.

### Service performance – plan v's actual

- The Fund remains ahead of the plan as of Q4 2025.

The Head of Pensions commented that when they had began this work, around 18 months ago, they knew that there would be ups and downs. He said that the team should be proud for maintaining their progress of performance and that he expected it to continue to improve.

Councillor Toby Simon referred to the Pensions Increase and asked if there were any workarounds in terms of the end of year processing.

The Pensions Operations Manager replied that there was not at the moment and was something they need to work on with their software provider.

The Chair asked if the recent officer visit to Worcester had been useful.

The Member Services Manager replied that they had been able to have an open conversation with their staff and had welcomed the information that had been shared.

The Digital Services Manager added that they had demonstrated the use of iConnect and discussed the subjects of automation and workflow.

The Project Officer said that it had been a productive meeting as they were in phase 1 of implementing the Pensions Dashboard.

The Chair commented that he felt it would be good to keep the dialogue ongoing.

### Status 2 Backlog

- Status 2's – What are they?
  - Status 2 = Undecided leaver
  - We have been told by an employer via their monthly data return that a post has ended, but there could be a number of reasons that leave them as a Status 2
- Why do they sit as Status 2?
  - We are waiting for:
  - A member decision
  - Information from another fund or scheme
  - More information from the employer or member
- Actions and decisions
  - We must review a record and decide:
  - Link or Aggregate with other records
  - Write to member and offer a refund & transfer out quote
  - Send them their retirement options
  - Defer the pension and send the member a statement
- Why?
  - Good Record Keeping & Best practice
  - Complies with the Pension Regulator code of practice
  - Members can view their complete pension record
  - Data available via Pensions Dashboard
  - Annual benefit statement
  - Valuation

The Chair stated employers have a statutory responsibility to inform the Fund regarding the reason for the member leaving.

The Pensions Operation Manager explained that they were working on putting a consistent process in place. She added that employers have 15 working days to provide them with a leaver form.

## Status 2 Records

- During the last year, the number of status 2 records we held on our system peaked at 8,307 during September 2024. Compared with 5,790 status 2 records as at the end of April 2025, this is a 30% reduction.

## Type of Cases Outstanding on Status 2 Records

- As at the end of April 2025, the total outstanding cases of 6,312 are made up of 58 different types of cases. However, 5 cases made up 83% of the 6,312 total outstanding.
- iConnect Leavers (2,540 40%) / Aggregation Type A (1,342 21%) / Retirement (Active) (658 10%) / Interfunds In (419 6%) / Aggregation Type B (375 6%)

## Actions so far

- Target oldest cases first (using MI)
- Simplified processes and removed duplication
- Reduced checking of low value refunds
- Recruitment and training
- Improved internal escalation process

## Next steps & plan

- Automate reminders to members to reply
- Automatically defer a pension if a member doesn't reply after a chaser (not at SPA)
- Process improvement for aggregation (Approx saving 10 mins per case)
- Bulk processing of cases
- Change retirement pack age from 55 to 60
- Adopt system improvements

The Chair commented that officers need to be strict with employers when attempting to obtain this information.

The Digital Services Manager replied that they do intend to be more consistent in their approach and to ask employers to find a way to provide the information required.

The Pensions Operation Manager added that they need to trust the data that is provided to them by employers and said that the Fund has a good employer relationship team in place.

She added that this matter would be reviewed as part of the Administrative Strategy and employers would be advised of the SLA in place. She said that potential fines are being considered.

The Business Change Manager addressed the Board on the subjects of Procurement and Hosting.

## Administration Software Procurement

- New 7- year contract signed with Heywood via the COTS agreement with Softcat 17 April 2025
- New contract covers existing Altair & i-Connect plus new Products & Services - Hosting, Dashboard ISP, Data Cleanse, Engage (with SMS & EIDV), Enhanced Admin to Pay
- Reinforced and improved our relationship with Heywood
- Sets foundation for Digital improvement
- Supports regulatory needs for Pensions Dashboard

## Migrating from 'On-premises' to 'Hosted'

- **WHY?** - To support **B&NES Cloud First** programme moving the application software and databases from a B&NES on-premises server to a cloud hosted solution.
- **WHO?** - **Heywood**, our software provider for Altair and associated modules, will provide hosting services via their supplier, Service Express.
- **WHEN?** - In progress now. BANES IT & Financial Systems are supporting us with the move. Aiming to complete move by **end July 2025**.

The Fund Project Manager addressed the Board regarding the Administration Roadmap 2025-26.

## 2025 and beyond, Priorities & Objectives

- Avon Pension Fund's 2025 vision is driven by people, performance, process, and digital transformation. Supporting and developing teams ensures talent growth, high standards, and alignment with Pensions Dashboards and employer needs.
- Four Pillars: People, Performance, Process, and Digital transformation
- Four Priorities:
  - Pensions Dashboard
  - McCloud
  - Member portal upgrade
  - Transition to hosting solution
- Deliver change whilst retaining the member experience. Recognise that change needs to be flexible.

## Annual Projects

- Year End / Annual Benefit Statements / Pension Savings Statement / Annual Report / PI process / Valuation

### Regulatory & key enablers

- Pension Dashboard / McCloud Remedy / Administrative Strategy Refresh / Unified Comms (Phase 1) / Hosting – Website

### Transformation

- Engage (My Pension Online – upgrade) / Bulk processing / I-Connect Multi-factor authentication / Hybrid Mail Transition

The Pensions Operation Manager said that Hybrid Mail has the potential to save significant officer time and lessen the possibility of any data breaches.

The Project Officer addressed the Board regarding the Pensions Dashboard.

### Avon Pension Fund: Connecting to Pensions Dashboards

- The Avon Pension Fund is preparing to link with the Pensions Dashboard, making it easier for our members to access their pension information. This will be carried out in phases with the aim of being live and connected by 31<sup>st</sup> October 2025.
- **Preparation phase - Getting the data ready:** Checking records to make sure everything is correct and up to date, fixing any errors and making improvements where needed
- **Connecting to the dashboard:** Setting up a secure system so members can view their pension details online whenever they need to.
- **Implementation, Phase 1 & 2.** This includes setting the matching requirements, creating the processes to support member enquiries when engaging with the central dashboard
- **Connection** – Further testing will be required once connected to the live environment.

### Timeline

- Nearly at the end of Phase 1 – System Configuration / Upload member data and resolve errors captured (scenario testing) / Set Matching requirement.
- Phase 2 - Configure live matching rules / Registration with TPR / Test Admin processes for enquiries.

### Preparing for Pension Dashboards

- Work is underway to ensure members have easy access to up-to-date pension information while reducing administrative pressures on our teams.

- Areas of focus have included: Data Accuracy / Tracing Members / Process Automation / Reducing Backlogs / Annual benefit Statements / Ongoing Monitoring.

Helen Ball asked if the consequences were known if the Fund were found to be non-compliant, in terms of connection to the Dashboard by the Pensions Regulator.

The Chair replied that as far as he was aware there was no option to miss the connection deadline.

Councillor Toby Simon stated that preparation was key when applying the matching criteria.

The Project Officer replied that this process was currently ongoing and that she felt that their data was really good. She added that they would act on any issues that are identified.

The Board **RESOLVED** to note the service performance for the period ending 30th April 2025.

## 61 UPDATE ON LEGISLATION

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas.

### Pensions Review - Pooling / Brunel

The Fund received a letter from the Government in April 2025 that stated that the Brunel pool's proposals did "not meet the Government's vision for the future of the LGPS" and issued an "invite" to the Fund to consider and identify a new pool to work with going forward.

On 12 May 2025, following on from the statement issued in April 2025 in response to the letter issued by the Government regarding the Brunel (and Access) pools and an urgent meeting convened by the Board on 9 May, the Scheme Advisory Board issued a letter to both the Pensions Minister and the Local Government Minister requesting an extension to the pooling deadlines already in place given the "perfect storm" administering authorities are currently facing with McCloud, Pensions Dashboard, General Code, Local Government Reorganisation and also changes emerging from the local elections.

A meeting between LGPS Committee Chairs, SAB and the Local Government Minister took place on 13 May 2025 to discuss the issues raised in the letter.

### New consultation: Local Government Pension Scheme in England and Wales: Access and fairness

The government has published a new consultation around LGPS, concerning access and fairness. The consultation's proposed operational changes will impact LGPS administrators.

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

## **62 RISK MANAGEMENT UPDATE - RISK REGISTER**

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas.

- The quarterly review of the risk register has taken place and a couple of changes have been made to scores for this quarter. Some amendments have also been made to current impacting factors.
- Risk NR19 - structural reform to LGPS / Pooling has been amended to 'Move to new asset pool'. The score has been updated to reflect the likelihood increasing from likely to almost certain.
- Risk NR07 – Employers Data. Following the successful roll out of I-Connect to all employers and more employer training taking place the likelihood has been reduced from likely to possible.
- Our top 3 risks have been updated to reflect the change of score to the pooling risk:
  - NR06 – the loss of IT including cyber attack and loss of power. The fund is planning to move its admin system to a Heywood hosted solution and appropriate data protection and cyber assessments are being carried out.
  - NR01 – Poor service levels below agreed standards. The current factors impacting this risk are set out in the Pension Fund Administration report. As part of the Business Continuity Plan review a service level plan and crisis communication plan have also been agreed.
  - NR19 – Move to new asset pool. Work and discussions are ongoing with pool and advisors. See full report within June Committee report.

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

## **63 GOVERNANCE UPDATE**

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas.

### Work Plan

- 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.



## Training

- 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.
- 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 Team to aid future training needs analysis.

## Recruitment

- This is the last meeting for Steve Harman (Employer Representative)
- 1 Member Representative and 2 Employer Representatives required
- Interviews planned to take place in August

Councillor Toby Simon asked if the Trade Unions had been directly approached with regard to a Member Representative.

The Governance & Risk Advisor replied that they had not and said that advertisements had been sent to all members and employers and posted on the Fund website and LinkedIn.

The Chair gave thanks to Steve Harman on behalf of the Board for his work and contributions over many years.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2025
- ii) Note the dates for future meetings.

The meeting ended at 11.40 am

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 June 2025	AGENDA ITEM NUMBER
TITLE:	DRAFT FUNDING STRATEGY STATEMENT 2025	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Funding Strategy Statement		

## 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 A Committee workshop was held on 3 June 2025 to discuss the broad principles in the FSS in more detail prior to the committee meeting. The only substantive change to the policies is the introduction of a surplus policy (see Appendix D of the FSS).
- 1.3 The Actuary will be at the meeting to present the draft FSS and answer any queries. Once the Committee has agreed the draft, it will be circulated to the employing bodies and Pension Board for comment. The comments arising from the consultation (including any technical updates) will be reported to the Committee meeting on 26 September 2025 when the FSS will be approved.
- 1.4 The 2025 actuarial outcome will be reported to Committee at the March 2026 meeting.
- 1.5 Individual employer results will be disseminated in October and November.

## 2 RECOMMENDATION

### The Committee:

- 2.1 **Approves the draft Funding Strategy Statement as set out in Appendix 1 for wider consultation, subject to the insertion of information which can only be included when the actuarial valuation and consultation processes are complete.**
- 2.2 **Delegates power to officers, having taken advice from the Actuary, to amend the draft FSS for technical updates and updated information as appropriate.**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The actuarial costs for reviewing the FSS are included in the 2025 actuarial valuation fee and are provided for in the 2025/26 budget.

### **4 BACKGROUND AND PROCESS**

- 4.1 The LGPS regulations require each administering authority to prepare and publish a Funding Strategy Statement. New Guidance for Preparing and maintaining a Funding Strategy Statement was issued by the Ministry of Housing Communities & Local Government (MHCLG) in January 2025. The key requirements for preparing the FSS are as follows:
- The administering authority must prepare and, after consultation with all relevant interested parties involved with the Fund, publish their funding strategy
  - In preparing the FSS, the administering authority must have regard to:
    - (i) Guidance issued by MHCLG 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 will be circulated to employers and interested parties for consultation during July and August. Comments will be considered by Officers and reported to the Committee at the Committee meeting (26 September 2025) 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.
- 4.5 The 2025 valuation outcome will be reported to Committee in March 2026.

### **5 DRAFT FUNDING STRATEGY STATEMENT**

- 5.1 At the Committee workshop on 3 June 2022, the Actuary gave a presentation on the FSS covering the broad principles, how it relates to the actuarial valuation process and the basis for the assumptions to be used in the valuation.
- 5.2 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.
- 5.3 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.

5.4 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.

5.5 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" via sustainable employer contribution rates.
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

5.6 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".

5.7 Following new guidance from MHCLG on Preparing and Maintaining a Funding Strategy Statement (FSS), the format of the FSS has been updated and as a result is now a longer document. However, the majority of the content remains unchanged (except to reflect the 2025 valuation updates) and there is a new policy for managing surpluses.

5.8 In the draft FSS 2025 the following changes are being incorporated:

**(1) Discount Rate basis for past service liabilities (funding target)**

The key assumption which drives the value of the pension Fund liabilities (the future benefit payments) and therefore deficit or surplus is the discount rate. This is set by the Fund, based on advice from the Actuary, to reflect the overall investment return which we expect to achieve on the Fund's assets (within reasonable risk parameters) over the long term with a suitable and necessary allowance for prudence to support contribution sustainability. In terms of setting contributions, the relationship of the assumed investment return on assets compared to the rate of assumed future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the "real" investment return expected on the Fund assets).

The discount rate reflects the "real" expected asset return above the CPI baseline assumption when assessing the long-term solvency target. Increases in inflation will increase the liabilities as the benefits are inflation linked and potentially it can also reduce the real return on assets. A judgement is needed as to expected future inflation, with the risk that understating inflation and its persistency in this valuation will transpire into higher contributions at the next valuation in 2028.

The Actuary is proposing to increase the expected level of real return above CPI by 1.80% from the 2022 valuation to CPI+3.30% per annum, which includes an appropriate level of prudence to support contribution sustainability (as in the

probability of achieving the discount rate) taking into account a range of factors/assumptions including the economic and geopolitical environment. The level of prudence includes judgement for the Actuary on the level of uncertainty of these factors in the context of the current global environment. This increase is driven predominantly by market conditions (interest rates). As a result the funding level has improved, and the deficit has been replaced by a surplus (at the overall Fund level although the experience for individual employers will vary considerably).

## **(2) Future service rate (FSR) discount rate basis:**

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

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the uncertainty in market conditions applying at future dates, not just the date of the valuation, it is justifiable to use a lower expected return from the investment strategy compared to the past service discount rate. The future service discount rate therefore includes an element of smoothing of current market conditions to support the sustainability of contributions in the longer term.

The Actuary's view is that the real return applied in 2022 can be increased by 0.25% to CPI +2.25% per annum. As a result, there will be a reduction in FSR (all other things equal).

## **(3) Mortality assumption**

The baseline and short-term trend in mortality will be adjusted to reflect the Fund's experience since 2022. The full demographic analysis has yet to be completed. However, the initial demographic analysis indicates that life expectancy has in general fallen (the exception being amongst female pensioners) which will reduce the baseline liabilities. The longevity assumption used to date is in line with current Continuous Mortality Investigation (CMI) (2023) with a long-term improvement trend of 1.75% p.a. and this is set out within the FSS. This will be updated to use the 2024 CMI tables once they are available, and the Actuary will consider further the long-term improvement trend in light of the additional analysis that will follow. Overall initial indications are that the liability impact is a c.1.3% reduction versus 2022. This reduces the primary contribution rate by c.0.4% of pay, although the impact by employer will vary based on their own membership profile.

## **(4) Surplus Reserve Policy (see Appendix D of the FSS)**

The Fund is now in a stronger funding position than at recent previous valuations and some employers may have moved into surplus position, so an enduring surplus policy is required. The Fund's objective is to maintain stability of contributions and in the 2025 valuation circumstances of worldwide financial market turmoil, there is a need for a surplus reserve to protect against adverse experience leading to unsustainable contribution levels.

Relatively small surpluses are also fragile in the context of the daily variations in funding level and so the introduction of a sustainability reserve aims to provide a cushion against adverse experience to support the sustainability of contributions rates. This is illustrated by the simple employer example below:

	No surplus reserve	Surplus reserve of 5%
2025 valuation		
- Funding level	104%	104%
- Contribution off-set	4.0%	Nil
<b>Total contribution</b>	<b>12.0%</b>	<b>16.0%</b>
2028 valuation		
- Funding level	100%	101%*
- Contribution off-set	Nil	Nil
<b>Total contribution</b>	<b>16.0%</b>	<b>16.0%</b>
2031 valuation		
- Funding level	102%	103%
- Contribution off-set	2.0%	Nil
<b>Total contribution</b>	<b>14.0%</b>	<b>16.0%</b>
2034 valuation		
- Funding level	99%	100%*
- Contribution off-set	(1.0) %	Nil
<b>Total contribution</b>	i.e. deficit contribution <b>17.0%</b>	<b>16.0%</b>

\*In practice this would be slightly higher as contributions paid over the three-year period had been higher, we have assumed a 1% impact for the illustration

The future service rate has been kept constant for illustrative purposes but would also be expected to vary to some extent between valuations – in particular for profile and other demographic changes.

This simple example shows one possible path of a large number of potential pathways for employer contribution rates. Nonetheless it conveys the impact of the surplus reserve over successive valuations and how it supports contribution stability. When taking decisions on the level of the surplus reserve in practice, the Fund considers the position in a more detailed way using stochastic analysis prepared by the Fund Actuary. Such analysis looks at the likelihood of contribution increases at future valuations under different levels of contributions.

The FSS sets out differing surplus reserves by employer characteristics, given that some employers' funding positions will be more sensitive to changes in market conditions, for example, than others, and at future valuations as the circumstances require the surplus reserve could be nil. A critical consideration for committee is whether the reserves should vary by employer type (linked to the sensitivity of funding position to changes in assumptions) or maintain a

constant reserve for employers and accept the potential lower likelihood of sustainable contributions. The draft policy shows provisional surplus reserves for the different categories of employer e.g. a 5% reserve for Councils/public bodies to allow for this variability in a practical way, along with circumstances where they would be considered on a case by case basis. These would be subject to review as part of the valuation project and will be consulted upon with the employers. The Actuary will discuss the pros and cons of the potential approaches at the meeting.

5.9 Employer affordability and covenants within the Fund are diverging as the public sector and its funding regimes change. The covenant assessment process is a key element of the valuation and the objectives of this are included in the FSS.

5.10 National Issues that need to be reflected in the FSS:

There are no new issues which need to be included in the FSS. Relevant updates on key aspects of the FSS are:

**(1) Climate change analysis**

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate transition risks and physical risks on the potential funding outcomes. The impact of different scenarios at the whole Fund level versus the baseline (which assumes the funding assumptions are played out) will be considered as part of the valuation to ensure the funding strategy is sufficiently robust to the risks posed by climate change.

**(2) McCloud**

The McCloud discrimination case relates to the protections provided to members close to retirement when the Fund benefits were changed in 2014. The estimated costs of applying the remedy in respect of active members were included in the 2022 valuation balance sheet in line with guidance to Funds provided by MHCLG. Calculations for deferred and pensioners were not carried out due to lack of data; however under normal circumstances any McCloud costs for these members are not expected to be material at an individual employer or Fund level. Changes to the Regulations have now been passed into law. The Fund's approach will be to include amendments for all employers in the 2025 valuation to reflect the McCloud remedy when valuing past service liabilities, based on the actual member data. The McCloud benefit window ended on 31 March 2022 and so it does not affect employer future service contribution rates at the 2022 and 2025 valuations.

**(3) GAD S13 Report**

GAD reviews all fund valuations after each valuation and benchmarks each fund against GAD KPIs. The Actuary will take these KPIs into account but where it can be evidenced that they are not optimal for managing risk, the Actuary will advise the Committee and explain the possible consequences of adopting the proposed strategy. For the first time, these KPIs will consider Funds with the highest as well as the lowest contribution levels, for a given funding level.

5.11 **Changes to Fund specific policies:**

There are no substantive changes to existing policies other than being reworded to enable stakeholders to read and understand the information in a clear way.



## **6 RISK MANAGEMENT**

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.
- 6.2 A specific liability risk management framework is in place. This is designed to reduce risk and provide more stability/certainty of outcome for funding. The strategies are implemented on an opportunistic basis to ensure the most efficient and cost-effective approach is taken. Reference is made to the framework in the draft FSS. Full details are contained in the Investment Strategy Statement.

## **7 CLIMATE CHANGE**

- 7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and 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. As noted above, in terms of the risk presented by climate change on the Fund, this is considered as part of the development of the funding strategy utilising scenario analysis prepared by the Fund Actuary in line with the guiding principles published by the Scheme Advisory Board.

## **8 EQUALITIES**

- 8.1 An equalities impact assessment is not necessary.

## **9 CONSULTATION**

- 9.1 A consultation process will follow after agreement from the Committee.

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 10.1 Are contained in the report.

## **11 ADVICE SOUGHT**

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

<b>Contact person</b>	Julia Grace, Funding & Valuations Manager
<b>Background papers</b>	Guidance for Preparing and maintaining a Funding Strategy Statement (FSS) January 2025 Scheme Advisory Board (SAB) Statement on the 2025 Actuarial Valuation - 28 May 2025

**Please contact the report author if you need to access this report in an alternative format**

# FUNDING STRATEGY STATEMENT

## AVON PENSION FUND

[MARCH 2026]

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.

**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 Scheme Advisory Board in 2025.*

# CONTENTS AND GUIDE TO THE FUNDING STRATEGY STATEMENT (FSS) AND POLICIES

The key sections of the FSS, as required by overarching guidance and Regulations are as follows:

- A. [Purpose of the Fund and the FSS](#)
- B. [Key funding principles](#)
- C. [Employer events](#)

This document also sets out the Fund's detailed policies in the following key areas. Please contact Julia Grace at [APF\\_EmployerValuations@BATHNES.gov.uk](mailto:APF_EmployerValuations@BATHNES.gov.uk) for any queries relating to the FSS or Fund policies below.

## 1. Asset Share Policy (Appendix A)

Local Government Pension Scheme (LGPS) funds are not legally sectionalised by employer under the LGPS Regulations. An employer's allocated asset share is calculated on a notional basis. The Fund's approach to calculating individual employer asset shares at key points including the actuarial valuation as well as entry and exit from the Fund is set out [here](#).

## 2. Demographic Assumptions (Appendix B)

The demographic 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](#).

## 3. Deficit Recovery Plans (Appendix C)

The key principles when considering deficit recovery plans as part of the valuation are set out [here](#).

## 4. Surplus Policy (Appendix D)

The Fund's approach to determining "structural" surplus and how this is taken into account for setting employer contribution rates, including key principles for determining surplus offset plans as part of the valuation, is set out [here](#).

## 5. Employer Types and Admission Policy for New Employers (Appendix E)

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](#).

## 6. New Academy Conversions and Multi-Academy Trusts (Appendix F)

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](#).

The SAB Guide on Academy Conversions is also available here:

[Oct2023SABGuidanceonAcademyConversions.pdf](#)

## **7. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix G)**

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](#).

## **8. Review of Employer Contributions between Valuations (Appendix H)**

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](#).

## **9. Employers Moving between Investment Strategies (Appendix I)**

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](#).

## **10. Covenant Assessment and Monitoring Policy (Appendix J)**

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](#).

## **11. Notifiable Events Framework (Appendix K)**

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](#).

**12. Ill Health Insurance Arrangements (Appendix L)**

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](#).

**13. Death in Service Captive Policy (Appendix M)**

The Fund has implemented a captive insurance arrangement with effect from 1 April 2023, in relation to the provision of death in service benefits. More details are set out [here](#).

**14. Roles and responsibilities of key parties (Appendix N)**

The efficient and effective management of the 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 [here](#).

**15. Glossary (Appendix O)**

A glossary of the key terms used throughout the FSS and Fund policies is available [here](#).

# A. PURPOSE OF THE FUND AND THE FSS

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## AIMS AND OBJECTIVES OF THE FSS

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 Fund is critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

The purpose of this 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 Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received and has been agreed by the Pensions Committee. As the landscape changes, the Fund will continue to develop and evolve the strategy to ensure it continues to reflect its risk appetite and feedback from employers, where this can be accommodated.

## 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 FSS.

This FSS also takes into account the latest version of the guidance issued by MHCLG for preparing and maintaining a Funding Strategy Statement (FSS) dated January 2025.

### 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 Fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.



## 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 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 long-term view of funding those liabilities.
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency".
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

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

Further details of how the Fund looks to measure and manage the solvency, long-term cost efficiency and stability objectives is set out in [Section B: Key Funding Principles](#), which covers the Funding Target, Actuarial Assumptions and the Fund's approach to managing risk.

## MONITORING AND REVIEW OF THE FSS

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

The Administering Authority will also monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy statement will be reviewed and updated in the interim between valuations.

Examples of when a review of the funding strategy might be appropriate, include:

- material changes to the scheme benefit structure or regulations (e.g. HM Treasury-led) on the advice of the Fund actuary
- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there has been significant changes to the investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS
- if there have been significant changes to the Fund membership and/or fund maturity profile
- if there has been significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS
- recommendations from MHCLG/GAD.

In undertaking such reviews, the Fund will consider the following:

- the implications for the funding strategy and, if significant, determine what action should be taken to revise the FSS
- the implications for meeting the liabilities of individual employers and any amendments required to the Investment Strategy Statement (ISS) and other key fund documents
- communicating with the individual (or groups) of employers specifically impacted by any changes and specifically any impact on employers on entry or exit from the fund or in response to change in risk.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. This will include any guarantors where the impact of the change has material implications for the amount of liabilities backed by the guarantor or the risk of the guarantee being called upon.

## B. KEY FUNDING PRINCIPLES

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### FUNDING TARGET

Securing “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.

### EMPLOYER CONTRIBUTIONS

The cost of meeting the future benefits for Fund members is met from a combination of:

- the contributions paid in by employers and members; and
- the investment returns on those contributions and the existing assets.

The required levels of employee contributions are specified in the Regulations. Employers participating in the Fund must therefore meet the balance of cost that is not met by investment returns.

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

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 (further details on these contributions is set out [here](#)). As referenced in [Section A](#), one of the key objectives of the Fund is to maintain as nearly constant a primary rate of contribution as possible. Further details on how employers’ contribution rates are set can be found in the section below.

The investment returns on contributions will depend on the investments held by the Fund and the strategy that applies for an employer. Employers in the Fund will be in one of two funding and investment strategies:

- The “higher risk” strategy; or
- The “lower risk” strategy.

Subject to the fund’s discretion, employers can choose their funding and investment strategy, although in certain circumstances the Fund can require an employer to be in the lower risk strategy – for example a materially detrimental covenant. Further details of the Fund’s policy for employers to move between different investment strategies and the potential use of Fund discretion in this area is set out in [Appendix H](#).

The Fund balances contributions and reliance on investment return by:

- Making a long-term prudent assessment of the potential outlook for investment returns
- Taking into consideration employer short and longer term affordability
- Taking professional advice on these matters from its Fund actuary, investment consultant and where required, covenant adviser

Ongoing employer contributions are assessed at each triennial valuation which may reveal a *deficit* (employer assets are below the pension liabilities) or a *surplus* (employer assets are above their pension liabilities).

- The period over which a *deficit* must be recovered depends on employer circumstances. The Fund's policy for setting recovery periods is set out in [Appendix C](#).
- In certain circumstances, the Fund may allow an employer's *surplus* to be run-down over a reasonable period, via an off-set to the primary contribution rate. The Fund's methodology and process for determining the amount of surplus to be used in this way and over what period is set out in [Appendix D](#).

Employer profile is taken into consideration in determining the funding strategy and outcomes in terms of contribution rates for employers, in the following ways:

- If an employer is open to new members, the primary contribution rate assumes the average profile (in particular age, gender and pay) of active members remains constant over time.
- If an employer is closed to new members, the primary contribution rate builds in an allowance for active members to get older, on average, over time. This usually means a higher rate than an open rate as, on average, it assumes less investment return is available to meet the cost of benefits (and so higher contributions are needed).
- The period for recovering deficits or running down a surplus will take into consideration the time the employer is expected to be in the Fund and employer type.
- The investment strategy (higher or lower risk) will determine the assumptions used for future investment returns and inflation (further detail on assumptions is set out [here](#)).
- The employer covenant (plus any additional support e.g. security over a property) will be taken into consideration by the Fund when taking a decision on the need for exercising its discretion to deviate from the default funding parameters and approach.

- The Fund retains absolute discretion to take additional relevant factors into consideration when determining contributions for employers to maintain the financial health of the Fund and/or protect employers against unrecoverable debts.

The Fund's policies on deficit recovery ([Appendix C](#)) and surplus distribution ([Appendix D](#)) include further detail on how employer type and circumstances (covenant and outlook for participation) are taken into account.

## MANAGING RISK

Funding risks are considered as part of the Fund's overarching risk management framework and strategy. This FSS covers those risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. Recent developments alongside the management of other risks (including operational risks) are set out in the Fund's risk register which is reviewed regularly and available to view in the Pension Committee and Board reports which are available on the Administering Authority's [website](#).

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).

<b>Equity Protection</b>	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).
<b>Liability Driven Investments (LDI)</b>	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.
<b>Lower risk investment strategy</b>	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 (see <a href="#">Glossary</a> for further details). The implementation of a strategy constructed on this basis will better match the overall changes in the liabilities of those employers included in the strategy. All other things equal, this in turn would result in greater stability of the deficit and therefore the contributions for these employers.

The principal aim of these risk management techniques is to provide more certainty of real investment returns versus CPI inflation for the Higher Risk strategy 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.

## 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, for example if the investment return is higher or lower than assumed, then 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 risk inherent in the investment 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	MITIGATIONS
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Economic outlook moves at variance with assumptions</li> <li>• Investment markets fail to perform in line with expectations</li> <li>• Protection and risk management policies fail to perform in line with expectations</li> <li>• Investment Fund Managers fail to achieve performance targets over the longer term</li> <li>• Asset re-allocations in volatile markets may lock in past losses</li> <li>• Pay and price inflation is significantly more than anticipated</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> <li>• Experience is worse than assumed when assessing the termination liabilities for exiting employers whose liabilities are orphaned in the Fund and are underwritten by all remaining employers. This would lead to additional costs falling on other employers.</li> </ul>	<p>Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.</p> <p>In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of the risk management framework will help to reduce the key financial risks over time.</p> <p>The Fund also takes a prudent approach to ongoing funding with additional protections built in in relation to termination liabilities where these liabilities are orphaned in the Fund.</p>

DEMOGRAPHIC	MITIGATIONS
<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.</li> <li>• Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers</li> <li>• Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows (and hence liquidity risk) and shortening of liability durations.</li> </ul>	<p>To minimise these risks, the Fund Actuary undertakes a detailed demographic analysis of the Fund's experience on at least a triennial basis, alongside consideration of national trends and future projection scenarios to inform the Fund's view of an appropriate assumption for life expectancy and other demographic factors, including ill health assumptions for employers both part of and outside of the ill health captive.</p> <p>The Fund considers the maturity profile on at least a triennial valuation as part of the valuation and undertakes the investment strategy review alongside the valuation to ensure an integrated approach for funding and investment risks including cashflow requirements.</p> <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 AND EMPLOYERS	MITIGATIONS
<p>Governance and employer risks are as follows:-</p> <ul style="list-style-type: none"> <li>• The quality of membership data supplied by the employer is inaccurate or incomplete or there is a breakdown in processes for updating the information, each of which would result in liabilities being under or overstated</li> <li>• Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level</li> <li>• Administering Authority not advised of an employer closing to new entrants,</li> </ul>	<p>For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. The Fund has a Notifiable Events policy which sets out the information and events that need to be notified to the Fund. Arrangements are strictly controlled and monitored (e.g. the use 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>something which would normally require an increase in contribution rates</p> <ul style="list-style-type: none"> <li>• An employer ceasing to exist with insufficient funding or a bond which is not adequate, leaving remaining employers to fund the benefits.</li> <li>• A material deterioration in employer short-term affordability or longer term viability.</li> </ul>	
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REGULATORY	MITIGATIONS
<ul style="list-style-type: none"> <li>• The key regulatory risks are as follows:-</li> <li>• Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,</li> <li>• Changes to national pension requirements and/or HMRC Rules</li> <li>• Political risk that the guarantee from the Department for Education for Academies and Further Education bodies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.</li> <li>• Uncertainty about the Government's policy with regard to Higher Education bodies, with the result that the Fund is unsure about the security within which these bodies operate and may therefore be taking undue risk when setting contribution rates</li> </ul>	<p>Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p> <p>The Fund is not able to control policy/regulatory developments however it routinely monitors emerging issues and developments in the sector and actively contributes to consultations in key areas that impact the Fund.</p>

## CLIMATE CHANGE

An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. Climate change is a systemic risk meaning it can



impact on funding, investment and employer covenant – all at once. Therefore, the fund keeps the management and governance of climate risk under review.

The impact of climate risk cannot be measured with certainty. For the current valuation the fund has considered different climate change scenarios at the Whole Fund level. Analysis has been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under four climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change.

The information on climate risk is used by the fund in two key areas:

- A. Considering the inadequacy of the prudence margins required in the actuarial assumptions in order to mitigate against material downside events. The prudence in the funding strategy is predominantly reflected in the valuation discount rate.
- B. The surplus reserve retained in the fund above which surplus may be run down by means of employer contribution reductions.

The fund recognises that as climate risk is inherently uncertain, it is necessary to apply judgement and an integrated approach across funding, investment and covenant risk to mitigate.

When considering funding issues related to climate change, the fund also gives regard to the key funding principles document for preparing climate scenario analysis approved by GAD, MHCLG and SAB. The actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable is set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting the same (or similar) scenarios although this can be over a different time period.

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

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

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

1. **Rapid Transition** – there is a highly ambitious low carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards. [Commentary in relation to impact on funding to be included once analysis completed]
2. **Delayed Transition** – Limited additional action until 2030, at which point a highly ambitious set of low-carbon policies is introduced. Financial markets price in transition and physical risk in 2030 to align with the ambitious policy change, associated with stranded assets and a sentiment shock. Assumed temperature increase of 1.9°C by 2100. [Commentary in relation to impact on funding to be included once analysis completed]
3. **Limited Transition** – Emissions targets and commitments are not fully met. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 2.9°C by 2100. [Commentary in relation to impact on funding to be included once analysis completed]
4. **Failed Transition** – No new climate policies are enacted, but transition progresses on economic grounds. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 3.7°C by 2100. [Commentary in relation to impact on funding to be included once analysis completed]

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so needs to be monitored over time.

The quantitative analysis has considered financial factors and also the potential impact on longevity. A qualitative assessment of the implications for the scenarios on different employer covenants (both budgets and also resilience/adaption to physical impacts) has also been considered. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate TCFD reports.

## MAIN ACTUARIAL ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2025 actuarial valuation are set out below.

FINANCIAL ASSUMPTIONS			
	2025 valuation assumption		Description
Investment return / discount rate	Higher Risk Strategy	[5.90]% p.a. (past) and [4.85]% 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 2025 valuation this is based on an assumed return of [3.30]% p.a. above CPI inflation (past service) and [2.25]% p.a. above CPI inflation (future service). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Lower Risk Strategy	[5.65]% 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 [0.52]% p.a. above gilt yields as at 31 March 2025. This assumption will be regularly reviewed and updated to allow for changes in market conditions at the relevant employing body's cessation date, along with any other structural or legislative changes.
Inflation (Retail Prices Index)	[3.30]% 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	[2.60]% p.a. (includes an adjustment of [0.70]% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts. This varies for the higher and lower risk strategies, reflecting the degree of inflation hedging inherent in each strategy
	Lower Risk Strategy	[3.10]% p.a. (includes	

FINANCIAL ASSUMPTIONS			
		an adjustment of [0.20]% p.a. for a very mature employer)	and will reflect the duration of an employer's liabilities. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
Salary increases (long-term)	Higher Risk Strategy	[4.10]% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of [1.50]% p.a. over the appropriate CPI inflation assumption as described above. This includes allowance for promotional increases.
	Lower Risk Strategy	[4.60]% p.a.	
Salary increases (short-term)	Where applicable this is [TBC]% or [TBC]% p.a. until 31 March 2026. 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 2025 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.		
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).		
McCloud	A reasonable estimate for the potential cost of McCloud has been included within the 2025 valuation results for each employer. This has been calculated based on the actual data provided for the 2025 valuation and in line with national guidance.		

## DEMOGRAPHIC ASSUMPTIONS

### Mortality/Life Expectancy

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

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2024 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 2024 projections and a long term improvement trend of [TBC]% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2022 and 2025 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2022	2025	2022	2025
<b>Pensioners</b>	22.5	TBC	24.4	TBC
<b>Actives aged 45 now</b>	24.1	TBC	26.7	TBC
<b>Deferreds aged 45 now</b>	23.5	TBC	26.2	TBC

For example, a male pensioner, currently aged 65, would be expected to live to age [TBC]. Whereas a male active member aged 45 would be expected to live until age [TBC]. 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.

The detailed actuarial tables adopted for the post retirement mortality assumptions are set out in [Appendix B](#).

The other demographic assumptions include the rates of early, normal and ill health retirement, the rate at which pension is exchanged for additional tax-free cash and the proportion of members where a dependant's pension will become payable after their death. Such assumptions have been determined by considering:

- The experience of the Fund's membership
- The experience of a wider LGPS dataset
- National trends
- The advice of the Actuary
- The need for prudence (however the default position is that these assumptions are set on best estimate principles with prudence primarily reflected in the investment return assumption and the post-retirement mortality assumption).

## 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 (the Attained Age 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 2026).

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 (or group of employers), following a general principle of no cross-subsidy between the distinct employers in the Fund. The financial assumptions for investment return and inflation will vary depending on whether an employer is in the higher risk or lower risk strategy and therefore so will the resulting contribution requirement. In addition, employer circumstances (e.g. employer type, guarantees from public bodies, affordability, expected duration remaining in the Fund)

are further taken into consideration when determining the recovery period of deficits/surplus and also the level of the surplus reserve. Further details on this are set out in Appendices [C](#) and [D](#).

## EMPLOYER POOLING AND RISK SHARING ARRANGEMENTS

Generally individual employers will be responsible for their own liabilities and have a notional asset share allocated to them. However, there are some circumstances where employer assets and liabilities are pooled across a group of employers. This relates to some academies where the Multi-Academy Trust (MAT) is also an employer in the Fund and so the funding of all academies in the MAT can be pooled across the group.

Further details on how this will impact the funding assessment on entry, as part of the ongoing contribution requirement and on exit is set out in the [relevant section](#) of this FSS including the pros and cons of such arrangements.

For admitted bodies, there may be some instances where the admitted body, and the letting employer enter into a “pass-through” arrangement, where some/all of the pension risks are retained by the letting employer. Such arrangements are commercial arrangements between the admitted body and the letting employer. From the Fund’s perspective, where the letting employer is an academy, DfE has confirmed that use of a pass-through arrangement where responsibility for the liabilities remains with the letting employer, will mean that the admitted body is covered by the [DfE LGPS Academy Guarantee](#). In such cases a bond or other indemnity would be deemed unnecessary.

In all cases, the attribution of pension risk in such arrangements may impact how any termination / bond assessments are undertaken and therefore it’s important for Employers to make the Fund aware of the risk sharing arrangements in place when undertaking such exercises.

## 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 may be 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.

Further details on the method by which employer assets are determined and tracked over time is set out in [Appendix A](#).

## **LINKS TO THE INVESTMENT STRATEGY STATEMENT (ISS) AND INVESTMENT POLICY**

The investment and funding strategies are closely linked. After employer and employee contributions, investment returns are the third key pillar of LGPS funding. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy).

If investment returns or income are lower than expected, the Fund may need to set higher contributions from employers to ensure benefits can be paid. Therefore, the investment returns required by the funding strategy, as set out in this FSS, must be compatible with the investment policy as set out in the ISS.

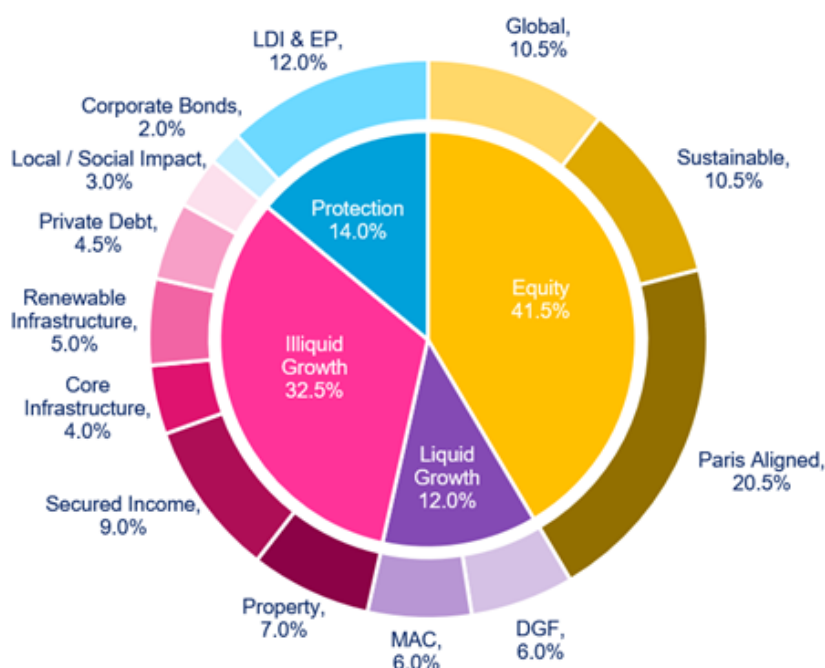
The results of the 2025 valuation show the liabilities to be [TBC]% covered by the assets, with the funding surplus of [TBC]%.

In formulating a Fund's overall investment strategy, the liability profile and funding position in relation to the liabilities of the Fund as a whole (assessed on an appropriate and prudent basis), is taken into account, alongside the Fund's overall risk appetite across funding, investment and covenant.

As noted above, individual Fund employers will be in one of two possible funding and investment strategies in the Fund: the Higher Risk Strategy or the Lower Risk Strategy. The funding assumptions for investment return and inflation will vary depending on the strategy the employer is in, reflecting the nature of the investments underlying the strategy.



The overall strategic asset allocation for the Fund as a whole is set out in the Investment Strategy Statement (ISS), which can be found [here](#). The current strategy is included below.



## HOW EMPLOYER CONTRIBUTIONS ARE CALCULATED

### PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION (FUTURE ACCRUAL) - METHOD AND ASSUMPTIONS

The future service liabilities are calculated using the same assumptions as the funding target except that for Employers in the Higher Risk strategy, 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. Therefore, for employers in the Higher Risk strategy, as they are typically expected to remain in the Fund for a long time horizon, and 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 different expected return from the past service discount rate to support sustainability/stability of employer contributions over the longer term. Whether this is higher or lower than the past service discount rate will depend on prevailing market conditions at the valuation date.

For employers in the Lower Risk strategy the future service liabilities are calculated using the same assumptions as the funding target. These employers are typically expected to remain in the Fund over a shorter time horizon and therefore adjustment for future market conditions is generally inappropriate.

The impact of different employer covenant (i.e. type of employer, the availability and nature of any guarantee and affordability) is not explicitly reflected in the calculation of the primary contribution rate although this will be implicit where an employer has moved to the Lower Risk strategy. Employer covenant is however, taken into consideration when determining deficit recovery and surplus run-off plans (see below).

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates.

The primary contribution includes the employers' share of administration costs alongside the cost of insurance provided by the Fund for ill-health early retirement strains and death in service strains. Further details (including eligibility and Fund policy) on the Fund's ill-health and death in service captive insurance arrangements are set out in [Appendix L](#) and [Appendix M](#) respectively.

The process and decision making followed by the Fund to set primary contribution rates is consistent across all employers. However, this does not necessarily translate into the same outcomes, which will be dependent on employer circumstances as referred to above and as such the Fund retains the right to use its discretion where individual circumstances require.

## SECONDARY RATE OF THE EMPLOYERS' CONTRIBUTION

### Deficit Recovery Plans – Key Principles

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.

The average recovery period for the Fund as a whole is [12] years at this valuation which is one year 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).

### Surplus Run Off Plans– Key Principles

If the funding level of an employer is above 100% at the valuation date (i.e. the assets of the employer are greater than the liabilities, then the Fund will consider whether a reduction to

the primary contribution rate is required in order to run-off surplus over a suitable time horizon. Whether any surplus is run-off will depend on the funding level (i.e. is it above the surplus reserve retained in the Fund for the benefit of the employer to support contribution stability). The period during which excess surplus above the surplus reserve will be run-off will be set by the Fund on a consistent basis across employer categories where appropriate. This will determine the minimum total contribution requirement for employers, however employers will be able to opt to pay higher contributions if they wish to retain a higher surplus reserve.

Surplus off-sets will usually be expressed as a % of pensionable salary or £ (if appropriate) deduction to the primary contribution rate.

Further details on the key principles when determining the secondary rates payable by employers is set out in [Appendix C](#) in respect of deficit recovery plans and [Appendix D](#) in respect of surplus run-off plans. Employers will be notified of their individual deficit recovery / surplus run-off period as part of the provision of their individual valuation results.

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.

## CONFLICTS OF INTEREST

Where an actual, or perceived, conflict of interest is identified in relation to the setting of employer contribution rates (whether primary or secondary), the Administering Authority will follow the Fund's conflicts of interest [policy](#). Where necessary, for example where an actual, or perceived, conflict emerges when setting contribution outcomes for the Administering Authority itself, as a Scheme Employer, the Administering Authority will ensure a separation of decision making to manage any conflict. In such, any decisions would be subject to the approval of the Pensions Committee and subject to the scrutiny and oversight of the Local Pensions Board.

## PAYMENT OF ADDITIONAL CONTRIBUTIONS

There may be circumstances when Employers are required to make other payments to the Fund in respect of member benefits. This might be, for example in relation to:

- awards of additional pension;
- strain costs arising from retirement before normal retirement age on unreduced benefits;
- strain costs arising from early retirement on ill-health grounds for those employers who are not part of the ill-health captive arrangement (see [Appendix L](#) for further details on this).

The Fund's default position is that awards of additional pension and strain costs arising from early retirement on unreduced benefits are funded by an immediate contribution from the employer. Employers should request an estimate of the potential costs of any such awards from the Fund.

Ill-health retirement strain costs in respect of employers who are not part of the captive insurance arrangement are usually considered on a triennial basis as part of the actuarial

valuation with any strains reflected in the balance sheet and where there is a deficit this will need to be recovered over the relevant recovery period specific to employer circumstances (see [Appendix C](#) for further information on deficit recovery periods).

The Fund reserves the right to use its discretion to adjust the approach for the timing of any additional payments, for example due to affordability or financial stability concerns regarding the employer where this is appropriate in the best interests of all Fund employers.

## ACTUARIAL VALUATION

As required by the Regulations (Regulation 62 of the LGPS Regulations 2013), an Administering Authority must obtain an actuarial valuation of the assets and liabilities by its pension funds as at 31 March every 3 years. The effective date of the most recent actuarial valuation is 31 March 2025. In addition, the FSS must be formerly renewed by the Administering Authority every 3 years and in advance of the completion of the actuarial valuation (which must be within 12 months of the valuation effective date) or such later date as the Secretary of State may agree.

As part of the triennial valuation, the Administering Authority must obtain a report by an actuary (the “actuarial valuation report”) and a rates and adjustments certificate prepared by an actuary. This certificate sets out the contribution rates to be paid by all employers participating in the Fund for the following 3 years (i.e. for 3 years from 1 April 2026 until 31 March 2029 in respect of the 31 March 2025 valuation). As the accuracy of the valuation calculations and resulting contributions is reliant on the accuracy of the membership data used, employers therefore have a critical role in this process ensuring that the employee information provided to the Fund is as accurate as possible.

The rates and adjustment certificate is appended to the valuation report, but otherwise information in the report is aggregated at the whole Fund level.

The actuarial valuation report:

- shows the aggregate funding position for the Fund as a whole as compared with the previous valuation
- sets out a summary of the key reasons for the change in funding position and a summary of key inter-valuation experience.
- includes sensitivity analysis and commentary to support understanding of the key risks including a projection of the potential funding level at the next valuation.
- Summarises the key financial and demographic assumptions adopted alongside the underlying membership and investment data as at the valuation date.
- includes quoting a primary and secondary contribution rate for the Fund as a whole, equal to the weighted average based on the whole Fund payroll in respect of rates that are expressed as a percentage of pay and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates within the Fund and reconciled with actual receipts.
- includes information required by the Government Actuary’s Department for the purpose of undertaking its Section 13 assessment.

## REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Regulations permit Administering Authorities to review an Employer's contribution rate in the interim period between triennial actuarial valuations where there has been a significant change to the liabilities or covenant of that employer.

The Administering Authority will consult with the Employer prior to undertaking a review of their contributions, including setting out the reason for triggering a review. An employer may request a review of contributions from the Administering Authority if they feel there has been a significant change to their liabilities or covenant.

MHCLG has confirmed its view as set out in Scheme Advisory Board statement on surpluses issued in December 2023 that generally local authorities and other tax-backed employers are not subject to a change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate. Changes in funding values due to market movements are not themselves usually sufficient to trigger a review.

The Fund's policy on undertaking an interim review of contributions is set out in [Appendix H](#).

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 except in exceptional circumstances.

## FUND APPROACH TO MANAGING SURPLUSES AND DEFICITS

The funding position of each LGPS fund is different: some have surpluses, some are experiencing deficits, and some will shift between surplus and deficit positions over time – this will depend on the circumstances of each fund in terms of experience (including amount of employer contributions and how long members live) and policies.

The funding position of individual employers in the Avon Fund will also differ and change over time and these differences can be material. Usually, any deficit or surplus will not, however be required to be paid up front and can be recovered (or run-off where there is a surplus) over a period of time. This has the effect of smoothing contributions required to finance a potentially volatile funding position. This smoothing works both ways i.e. both in respect of the additional contributions required to recover a deficit and also any contribution reductions that might be applied in respect of running down a surplus.

Employers will also themselves be facing different affordability challenges and pose risks to a differing degree to the Fund. Some will participate in the Fund long-term whilst others may be exiting soon. For this reason, the Fund's approach for adjusting contributions to make good deficits or run-down surpluses over time will differ depending on the type of employer concerned. The starting point for this will be based on whether or not the employer is tax-payer backed (or guaranteed by a tax-payer backed employer or organisation such as the Department for Education), although other factors are also taken into consideration for example the existing recovery or run off periods. For employers in surplus, the Fund will

also consider the need to retain a surplus reserve in the Fund to help achieve contribution stability for the benefit of the employer, the amount of which may vary by employer type and may be zero. The Fund will also consider whether it should use its discretion to vary the approach for any individual employer based on detailed consideration of the circumstances of the employer and actuarial advice.

Further details on how the Fund determines the approach for making good deficits and running-down surpluses, including how this varies by type of employer, is included in [Appendix C](#) and [Appendix D](#) respectively.

As noted earlier, the Fund operates two funding and investment strategies - the Higher Risk strategy and the Lower Risk strategy.

Most employers will be in the Higher Risk strategy. This aims to deliver higher long-term investment returns by investing in higher risk assets than the Lower Risk strategy. If the aims are achieved then the long-term costs in terms of employer contributions are expected to be lower than the Lower Risk strategy – but this is not guaranteed. The aim of the Lower Risk strategy is to deliver a stable funding level (i.e. the ratio of assets and liabilities) and more cost certainty. However, as this is predominantly based on investment in corporate bond assets, it can produce very volatile primary contribution rates (similar to the volatility seen for an employer service cost under accounting figures).

Further details on these strategies is set out in [Appendix I](#). The costs involved in management of the Higher and Lower Risk investment strategies are met from the investment return applied to employer assets.

## EMPLOYER COVENANT

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/surplus reserve and run-off periods. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

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.

The Fund has established a proportionate covenant assessment and monitoring framework which is set out in [Appendix J](#). This includes information on:



- How the Fund assesses and keeps employer covenant under review, as appropriate for the employer type
- The risk assessment methodology and criteria by which the Fund will assess the long-term financial health of employers, and how this will be monitored.
- How the Fund assesses covenant risk

Timely reporting to the Fund of events that have the potential to materially impact on employer covenant strength is critical to the management and monitoring of employer covenant risk. The Fund has therefore agreed a Notifiable Event framework which specifies the types of event or changes in circumstances that employers will be obliged to notify the Fund about. The Fund's current Notifiable Events framework is attached in [Appendix K](#).

If there is assessed to be a significant change in covenant then the Fund will initially contact the employer to further understand the position and this may lead to additional information being requested. The Fund will take professional advice e.g. actuarial, legal, covenant, investment as appropriate depending on the circumstances in order to evaluate the impact in the context of the overall risk as part of the integrated risk management strategy and on potential avenues to mitigate or reduce the risk. This may include seeking covenant strengthening measures such as a guarantor or security; reducing investment risk by moving to the Lower Risk strategy and/or determining a revised contribution between actuarial valuations, where appropriate. Ultimately the outcome will be dependent on the specific circumstances and in exercising the Fund's discretion in such cases.

As set out in [Appendix H](#), a material change in employer covenant may also trigger the need to consider a contribution rate review.

The Fund's over-riding responsibility will be to act in the best interests of all Fund members and their participating employers.

## GUARANTORS

Certain employers in the Fund will be guaranteed by another employer which may also be participating in the Fund. For example, new admission bodies joining the Fund must be guaranteed by a Scheme employer, the Department for Education provides a 'guarantee of last resort' in respect of academy trusts and further education bodies.

In the case of a full guarantee (e.g. in the case of new admissions) when the employer exits the Fund, the responsibility for funding the future pension costs associated with its employees, earned during its admission in the Fund, will pass to the guarantor i.e. liabilities are 'subsumed'. The assets are also subsumed, although depending on the contractual arrangements in place and Fund exercising its discretion where there is surplus, a termination payment/exit credit may be payable from/to the exiting employer first.

In the case of a 'guarantee of last resort' (e.g. for academy trusts and further education bodies) the guarantor does not subsume the exiting employer's assets/liabilities on termination and instead the guarantee is to cover only the exit debt, if there is one. Following

the employer's exit, if future pension costs are higher than the termination assessment, responsibility passes to the remaining ongoing Fund employers to meet the cost.

The existence and type of guarantee for a non-tax-backed employer is an important consideration for the risk profile of the employer, alongside employer type. As a result, it is taken into account in the funding strategy in a number of ways.

- The frequency and detail of covenant review
- The deficit recovery period or surplus reserve and run-off period as applicable
- The assumptions used to assess any deficit/surplus on termination (where there is no guarantee or only a guarantee of last resort, additional prudence is built into the termination assumptions to provide greater protection for the ongoing employers against adverse experience given they would underwrite the termination liabilities going forward).
- whether a bond or other security is required to support the admission

## ADMISSION BODIES

Under the LGPS regulations, an administering authority must assess the risk a proposed new admission body poses to the Fund should the admission body become insolvent or go out of business.

After considering the level of risk, the administering authority may decide that the admission body must provide security, such as a guarantee from the letting employer, an indemnity, or a bond. This security must cover some or all the:

- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

Further information on this is set out in [Section C](#) of this FSS and the Fund's policy on its approach in this area is set out in [Appendix E](#).

It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

## PENSION ADMINISTRATION STRATEGY

The Fund keeps a separate pension administration strategy which outlines the responsibilities, performance and procedures for employers and the Fund. Compliance with the Fund's pension administration strategy, in particular areas such as communication, skills and training and data accuracy is essential for ensuring employers are in a position to understand and manage their pension costs and risks in a changing economic, demographic and legislative landscape alongside ensuring assessment of such costs and risks can be as



accurate as possible. Failure to adhere to these requirements could have a material effect on an employer's liabilities in the Fund.

Alongside the triennial actuarial valuation, there will be a number of occasions where the Actuary will use updated membership data to carry out its calculations, as referenced in the next section e.g. terminations (where an exit debt/credit is to be assessed in full), inter-valuation contribution rate reviews, new admissions, bulk transfers, and in some cases accounting calculations where a significant event has occurred during the accounting period. To ensure membership data is as accurate as possible, the Fund undertakes annual data quality assessments (including against requirements set out by The Pensions Regulator) and also instructs the Actuary to undertake independent inter-valuation data quality assessments.

The Fund's Administration Strategy Statement is available [here](#).

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## C. EMPLOYER EVENTS

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Key events during an employer's participation in the Fund could impact on an employer's and the Fund's funding circumstances. The Fund's approach to policy and process for dealing with any possible outcomes from those events is summarised below. The Fund's detailed policy in each of these areas is included in the relevant Appendix referenced.

### JOINING THE FUND AND EMPLOYER CONTRIBUTION RATE SETTING AND MONITORING

All Scheme employers (as defined under Schedule 2 Part 1 of the LGPS 2013 Regulations) are entitled to join the Fund under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Other Scheme Employers (specifically those defined under Schedule 2 Part 2 of the Regulations) can designate eligibility to join the Scheme for individuals or groups, where they pass a resolution to that effect.

#### Initial funding calculations

Typically, there are two main approaches used for new employers depending on their specific circumstances:

- Fully funded at the start: the value of the liabilities of the transferring group of members is assessed and the assets that are notionally reallocated within the Fund from the original employer to the new employer body are equal to this amount, meaning no initial surplus or deficit.
- Partially funded at the start: where the assets notionally reallocated are less than the value of the liabilities transferring. The method of assessment for this initial deficit can vary depending on the specifics of each case.

Bespoke commercial arrangements can also be entered into between the new entity and the letting authority which may be different to these and must be communicated to the Administering Authority. For example, a "pass-through" arrangement where some/all the risk is retained by the letting authority.

It is most common for admission bodies to join the Fund on a "**fully funded**" basis. There can be exceptions to this where an outsourcing body has structured the commercial arrangements such that the new body takes on a deficit.

#### Initial contribution rate assessment

The initial contribution rate assessment will be an actuarial calculation of the future service pension cost that applies in respect of the members transferring to the new entity. This assessment will take account of:

- The pay levels of the transferring group (and so the implied employee contribution rate)
- The timing of the benefits that are expected to fall due (depending on any applicable transitional protections for certain members)
- Whether the new body will be open, or closed to new entrants

- Whether any funding deficit is ultimately transferred and the period over which it is expected to repay that deficit.

### **Conversion to academy status**

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 (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.

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. This decision would have implications for all future actuarial calculations for the MAT; an overall funding position and the same "average" contribution requirement would apply to all constituent academies. It also means pension fund accounting under FRS101 / FRS102 / IAS19 would only be produced for the entire body. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events. In the case of an exit from the Fund by a pooled employer, an individual balance sheet for the exiting employer would be determined in order to identify whether there is a surplus or deficit payment due.

Full details of the Fund's policy in relation to how the contribution rate is assessed and calculated for academy employers/multi academy trusts, are set out in [Appendix F](#).

Any new academies joining an existing MAT pool would contribute at the grouped employer contribution rate already established for the MAT in respect of future service, plus additional deficit contributions relating to the academy, calculated in line with the academy approach outlined above. This would be next reviewed at the triennial valuation, taking experience into account including any new deficit taken on when new academies join.

A grouped or "pooled" rate would mean that experience for individual academies is shared across the group and contributions are assessed based on the member profile of the MAT as a whole. The benefit of pooling is that costs and risks are shared across the whole pool, but this will mean a higher rate is payable by some employers and a lower rate payable by others depending on the circumstances that unfold in the future.

For example, employers with younger active members would usually have a lower primary contribution rate than an employer with older active members (as there is more time for future investment returns to pay towards the cost of the benefits building up). However, if the contributions for such employers were pooled, this would mean a higher rate payable for the former employer and a lower rate payable for the latter employer. In addition, the impact of experience such as membership changes is shared across the group. For example, if membership for one academy lives longer than the valuation assumption, the additional costs of this are borne across the pooled group.

As academies (whether pooled as part of a MAT or not) participate in both the ill health captive insurance arrangement and the death in service captive insurance arrangement, costs relating to ill-health retirements/death in service strains are “insured” through the Fund in any case, rather than managed within the pooled MAT and these are the usually the most significant pension cost risks that would typically arise in respect of an employer’s membership.

## PREPARING FOR EXIT AND EVENTS WHICH MAY TRIGGER TERMINATION

Unless entering a Deferred Debt Agreement (see below), 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).
2. At the discretion of the Administering Authority, instalment plans (known as a Debt Spreading Agreement (DSA)) 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 Fund’s detailed policy on determining whether an exit payment is due to the Fund, or a credit is payable to the employer is set out in [Appendix G](#). This includes the detailed assumptions and approach used to assess the amount of a payment/credit payable upon termination; the factors the Fund will take into consideration when exercising discretion and the information that employers would need to provide in certain circumstances to enable the discretion to be exercised.

## DEFERRED DEBT AGREEMENTS

As opposed to paying the exit debt upfront (or via a Debt Spreading Agreement), 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.

Details of the process that will determine whether the Fund will agree to allow the employer to enter into such an arrangement are included in [Appendix G](#).

## SUSPENSION NOTICES

Regulation 64(2A) provides the Fund with the discretion to issue a “suspension notice” and suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is likely to take on one or more active member within the period specified in the suspension noted.

If a suspension notice is applied, any contributions not related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid to the Fund as certified. The suspension notice will also set out the terms for review of those contributions. If the conditions in the suspension notice are not met, then the suspension notice may be withdrawn in which case any exit debt / credit will become payable immediately unless any other arrangements are agreed with the Administering Authority at its absolute discretion taking affordability and employer risk into consideration.

Further details of Fund’s policy on this are set out in [Appendix G](#).

## PARTIAL TERMINATIONS

So-called “partial termination” is where an employer exits the Fund for deferred and pensioner members (and potentially past service benefits for active members) but seeks to remain a participating employer for active members (potentially just in respect of future service benefits). The objective is to lock in current liability values for deferred and pensioner members (and potentially earned benefits for active members) but would also mean that there is no recourse to that employer if those estimates prove too low in future aside from its (much lower) share of the orphan liabilities. If that happens, as with other orphan liabilities, the extra costs become the responsibility of all employers in the Fund.

The Fund’s default position is that such arrangements are not permitted. The position would be reconsidered in future only in the event that the legal basis for such arrangements is established to the satisfaction of the Fund, after taking its own legal advice. The costs of the Fund considering any requests in this area, including legal advice the Fund would need to take, must be met by the requesting employer. Even if a legal basis is established for such arrangements, this doesn’t guarantee that the Fund will permit the option as it will need to

balance the costs and risks of the approach, taking into account the other options employers already have to manage their pension risk, including use of the Lower Risk strategy alongside the insurance arrangements for death in service and ill-health retirement.

## **BULK TRANSFERS (BOTH TO OR FROM THE LGPS)**

Bulk transfers may be:

- internal (or “intra-fund”) transfers, where the two employers both participate in the Fund,
- external, where one of the employers participates in a different LGPS Fund,
- external to the LGPS, where members are transferring to / from a non-LGPS pension fund.

They may involve some of an employer’s members (and so assets and liabilities), or the employer’s whole position (membership, assets and liabilities) transferring to a new Fund (typically under a Secretary of State direction order).

### **General principles**

A summary of the general over-riding principles, processes and responsibilities the Fund will apply for all bulk transfers are set out below.

- The LGPS Regulations provide the framework if a Fund employer has an external bulk transfer of staff, and the Fund will adhere to the Regulations.
- The Fund’s primary objective will be to protect the position of, and minimise the risk to, the Fund and the other Fund employers – this is particularly relevant for cases where a transfer out of the Fund will result in “orphaned” members / liabilities. Subject to this, where both applicable and practical, the Fund will consider other relevant factors including the views of the relevant Fund employer(s) and the circumstances of the transfer.
- Generally, there will be no cross-subsidy between the employers participating in the bulk transfer and all other Fund employers. This means that for an outgoing transfer, the assets and liabilities that are transferred to the new employer are deducted from the transferring employer’s balance sheet. Likewise, for an incoming bulk transfer, the assets and liabilities are added to the employer’s balance sheet. There will be no adjustment applied to the position for other employers in the Fund.
- It is the employer’s responsibility to notify the Fund that a transfer is required and the relevant details – in particular the date of transfer, the other Fund and / or employer, and in particular the affected members and all relevant member data. As the transfer of assets to the new employer and potentially the provision of benefits to members transferring will be reliant on the data used, it is critical that the data provided is complete and accurate. Neither the Fund, nor the Fund Actuary will be responsible for errors or issues arising due to the provision of incomplete or inaccurate data
- Once notified, it is the Fund’s responsibility to facilitate the bulk transfer by liaison with the employers involved (and external Fund where applicable), including notifying the employer(s) of the information required, notifying the Fund Actuary of the details of the bulk transfer so that the Fund Actuary can calculate the assets to be transferred (including agreement of the assumptions where applicable – see below)

and arrangement for the payment to be made/received where this involves an external Fund.

- All Fund costs relating to any bulk transfer will be met by the relevant Fund employer(s)

### **Intra-fund bulk transfers**

The default position is that the assets that would transfer to the new employer within the Fund will be calculated to be equal to the valuation of the liabilities to transfer i.e. on a “fully funded” basis. Where an employer’s commercial requirements require a different treatment, it will be the responsibility of the employers to notify the Fund. The Fund will then consider whether this is possible and appropriate.

The standard approach is that intra-fund bulk transfers are formally assessed at the first triennial valuation following the transfer (or, if timing prevents this, then the first triennial valuation where assessment is possible), and the financial impacts of the transfer will be reflected in the assets and liabilities quoted as part of the employer’s valuation results. However if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on their balance sheet at the point of transfer, rather than at the subsequent actuarial valuation (e.g. to reflect in inter-valuation accounting figures or for a contribution rate review (see [Appendix H](#) for the Fund’s policy on inter-valuation contribution reviews).

### **External bulk transfers**

Where one of the employers involved in the transfer does not participate in the Fund, the value of the assets to be transferred to / from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority, and potentially the relevant Fund employer, as required).

In all bulk transfer cases, where possible the Fund will take a simplified approach in order to manage the costs of the process (which are met by the employers directly involved), provided interests of all employers in the Fund are protected.

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# APPENDIX A – ASSET SHARE POLICY

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## BACKGROUND

Local Government Pension Scheme (LGPS) funds are not legally sectionalised by employer under the LGPS Regulations. An employer's allocated asset share is calculated on a notional basis, taking into account the circumstances of that employer in order to assess that employer's contributions (including on termination) as per the Regulations. Employer asset shares are considered formally at each actuarial valuation, with interim updates where required (e.g. for accounting disclosures or when an employer joins (usually a provisional figure) or leaves the Fund). Employer asset share values will move (most significantly) in line with the total Fund assets, according to Fund investment strategy and market movements. As well as individual employer funding and investment strategy (e.g. the alternative strategies offered by the Fund), membership size, experience, cashflow and other events can cause changes in the employer asset share over time.

The Fund's Actuary assesses this asset share in line with policies agreed with the Administering Authority, which are routinely reviewed and informed by common practices across all LGPS funds. This document will be formally reviewed at least at each triennial actuarial valuation.

There is therefore no separately audited asset statement in relation to each employer's own asset allocation within the Fund and an employer does not formally get allocated the underlying assets. Furthermore, the Fund remains the legal owner of the assets and any decisions on the assets rests with the Administering Authority, however they must be invested in line with the Regulations governing the LGPS. This is of particular importance in the context of accounting figures where the Fund will be unable to provide individual audited asset statements.

## WHAT ARE THE KEY FACTORS THAT CAN INFLUENCE AN EMPLOYER'S ASSET SHARE?

In simple terms, an employer's asset share at a certain point in time will typically be determined by:

- a) The employer's provisional starting assets on admission, based on the admission data provided
- b) Any restatement of the opening assets following a more detailed review at the first formal valuation for that employer, in particular where the member data may differ to that provided at admission
- c) Plus the employer and employee contributions
- d) Minus any net benefit/expense payments in relation to the employer
- e) Plus/minus the impact of membership movements in/out of the employer
- f) Plus/minus the net investment returns earned by the employer's assets



The Administering Authority allocates employers to alternative investment strategies depending on the funding and risk strategy adopted for that employer. In such cases, the return from those strategies would be notionally allocated instead of the total Fund's actual return achieved. Employers are notified of what strategy applies to them. In attributing the overall investment returns to each employer, a pro-rata principle is adopted.

In practice, there are a number of other factors that need to be taken into account and these are explained in more detail in this policy, together with the main circumstances when an asset share will need to be determined by the Actuary (e.g. the starting assets for an employer on entry to the Fund may vary depending on the type of employer and the funding approach adopted).

It is also important to note that it is often necessary to make some practical approximations in the timing of employer cashflows and allocation of investment returns (in line with the appropriate employer investment strategy) when deriving the asset share for employers. Equally when members move between employers in the Fund, a notional intrafund transfer of assets is made.

It should be noted that whilst Funds will seek to allocate assets to employers in line with the approach set out in this paper, there may be occasions where the Fund and Actuary will need to apply a bespoke approach depending on the circumstances of a particular case (e.g. where one off adjustments could be required due to pending transfers after the calculation date). In such cases, the approach would be communicated to the employer to ensure transparency and to also preserve any audit trail for future reference.

## EVENTS WHEN AN ASSET ALLOCATION WILL BE DETERMINED

Typically speaking, the circumstances when the Actuary will determine a notional asset allocation for an employer, during its participation in the Fund, will be as follows:

EVENT	PURPOSE
Admission to the Fund	Determine initial provisional balance sheet / contribution requirements
Triennial Actuarial Valuation	Inform decision making on contribution requirements
Employer Accounting	For employers to include in their accounts
Bulk Transfers	To determine value of payments to/from the Fund, or between employers in the Fund.
Inter-valuation funding updates	To assist with budget setting / inform decision making on contribution requirements
Cessation / Termination from the Fund	To determine potential exit payment to/from the outgoing employer.

Further information in relation to the above events is set out below.

## ADMISSION TO THE FUND

On entry to the Fund, unless a pooled or temporary contribution rate is payable (see comment below), the Actuary will be required to assess the contribution rate payable by the new employer once they join the Fund.

The provisional liabilities will be assessed by the Actuary based on the members transferring to the new employer (for benefits accrued up to the admission date).

The provisional asset share allocated to the new employer on entry to the Fund will be determined by the funding status and in line with Fund's admission policy. Further details can be found in [Appendix E](#) of the Funding Strategy Statement (FSS). The FSS is reviewed on a regular basis (typically annually) and fully as part of each actuarial valuation. A summary of the key scenarios is set out below:

- For **fully funded admissions**, the initial asset allocation will be the same as the value of the liabilities.
- For **partially funded admissions**, the assets allocated will be equal to the value of the liabilities, less any deficit allocated on inception based on agreed policies. This would be subject to a minimum asset allocation of zero.
- For admissions where **surplus is allocated from the ceding employer**, the assets allocated will be equal to the value of the liabilities, plus any surplus allocated on inception based on agreed policies.
- Where a local authority school **converts to academy status**, the assets allocated to the new academy will depend on the Administering Authority's policy to allocating a share of the ceding local authority's deficit or surplus to the new academy. Further details of this policy can be found in [Appendix F](#) of the FSS.

The provisional admission figures above will be re-assessed at the first formal triennial valuation for that employer. In some cases, the data provided at the initial admission can differ materially to the data at the valuation; for example, some members included in the initial admission may not have joined the new employer.

In situations where a pooled or temporary contribution rate is payable and hence an initial contribution rate assessment is not required (e.g. the employer is admitted via a pass through arrangement), the initial asset allocation will be determined by the Actuary at the subsequent actuarial valuation (or accounting) exercise undertaken, whichever is first in line with the principles set out in this policy e.g. for pass through arrangements, the initial asset allocation will be determined in line with the fully funded admission approach referenced above.

## ACTUARIAL VALUATION

For all employers in the Fund at the triennial actuarial valuation, the Fund and the Actuary will review the notional asset share and liabilities of all employers in order to determine the funding position for each and set the contributions payable for the next inter-valuation period. The total

assets allocated across the Fund will sum to the total assets shown in the audited Fund accounts.

This will be done in two approaches to ensure the asset share is appropriate to that employer, taking into account all relevant factors.

## 1. “ANALYSIS OF SURPLUS” APPROACH

The Actuary will apply an “analysis of surplus” approach whereby the surplus/deficit position of each employer will be calculated according to their actuarial gains or losses since the previous valuation (or since admission if they are a new employer to the Fund). This approach allows for all factors including membership data changes since the previous valuation.

The emerging surplus/deficit is then added to/subtracted from the employer’s liabilities at the valuation date in order to determine the notional asset share. This is in line with common actuarial practices.

When undertaking the “analysis of surplus” approach the key drivers of the emerging asset allocation are a combination of:

- **Investment Returns** – The extent to which performance of the Fund’s assets (net of expenses), based on the underlying investment strategy applying to the employer, are greater/lesser than those expected.
- **Contributions** – The extent to which contributions (both employer and employee) payable over the inter-valuation period are more/less than the cost of benefits being accrued. This will include any early retirement strain costs incurred and any contributions paid towards those over the period.
- **Membership Experience** – The extent to which membership experience (e.g. salary growth, pension increases, ill-health retirements, deaths etc.) has deviated from that expected based on the assumptions made at the preceding valuation (or admission date).
- **Benefit Payments** – For the most part, the combined total of transfers received/paid (both individual and bulk), lump sum payments (retirement and death), pension payments, and other payments to leavers will be broadly neutral on the “analysis of surplus” approach as they impact on the assets and liabilities equally, although the timing of such payments will be allowed for.
- **Membership Data Changes and Intrafund Transfers** – The “analysis of surplus” approach ultimately allows for changes in the underlying membership data where an actual cashflow does not emerge, in particular individual member movements between employers within the Fund (which trigger a notional “intrafund” payment) and/or the restatement of any underlying membership data between valuations. The impact of any notional transfers to new employers / from exiting employers would be adjusted for in the Actuary’s assessment.

Generally speaking, cashflows will be assumed to occur half way through the period and investment returns will be allocated to reflect this (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

This asset value emerging from the “analysis of surplus” approach is then reviewed for reasonableness against the corresponding “asset roll-forward” figure discussed below.

## 2. “ASSET ROLL-FORWARD” APPROACH

Under this approach the assets allocated to an employer at the previous actuarial valuation (or date of entry to the Fund if later) are rolled forward to the current valuation date taking into account investment returns, contributions paid (employer and employee), benefit payments, transfer payments made into/out of the Fund, and net intrafund internal transfers (based on the individual liabilities of the members who have moved between employers, given a monetary transaction does not take place).

As with the “analysis of surplus” approach, cashflows will be assumed to occur half way through the period (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

## WHICH APPROACH WILL BE USED TO SET THE ACTUARIAL VALUATION POSITION?

As noted above, the Actuary will calculate the actuarial valuation position for each employer under both the “analysis of surplus” and “asset roll forward” approaches. In the majority of cases, they would expect the asset allocation to be broadly the same. However, in some instances one approach will provide a more credible answer appropriate to setting the contribution requirements under the Regulations. For example, where there has been a significant change in membership resulting from transfers of members from one employer to another in the Fund (intrafund transfers), or material data changes, then it may be that the analysis of surplus approach provides a more appropriate asset share for that employer. Critical to the process is what is appropriate to set the employer contribution rates, taking into account the individual circumstances of that employer as required under the Regulations.

## OTHER ADJUSTMENTS

The following additional adjustments are also made at each triennial valuation:

- **Orphan Employers** – Other adjustments will also be made by the Actuary to allow for orphan bodies in the Fund (i.e. historic employers whose liabilities are the responsibility of all other remaining active employers in the Fund in the absence of a guarantor body within the Fund) to ensure no residual surplus/deficit exists at the valuation date in relation to these employers. Any surplus or deficit in relation to these bodies would typically be allocated on a pro-rata basis across the appropriate employers, given the collective nature of the LGPS. To inform this, the Administering Authority must consider the orphan body funding requirements as part of each triennial valuation and reserve appropriately.
- **Audited total Fund assets** – At the actuarial valuation date, the total assets calculated for all employers (using the approaches above) are reconciled to the total Fund assets to ensure they are equal and any difference is adjusted for on a pro-rata

basis. If any adjustment required, it is typically small by the nature of the process adopted.

- **Ill health and death in service captive** – The Fund also operates captive insurance arrangements to cover the ill health early retirement and death in service risks. The premiums are paid into the captive funds, which form part of separate notional pots of assets tracked by the Fund Actuary at each triennial valuation and these are used to cover any costs for employers over each valuation period. Further information on each captive arrangement can be found in the captive policies within Appendices [L](#) and [M](#) of the FSS.

## EMPLOYER ACCOUNTING DISCLOSURES

Whilst not impacting on contributions payable to the Fund, some employers will be required to report figures in their annual accounts relating to the appropriate accounting standard (e.g. IAS19, FRS101/102 etc).

The production of employer pension accounting disclosure report requires the Fund's Actuary (or the employer's own nominated Actuary if disclosures are calculated outside of the Fund's standard bulk process) to obtain an updated employer asset share value in relation to the employer's participation in the Fund. This is calculated based on the roll-forward approach only, which was agreed with CIPFA when accounting standards were introduced in the early 2000's for public bodies. Whilst some of the details in the CIPFA guidance have been superseded by changes in the accounting standards, the underlying roll-forward approach is still recognised and maintained.

The starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or the provisional admission assessment undertaken if later).

One of the differences between valuation/cessation exercises and accounting exercises is that, unless requested by the employer, the Actuary will typically only allow for changes in the membership data between accounting assessments (e.g. leavers, deaths, transfers of staff etc) where the materiality limit (as advised by the employer's auditor) is breached. It is the employer's responsibility (in conjunction with their auditor) to request allowance for such events to be made in their accounting figures based on their materiality.

To comply with short reporting timescales for employers, some estimations may be made where only part year data is available (e.g. cashflows and investment returns may be estimated for a small number of months). Employers will be notified of this within their accounting disclosure.

Once a triennial actuarial valuation exercise has been completed (i.e. the employer's asset share has been rebased taking into account all factors), the next set of accounting disclosures will be adjusted to reflect the impact of the updated valuation results. The re-basing every three years will come through as an experience adjustment on the assets.

## BULK TRANSFERS

On occasion, there may be a bulk transfer of staff between two employers. For internal (or intrafund) transfers, where the two employers both participate in the same fund, if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on

their balance sheet at the point of transfer, rather than at the subsequent actuarial valuation (e.g. to reflect in inter-valuation accounting figures or for a contribution rate review). In such cases, in the same way as asset share calculations are undertaken on admission, the basis of transfer (i.e. fully funded or partially funded), will determine the value of assets to be transferred, alongside the underlying liabilities.

Where one of the employers involved in the transfer does not participate in the Fund, the value of the assets to be transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority as required).

To facilitate and aid in meeting reporting timescales for employers, the Fund may apply some estimation to cashflows and investment returns where only part year data is available. This will be notified to employers when bulk transfer estimates are provided.

## INTER-VALUATION FUNDING UPDATE / CONTRIBUTION REVIEW

During an inter-valuation period, there may be occasions where the Actuary needs to determine an updated asset figure for an employer. The two main scenarios where a determination may be required would be:

- a) In the lead up to the next actuarial valuation - Where the assessment of an updated funding level for the employer will assist with potential budgeting discussions in light of how contribution requirements may evolve following the valuation, and
- b) Where the Fund agrees to a review of an employer's contribution requirements in advance of a valuation being undertaken this is in line with the Fund's employer flexibility policy which can be found in [Appendix H](#) of the Funding Strategy Statement. This policy sets out the circumstances when such a review may be undertaken.

In both cases, the starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or date of admission if later). This figure will be rolled forward to the review date allowing for the investment returns / contributions / net benefit payments.

In the case of a contribution rate review, the impact of membership movements (which could include both movements between employers and changes in underlying data due) may also need to be considered.

## CESSATION OF PARTICIPATION IN THE FUND

Whilst the above scenarios set out the approach adopted to determine the contributions payable by employers on entry to the Fund, and at subsequent actuarial valuation exercises, contributions may also be required to be paid by the employer when they exit the Fund.

Equally an exit credit may be payable to the employer if the assets exceed the termination liabilities on exit, and certain conditions set out by the administering authority are satisfied.

When a cessation occurs, the Actuary will be commissioned by the administering authority to undertake an assessment of the termination position, informed by an up to date assessment of the employer asset share. The termination policy sets out the policy by which amounts payable on cessation are determined, according to the nature of exit and the funding positions on exit.

As for other scenarios above, the starting point for assessing the asset allocation on cessation will be the most recent actuarial valuation assessment undertaken (or date if admission of later). This figure will be calculated at the termination date allowing for the investment returns / contributions / net benefit payments and membership experience/data changes (as per the comments above). For cessations, the final asset share will be dependent on the treatment of any remaining active members on cessation where a transfer to other employers in the Fund is taking place (i.e. whether or not the transfer is on a partial/fully funded basis). Any residual assets would then be compared to the remaining non-active liabilities to determine any final payment due, payable from/to the employer. Following termination, the liabilities would either become orphan or subsumed into another employer in the Fund depending on the circumstances. Further information can be found in the termination policy in [Appendix G](#) of the FSS.

## FREQUENTLY ASKED QUESTIONS

The table below sets out a summary of the key areas from this policy document in a FAQ format alongside other commonly asked questions. As a minimum this document will be reviewed as part of each triennial actuarial valuation.

QUESTION	ANSWER
1. Can employers be provided with an individual audited asset statement in relation to the assets allocated?	No. LGPS Funds are not legally sectionalised and so the assets allocated to the employers in the Fund <b>are done so on a notional basis for contribution assessment purposes only</b> and hence individual employer audited asset statements cannot be provided.
2. What investment strategy will be applied to the employer's asset share?	The investment return will be allocated in line with the investment strategy applicable to the employer. This will have been notified to the employer and would be shown on their accounting disclosure schedule. Further details can be found in the Funding Strategy and Investment Strategy Statements.
3. How are assets allocated to employers on entry to the Fund?	The assets allocated on entry to the Fund will depend on:



	<ul style="list-style-type: none"> <li>• The past service liabilities of the membership associated with the employer on entry,</li> <li>• The funded status of the employer (e.g. partially funded or fully funded) which may vary depending on the employer type and the Fund's underlying policy (e.g. the approach for academies may differ to the approach for admitted bodies).</li> </ul> <p>In some cases e.g. for pass through arrangements, the initial asset allocation may not be carried out (or carried out very approximately) on entry but as part of the subsequent actuarial valuation or employer accounting assessment. As a consequence, a temporary or provisional contribution rate may be implemented for an employer which will then be reassessed at the next actuarial valuation.</p>
4. When will an employer's asset share be formally reassessed?	<p>The asset share will be formally reviewed at the triennial actuarial valuation following entry to the Fund, and at each valuation thereafter. There may be occasions when the asset share is reviewed inter-valuation typically for employer accounting, cessation or in some instances an inter-valuation contribution rate review.</p>
5. What are the key factors that will determine the asset share in between actuarial valuation assessments?	<p>The key factors impacting on asset allocations from one valuation to the next will be:</p> <ul style="list-style-type: none"> <li>• Investment returns</li> <li>• Contributions paid</li> <li>• Net Benefit Payments</li> <li>• Changes in underlying membership data</li> <li>• Changes in underlying Fund policy</li> </ul>
6. How are assets allocated when an employer is part of a pooling arrangement e.g. payment of a pooled rate by a Multi Academy Trust (MAT)?	<p>The asset shares for each employer in a pooled MAT are tracked individually from one valuation to the next. The pooling arrangement simply serves to produce a combined average contribution rate payable by the pooled employers, covering all constituents in the pool.</p>
7. How are assets calculated when an employer leaves the Fund and ceases participation?	<p>The starting point for such calculations will be the most recent triennial valuation assessment undertaken. This figure will be assessed at the termination date allowing for the investment returns / contributions / net benefit payments and membership experience/data changes. The treatment of any member transfers on termination will also impact the final asset figure calculated. This calculation will also</p>



	be undertaken if an employer and the Fund enter into a Deferred Debt Agreement and does not cease participation at that point.
8. Can the assets differ for funding and accounting, even though the effective dates are the same?	Depending on the timescales for preparing figures for accounting exercises, the Actuary may need to estimate cashflows and investment returns when calculating the asset figure. In addition, the impact of membership movements (including orphan employer apportionments) will typically only emerge in accounting figures every three years (i.e. following completion of a triennial actuarial valuation).
9. Will the percentage share of assets for an employer relative to the Whole Fund assets be fixed?	No. The percentage share is not fixed and will vary as the employer's experience differs from the Fund as a whole (e.g. in terms of contributions and benefits paid) as well as the investment strategy applied to the employer's asset share.
10. Are the actuarial valuation assets set based on an "analysis of surplus" or an "asset roll forward" approach?	As noted above, the Actuary will calculate the actuarial valuation position for each employer under both the "analysis of surplus" and "asset roll forward" approaches. In the majority of cases, they would expect the asset allocation to be broadly the same. However, in some instances one approach will provide a more credible answer appropriate to setting the contribution requirements under the Regulations. For example, where there has been a significant change in membership resulting from transfers of members from one employer to another in the Fund (intrafund transfers), or material data changes, then it may be that the analysis of surplus approach provides a more appropriate asset share for that employer. Critical to the process is what is appropriate to set the employer contribution rates taking into account the individual circumstances of that employer as required under the Regulations.

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# APPENDIX B - DEMOGRAPHIC ASSUMPTIONS

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Further details on the demographic assumptions adopted for the 31 March 2025 valuation are set out below.

## Life expectancy assumptions

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

Current Status	Retirement Type	Mortality Table
<b>Annuitant</b>	Normal Health	[TBC]
	Dependant	[TBC]
	Ill Health	[TBC]
<b>Active</b>	Normal Health	[TBC]
	Ill Health	[TBC]
<b>Deferred</b>	All	[TBC]
<b>Future Dependant (from current non pensioners)</b>	Dependant	[TBC]

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

OTHER DEMOGRAPHIC ASSUMPTIONS	
Commutation	It has been assumed that all retiring members will take [TBC]% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience.

OTHER DEMOGRAPHIC ASSUMPTIONS	
Other Demographics	[Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.]
Expenses	General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding [TBC]% 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.

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# APPENDIX C – DEFICIT RECOVERY PLANS

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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 DEFICIT RECOVERY PLANS– KEY PRINCIPLES

The average recovery period for the Fund as a whole is [12] years at this valuation which is one year 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 for different types of employer are as set out in the table below. Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish.

Employer Type	Recovery Period (2022)	Default Recovery Period (2025)
Tax-raising bodies, Academies and Further Education Employers	12 years and above	Reduce by [3] years (subject to a minimum of 12 years under normal circumstances)
	Below 12 years	Increase to 12 years

Non tax-raising bodies and Employers without a guarantee	12 years and above	Reduce by at least 3 years to target full solvency over a similar (or shorter time horizon)
	Below 12 years	Reduce by 0 – 3 years at the Fund's discretion based on covenant and affordability of each employer
Exiting Employer	Normally recovered over remaining period to exit if shorter than the period implied above	
Closed Employer	Linked to the expected average future working lifetime of the active membership if shorter than the period implied above.	
Admitted body (with a guarantee from the outsourcing Scheme employer)	Length of commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If Scheme employer is retaining the financial risk, deficit recovery period applied can equal the Scheme employer's period. 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. To be discussed where applicable with the outsourcing Scheme 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.

In addition to the above table, the following general principles will apply.

1. 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.
2. 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.
3. 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.
4. Employers will be permitted to prepay deficit contributions in return for a discount at the beginning of the 3 year period or on an annual basis, in line with the rates and adjustment certificate and employer results schedule provided. 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. The Fund's policy is not to allow the prepayment of employee contributions.
5. Where increases in total employer contributions are required from 1 April 2026, following completion of the 2025 actuarial valuation, any increase in the primary contribution rate (from the rates of contribution payable in the year 2026/27) 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.

6. The secondary contributions may be set with reference to a different funding target, subject to the discretion of the Fund.
7. For employers that do not have a financial year end of 31 March 2026 (e.g. 31<sup>st</sup> July 2026 or 31<sup>st</sup> August 2026), the Fund can, at the employer's request before 28<sup>th</sup> February 2026, allow the employer to continue to pay at their current contribution level (i.e. the 2025/26 contribution rate) until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2026 if the year-end is 31 July 2026).
8. 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.
9. 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 2026/2029. Any application of this option is at the ultimate discretion of the Fund 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.
10. 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.
11. 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.
12. 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.

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# APPENDIX D – SURPLUS POLICY

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## KEY OBJECTIVES

The objective of the Fund is to pay out the pension and lump sum benefits promised to members but also manage the level of contribution affordability/sustainability for employers.

The key principles for the surplus management policy are:

- Secure the solvency of the Fund whilst balancing intergenerational fairness for taxpayers by ensuring contributions are as sustainable as possible for employers.
- Take into account the level of reasonably affordable contributions based on objective evidence via the Fund's covenant analysis.
- Allow for the level of risk and variability in financial and demographic factors when deciding on the level of surplus to distribute and over what period.
- Allow for the Fund's investment strategy (including the lower risk strategy), market outlook and risk management strategy allowing for long term systematic tail risks such as climate change.
- Consider the potential impact of differing contributions (including future service contributions) and investment returns on the likelihood of achieving a sustainable contribution outcome for employers.

## SURPLUS MANAGEMENT POLICY

The Fund is now in a stronger funding position at the 2025 actuarial valuation which presents a set of unique issues and opportunities to consider. Some employers are significantly in surplus so a policy which allows for an employer's ability to support its liabilities in the long term is important.

The purpose of this surplus management policy is to set out the Fund's approach to determining how any surplus assets are used in determining contribution outcomes for employers.

The same "steady state" objective for eliminating deficits, which is to recover over an average period of 12 years, will be applied for surplus for the 2025 valuation as the default minimum position. Employers will be able to adopt a longer period for surplus run-off and this will provide for a higher likelihood that total contributions remain sustainable with a lower reliance on the Fund's assets to generate surplus to maintain the same level of overall contributions. The position will be reviewed and may be revised at future valuations, taking account of the factors described above as part of the Fund's overall review of this policy.

## DETERMINING THE SURPLUS

At each triennial valuation, the Fund will determine the surplus for each employer. The surplus is defined as excess assets over and above what is required to prudently service the accrued liabilities. The value of the accrued liabilities will be calculated by the Fund Actuary

on the ongoing or lower risk funding basis depending on the investment strategy that underpins the employer's liabilities.

It is therefore crucial that the funding, investment and risk management strategy are closely aligned when making decisions over the investment strategy and the surplus management policy. The Fund's Funding Risk Management Group (FRMG) works with its advisers, to ensure this on an ongoing basis as risks and opportunities develop over time.

## **SURPLUS RESERVE**

At each valuation the Fund will determine the surplus reserve (which may be zero) which will be retained in the Fund to protect against adverse experience leading to unsustainable contributions levels.

When considering the level of reserve, the Actuary has considered the pathway of the funding and future contribution outcomes based on a range of economic and financial scenarios to "test" the sustainability of the funding strategy for the Fund as a whole. This will underpin the decision making on a surplus reserve held to cushion against any adverse experience over a number of valuation cycles. The Fund will utilise analysis as part of its decision making on the requirement for a surplus reserve, alongside being cognisant of the principles under the approach to measuring the Fund's long term cost efficiency objective as part of the Section 13 valuation process.

As well as considering the financial and demographic outlook, the Fund will take into account:

- The employer type and the ability to withstand future contribution increases.
- The overall reasonable affordability of contributions (including future service contributions) and the impact of any contribution reductions on future covenant strength.
- The investment strategy backing the employers' liabilities e.g. the more certain returns/outcomes from the lower risk investment strategy will mean a lower or nil reserve is required.
- Whether an employer is likely to exit the Fund in the near future and terminate its participation in the Fund. This may mean nil, or a reduced amount of surplus may be returned to the employer, and the final surplus would be determined on exit and the appropriate exit credit paid.

When determining employer contributions, only the surplus in excess of their surplus reserve will then be run-off over time via a reduction to the future service contribution rate ("the contribution off-set").

The surplus reserve will be expressed as a funding target as a percentage of the assets. For example, a surplus reserve of [5%] means only surplus over a funding level of [105%] would be distributed. The contribution off-set will be expressed as a percentage of pensionable pay or £ (if appropriate) for each year of the certificate. Total contributions (i.e. future service contributions less the surplus off-set) will be subject to a minimum of zero to comply with the LGPS regulations and actuarial certification.



For the 2025 valuation, the surplus reserve will apply as set out below for the general employer groups with surplus in excess of the reserve run-off over the default periods shown.

Employer type	Surplus Reserve	Minimum run-off period
Councils and other public bodies	[105]% <sup>1</sup>	[12] years
Academies and FE employers	[107]% <sup>1</sup>	[12] years
Non tax-raising bodies and Employers without a guarantee	Lower of Termination Reserve <sup>2</sup> and [106]%	[12] years
Exiting Employer	Termination Reserve <sup>2</sup>	Recovered over remaining period to exit
Closed Employer	Termination Reserve <sup>2</sup>	Linked to the expected average future working lifetime of the active membership if shorter than the period implied above.
Admitted body (with a guarantee from a Scheme employer)	If Scheme employer is retaining the financial risk, surplus reserve will equal the Scheme employer's. <sup>1</sup>	Length of commercial contract left to expiry (or the average remaining working lifetime of the membership if this is shorter). If Scheme employer is retaining the financial risk, run-off period applied can equal the Scheme employer's. <sup>3</sup>

- The above is subject to review in the following circumstances, which aims to provide additional protection for employers more likely to be exposed to volatility risk due to potential membership profile changes:
  - Where the duration of an employer's liabilities (average time frame over which benefits are to be paid) as measured on their ongoing funding basis is less than [12] years
  - Where an employer's total membership in the Fund is below [20] members
- "Termination reserve" represents the excess of the termination liabilities (as measured on the termination basis) at the valuation date over and above the liabilities as measured on the employer's ongoing funding target (which may be on the basis of the higher risk or

lower risk assumptions as applicable to their employer investment strategy). The termination reserve is subject to a minimum of zero.

3. 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. To be discussed where applicable with the out-sourcing Scheme employer.
4. Employers in surplus will not be permitted to prepay contributions.
5. The surplus reserve/secondary contributions may be set with reference to a different reserve or funding target, subject to the discretion of the Fund based on the advice of the Actuary. This will be considered based on the individual circumstances of the relevant employer.
6. For employers that do not have a financial year end of 31 March 2026 (e.g. 31<sup>st</sup> July 2026 or 31<sup>st</sup> August 2026), the Fund can, at the employer's request before 28<sup>th</sup> February 2026, allow the employer to continue to pay at their current contribution level (i.e. the 2025/26 contribution rate) until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2026 if the year-end is 31 July 2026).
7. As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other surety 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 potential unrecoverable exit costs.
8. 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.

## MONITORING AND FUND DISCRETION

The Administering Authority, on the advice of the Fund Actuary, 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 certain circumstances. This would typically involve a more detailed covenant review and analysis in line with existing policies, and employers would be required to adhere to the requirements of the notifiable events policy.

The funding position and covenant of certain employers would be monitored on an ongoing basis and any required rate review would be implemented at the sole discretion of the Fund, based on the advice of the Actuary.

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# APPENDIX E – EMPLOYER TYPES AND ADMISSION POLICY FOR NEW EMPLOYERS

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## 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 within 30 days, it will be a matter for the outsourcing scheme employer or guarantor to enforce this agreement by instigating 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.

This security must cover some or all the:

- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body’s existing deficit

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.

## PASS THROUGH

Pass-through is a contractual agreement between the two parties, external to the Fund, setting out how LGPS pension risk is shared. Where new employers to join the Fund under such arrangements with the letting employer, a contribution rate for the new employer would be set in the normal way. The extent to which funding “cost” is then reallocated between the letting employer and the admitted body would then be agreed as part of the commercial agreement in place and be up to the letting employer and admitted body to manage external from the Fund. Such arrangements would need to be reflected in any exit assessment as appropriate and therefore the Fund should be kept informed where a pass through arrangement is in place.

For academy outsourcings, where the contractor has **not** entered a “pass-through” arrangement with the academy/MAT, the DfE guarantee would not automatically be available. In line with [guidance](#) updated December 2024, academy trusts would need to contact DfE (formerly this was ESFA until its closure on 31 March 2025) where the circumstances in the guidance do not apply. Where the guarantee doesn’t apply and in the absence of any bond, the academy would be responsible for any unfunded liabilities to emerge on termination.

## CHILDREN’S CENTRE TRANSFER TO ACADEMY TRUSTS

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

As the staff cannot be employed directly by an Academy or Academy Trust, the Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the Fund, the Local Education Authority of the ceding Council and the body

responsible for managing the Children's Centre (this could be an Academy Trust or private sector employer).

## RELEVANT LEGISLATION

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

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

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

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

### LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARAGRAPH 8

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

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

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

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

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

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

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# APPENDIX F – NEW ACADEMY CONVERSIONS AND MULTI-ACADEMY TRUSTS

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## 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 and managing risks should an academy need to leave one Trust for another and also for accounting where disaggregated disclosure reports are required. It should also be noted that the 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).

For academy outsourcings, where the contractor has **not** entered a “pass-through” arrangement with the academy/MAT, the DfE guarantee would not automatically be available. In line with [guidance](#) updated December 2024, academy trusts need to contact DfE (formerly this was ESFA until its closure on 31 March 2025) where the circumstances in the guidance note do not apply. Where the guarantee doesn’t apply and in the absence of any bond, the academy would be responsible for any unfunded liabilities to emerge on termination.

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.

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

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## 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.
3. Where an employer has a guarantor of last resort, the guarantor is expected to cover the termination shortfall upfront where this is not affordable for the exiting employer (or such proportion of it that is not affordable for the exiting employer) and so there is no requirement for an instalment plan or other flexibility to settle the shortfall. Where assets and liabilities are being subsumed by a guarantor following exit, any unpaid shortfall will become the responsibility of the guarantor. It will be reflected in the guarantor’s balance sheet and will usually be considered as part of the funding plan at the next actuarial valuation of the Fund.

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

	<b>Employers with no guarantor in the Fund/ only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Financial assumptions</b>	The lower risk funding basis unless the Administering Authority agrees otherwise, based on the advice of the Actuary. The assumptions will be based on a full yield curve and will take into account the duration of the employer's projected cashflows/liabilities. This basis provides some mitigation against financial market risks and protection for the Fund. In the event that the lower risk basis produces a higher discount rate than the higher risk valuation funding basis, the higher risk valuation funding basis will be used.	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body's liabilities, the Fund's policy is that the higher risk valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.
<b>Demographic Assumptions</b>	In line with the assumptions adopted for the 2025 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to [2.25]% p.a. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	In line with the assumptions adopted for the 2025 valuation for ongoing funding and contribution purposes. This will be kept under review to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
<b>Ill-health retirements</b>	For employers who participate in the ill-health captive insurance arrangement, the Fund will review any ill-health retirement strain costs incurred since the previous valuation. The Fund reserves the right to levy an additional charge relating to ill-health retirement strain costs where these are found to be materially in excess of the premium paid.	
<b>McCloud</b>	A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.	

	<b>Employers with no guarantor in the Fund/ only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Additional Costs</b>	<p>The exit valuation costs on the Fund's website and any additional costs incurred will be identified and notified to both exiting employer and outsourcing employer/guarantor and included in the exit valuation. These costs will be paid by the exiting employer unless the outsourcing scheme employer or guarantor directs otherwise, in which case the costs will be borne by the outsourcing scheme employer or guarantor. Where the guarantor is responsible for paying the costs, the default approach is for the cost to be included in the next actuarial valuation assessment as a liability and spread over the length of their recovery period. However, the Fund and the guarantor can agree an alternative approach at the Fund's absolute discretion.</p> <p>In the case of employers without a guarantor, there may also be costs associated with a transition of assets into the lower risk strategy. The Administering Authority reserves the right to pass these costs on to the employer usually via a deduction in the notional asset share.</p>	
<b>Default policy once the termination certificate has been provided</b>	<ul style="list-style-type: none"> <li>• In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time).</li> <li>• In the case of a deficit - the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.</li> </ul>	<p>The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute between the interested parties.</p>

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

## REVIEW OF THE TERMINATION POLICY

As set out in the table above, for employers without a guarantor or with a guarantee of last resort, the financial assumptions are currently based on the lower risk basis. The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is

sufficient monies to pay all the benefits due in relation to the “orphan” members of the outgoing employer as otherwise the remaining employers would potentially have to fund this via their contributions at subsequent valuations. This is why the Fund takes a more cautious view as set out in this policy. For other employers, the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

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

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

#### **DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR)**

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

The Fund will make a determination in all exit credit cases whatever the circumstances. The Fund will have regard to all relevant factors that have been brought to its attention by the letting employer and contractor in making a determination, including, in line with the regulations, the proportion of this excess of assets which has arisen because of the value of the employer’s contributions.

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 the dispute.
- 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 to both the guarantor and the exiting employer 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 usually 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.

The LGPS Regulations (2013) Sections 74-77 set out the requirement for a Scheme employer and administering authority to appoint an adjudicator. The adjudicator's role is to consider applications from any person whose rights or liabilities under the Scheme are affected by (a) a decision under regulation 72 (first instance decisions); or (b) any other act or omission by a Scheme employer.



## 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 DSA) or that they wish to enter into a 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.

Similarly, where an employer has a guarantor who is also participating in the Fund, the default position would be that the assets and liabilities would be subsumed by the guarantor



with any debt recovery settled between the exiting employer and the guarantor external from the Fund where this cannot otherwise be recovered upfront from the terminating employer. Where the guarantor is a guarantor of last resort, then the Fund would expect the guarantor to pay the termination shortfall upfront (or proportion of such shortfall that is unaffordable for the employer).

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. Decisions made by the Administering Authority will be final and will only be reconsidered on receipt of relevant, new information being provided to the Fund and/or the Fund being made aware of a material change in circumstances such as the amount or availability of security or employer affordability.
  8. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

A debt spreading agreement would not normally be subject to review during its term unless the Fund becomes aware of a material change in the employer's financial circumstances, such as its ability to continue to meet the payments or a weakening in the security arrangements supporting the agreement or there is a material failure by the employer to comply with the terms of the agreement, such as continued failure to provide information as may be specified in the agreement. Should this be the case, actions taken may include spreading payments over a longer period, requesting alternative security or requiring the employer to settle the outstanding balance of the termination shortfall. The Fund retains the absolute discretion to take action in such circumstances that will maximise the recovery of the debt to the Fund

## **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 or a material failure by the employer to comply with the terms of the arrangement such as continued failure to provide information to the Fund that is specified in the arrangement.
- 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. This would only be reconsidered on receipt of relevant, new information being provided to the Fund such as a deterioration in financial affordability of the employer since the original request.

- 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.

## SUSPENSION NOTICES

Regulation 64(2A) provides the Fund with the discretion to issue a "suspension notice" and suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is likely to take on one or more active member within the period specified in the suspension noted.

If a suspension notice is applied, any contributions not related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid to the Fund as certified. The suspension notice will also set out the terms for review of those contributions. If the conditions in the suspension notice are not met, then the suspension notice may be withdrawn in which case any exit debt / credit will become payable immediately unless any other arrangements are agreed with the Administering Authority at its absolute discretion taking affordability and employer risk into consideration.

## PARTIAL TERMINATIONS

So-called “partial termination” is where an employer exits the fund for deferred and pensioner members (and potentially past service benefits for active members) but seeks to remain a participating employer for active members (potentially just in respect of future service benefits). The objective is to lock in current liability values for deferred and pensioner members (and potentially earned benefits for active members) but would also mean that there is no recourse to that employer if those liability estimates prove too low in future aside from its (much lower) share of the orphan liabilities. If that happens, as with other orphan liabilities, the extra costs become the responsibility of all employers in the Fund.

The Fund’s default position is that such arrangements will not be accommodated. The position would be reconsidered in future only in the event that the legal basis for such arrangements is established to the satisfaction of the Fund, after taking its own legal advice. The costs of the Fund considering any requests in this area, including legal advice the Fund would need to take, must be met by the requesting employer. Even if a legal basis is established for such arrangements, this doesn’t guarantee that the Fund will permit the option as it will need to balance the costs and risks of the approach, taking into account the other options employers already have to manage their pension risk, including use of the Lower Risk strategy alongside the insurance arrangements for death in service and ill-health.

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# APPENDIX H - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

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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).

MHCLG has confirmed its view as set out in Scheme Advisory Board statement on surpluses issued in December 2023 that generally local authorities and other tax-backed employers are not subject to a change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate. Changes in funding values due to market movements are not themselves usually sufficient to trigger a review.

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 K](#)).

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

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

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

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

## PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

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

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

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a



material effect on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

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

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the higher risk or lower risk) in line with this FSS.
- 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.

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# APPENDIX I - 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 (with the exception of December where 20 working days' notice will be required), otherwise the switch will be delayed to the next quarter end.
5. The revised contributions will be payable from the start of the quarter from which the switch is made.
6. Under normal circumstances, the employer will remain within that strategy for all future funding and contribution assessments (e.g. at each future actuarial valuation) whilst it continues to be an ongoing employer in the Fund with active members (further detail on when a subsequent change may be appropriate is set out below).

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

## OTHER CONSIDERATIONS

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

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

This determination is based on:

1. the type of employer, whether they have a guarantor in place and if so, the nature of the guarantee;
2. current funding position on both the ongoing and termination basis; and

3. the strength of covenant and the ability to improve this over time.

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

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

## IMPLEMENTING THE MOVE TO THE LOWER RISK STRATEGY

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

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

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

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

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# APPENDIX J – COVENANT ASSESSMENT AND MONITORING POLICY

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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, its surplus reserve and run-off periods. 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 K](#).

## 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 (including if there is a significant change in covenant as a result of the Fund's monitoring or the employer notifying the Fund), 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. The need for an interim contribution review
4. Shortened recovery periods and increased cash contributions
5. Managed exit strategies
6. Contingent assets and/or other security such as escrow accounts.
7. The frequency and detail of monitoring by the Fund and the need for the employer to adhere to the notifiable events framework

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# APPENDIX K - NOTIFIABLE EVENTS FRAMEWORK

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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 published in 2021 ([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 a large 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 be kept informed of all steps throughout the process.

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# APPENDIX L – ILL HEALTH INSURANCE ARRANGEMENTS

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## 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 2026/29 is [TBC]% 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.

- Where, in exceptional circumstances, early payment of deferred pensions is agreed by an employer on compassionate grounds this cost is not covered by the ill-health captive.

## 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.

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# APPENDIX M – DEATH IN SERVICE CAPTIVE POLICY

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## OVERVIEW OF ARRANGEMENT

The Fund has implemented a captive insurance arrangement with effect from 1 April 2023, in relation to the provision of death in service benefits.

If a member dies whilst in pensionable service, then the benefits paid in respect of the member change and the impact can be significant (e.g. a death grant is paid and an enhanced survivor's and/or dependant's pension may be paid in addition). This can mean that an actuarial funding cost or saving manifests, which can impact on an employer's pension costs.

A funding cost typically manifests if the member has unfortunately died at a young age or the member has only been in the Fund for a short period. In some cases, in particular for employers within the Fund with a relatively small membership, the potential cost emerging and the corresponding impact on the employer's subsequent contribution requirements can be significant. Any additional contributions due can prove unaffordable for the employer and in the extreme can impact on their viability as an organisation and ultimately their participation in the Fund. It is in all employers' interests to protect against this risk because if an employer goes insolvent and cannot afford to meet its pension obligations, the costs then fall to all other employers in the Fund. For larger employers the impact is much less as across the membership the impact is inherently smoothed over time.

All Fund employers will participate in the death in service captive. New employers entering the Fund will also be included in the captive. The captive will cover all funding costs/savings arising due to a death in service benefit falling due.

The captive arrangement operates as follows:

- "Premiums" are paid by all 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 2026/29 is [TBC]% of pay per annum.
- The captive arrangement is then used to meet any funding strain costs (over and above the premium paid) emerging from the death of any active members. If there is a funding gain, this will be absorbed by the captive for the benefit of all employers (via lower future premiums/to protect against adverse future experience). Therefore, there is no initial impact on the deficit/surplus position for employers when a death in service occurs.
- 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 adverse experience versus assumptions over a valuation period, any shortfall in the captive fund will be recovered through future premiums over a reasonable period, with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should be self-funding and smooth out fluctuations in the contribution requirements.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected life expectancy 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.
- If an employer exits the Fund, they will not receive any return of premiums from the captive fund or any share of the captive fund if they terminate. However, the employer would be protected against any strain costs incurred up to the point of termination.
- As part of the governance of the arrangement, the Fund will periodically test whether it is more cost effective for employers to insure the death in service benefits with a 3<sup>rd</sup> party insurer. This would result in no change to the arrangement except that an aggregate insurance premium would be paid to the insurer and a lump sum payment would be reclaimed directly from the insurer and paid to the Fund for each death in service case.

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# APPENDIX N – ROLES AND RESPONSIBILITIES OF KEY PARTIES

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The efficient and effective management of the 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:

The <b>Administering Authority</b> should:	The <b>Individual Employer</b> should:
<ul style="list-style-type: none"> <li>• operate the Fund</li> <li>• collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations</li> <li>• have an escalation policy in situations where employers fail to meet their obligations</li> <li>• pay from the Fund the relevant entitlements as stipulated in the Regulations</li> <li>• invest surplus monies in accordance the Regulations</li> <li>• ensure that cash is available to meet liabilities as and when they fall due</li> <li>• ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments</li> <li>• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default</li> <li>• manage the valuation process in consultation with the Fund's Actuary</li> <li>• prepare and maintain a FSS and an Investment Strategy Statement ("ISS"), both after proper consultation with interested parties</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer</li> <li>• pay all contributions, including their own, as determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date (including any exit payments upon ceasing participation where applicable)</li> <li>• provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.</li> <li>• notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund.</li> <li>• understand the pensions impacts of any changes to their organisational structure and service delivery model.</li> <li>• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework</li> </ul>



<ul style="list-style-type: none"> <li>• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary</li> <li>• establish a policy around exit payments and payment of exit credits/debts in relation to employer exits</li> <li>• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer,</li> <li>• enable the Local Pension Board (LPB) to review the valuation and FSS review process as set out in their terms of reference; and</li> <li>• support and monitor the LPB more generally as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.</li> </ul>	<ul style="list-style-type: none"> <li>• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain</li> <li>• have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context</li> <li>• comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving / transferring employer).</li> </ul>
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The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> <li>• prepare valuations including the setting of employers' contribution rates at a level aiming to ensure fund solvency and long-term cost efficiency based on assumptions set by the Administering Authority and having regard to its FSS and the LGPS Regulations</li> <li>• provide advice so the Fund can set the necessary assumptions for the valuation</li> <li>• prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc</li> <li>• provide advice and valuations on the termination of admission agreements</li> <li>• provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default</li> <li>• assist the Administering Authority in assessing whether employer contributions need to be revised between</li> </ul>	<ul style="list-style-type: none"> <li>• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination.</li> <li>• provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations.</li> <li>• be aware of all guarantees that are currently in place</li> <li>• work with the Fund and the employer in the context of the guarantee</li> <li>• receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.</li> </ul>

<p>valuations as required by the Regulations</p> <ul style="list-style-type: none"> <li>• advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and</li> <li>• ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.</li> <li>• Identify to the Fund and manage any potential conflicts of interest that may arise in the delivery of the contractual arrangements to the Fund and other clients</li> </ul>	
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The **Pensions Committee** is responsible for taking decisions on funding, risk and investment strategy and approval of material decisions and policies which have been developed by Fund Officers after taking advice from the Fund actuary, investment, legal and covenant advisers as may be applicable in the circumstances. This will include, but is not limited to, the following:

- decisions on the appropriate level of risk across funding, investment and covenant strategies
- approval of the FSS including the actuarial assumptions used to determine the valuation
- approval of policies relating to funding and risk management, such as flexibility on termination, interim contribution reviews and employer risk;
- approval of discretionary decisions made by the Fund where these are material.

The **Local Pension Board** has responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. In relation to the development of the FSS, this includes

- review of the FSS
- review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
- review of communications in relation to the FSS.

# APPENDIX O - GLOSSARY OF TERMS

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**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 FSS. 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. This is Bath and North East Somerset Council in relation to the Avon Pension Fund.

**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.

**ADMISSION AGREEMENT:** a written agreement which provides for a body to participate in the LGPS as a scheme employer.

**ASSUMPTIONS:** forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns.

**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). See also 'index linked gilts' and 'gilts' below.

**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.

**CMI:** the 'Continuous Mortality Investigation' carries out research in relation to mortality and morbidity experience which can be used by actuaries to assess the funding required by pension funds and other bodies.

**CODE OF PRACTICE:** the Pensions Regulator's General Code of Practice.

**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 legal obligation and financial ability 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.

**DATA (SECTION 13):** for GAD to carry out its function under Section 13 of the Public Service Pensions Act 2013, GAD will request data to be provided by the local administering authorities/local fund actuaries, and it is assumed that this data will be provided promptly and accurately.

**DEBT SPREADING ARRANGEMENT (DSA):** the ability to spread an exit payment over a period of time.

**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 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 Contribution Rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary Contribution Rates.

**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 (FSS):** 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.

**FUND VALUATION DATE:** the effective date of the triennial fund valuation.

**GILTS:** loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The “coupon” (i.e. the interest paid as part of the loan agreement) and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

**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 usually mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's (subject to the nature including legal enforceability of the guarantee).

This may extend to the guarantor assuming responsibility for future funding needs relating to the pension obligations for the employer after it has terminated the Fund, with the assets and liabilities of the former employer subsumed by the guarantor.

**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.

**HEDGING:** a strategy that aims to reduce funding volatility and provide higher certainty of returns. This is achieved by investing in assets (usually bonds or gilts) that capture levels of real yield based on agreed levels so the assets mimic the change in liabilities.

**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. It works like insurance in that a fixed premium is paid by employers who are part of the captive and then the captive arrangement will meet ill health funding costs that may arise in future, in respect of the employer's members, providing the policy criteria is met.

**INDEX LINKED GILTS:** loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e. the interest paid as part of the loan agreement) and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their 'real' value over time and protect against the potential effects of inflation.

**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.

**LIABILITY DRIVEN INVESTMENTS (LDI):** A way of investing which gives multiple exposure to gilts, meaning that the Fund can hedge part of its assets against changes in liabilities in order to provide protection against changes in interest rate and / or market RPI inflation expectations.

**LOCAL PENSION BOARD:** the board established to assist the administering authority (as the Scheme Manager for each fund).

**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, 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).

**MHCLG:** Ministry of Housing, Communities & Local Government

**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.

**NON-STATUTORY GUIDANCE:** guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents.

**NOTIFIABLE EVENTS:** events which the employer should make the administering authority aware of.

**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.

**PASS THROUGH ARRANGEMENT:** Pass-through is a contractual agreement between the two parties, external to the Fund, setting out how LGPS pension risk is shared. Where new employers to join the Fund under such arrangements with the letting employer, a contribution rate for the new employer would be set in the normal way. The extent to which funding "cost" is then reallocated between the letting employer and the admitted body would then be agreed as part of the commercial agreement in place.

**PENSION COMMITTEE:** a committee or sub-committee to which an administering authority has delegated its pension function.

**PENSIONS ADMINISTRATION STRATEGY:** a statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.



**PERCENTILES:** a method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.

**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:** see definition of Employer's Primary Contribution Rate.

**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:** if the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period ("the recovery period", as defined in the Funding Strategy Statement). The recovery plan will

set out the Secondary contributions payable by an employer over the recovery period. Secondary contributions can be positive or negative (i.e. an off-set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund's policy.

**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 2025 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 Fund.

**SCHEME MANAGER:** a person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each fund has a Scheme Manager which is the administering authority. For the Avon Pension Fund this would be Bath and North East Somerset Council as Administering Authority for the 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 2025 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. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

**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.

**SURPLUS RESERVE:** the amount of assets (which may be zero), expressed as a proportion of an employer's liabilities, which will be retained in the Fund for the benefit of the employer to protect against adverse experience leading to unsustainable contributions levels.

**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.

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 June 2025</b>
TITLE:	<b>FUND GOVERNANCE FRAMEWORK</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p>List of attachments to this report:</p> <p>Appendix 1 – Terms of Reference for Committee &amp; Investment Panel</p> <p>Appendix 2 - Governance Compliance Statement</p> <p>Appendix 2a – Representation Policy</p> <p>Appendix 3 - Scheme of Delegation Authorisations List</p> <p>Appendix 3a - Scheme of Delegation Schedule</p> <p>Appendix 4 – Decision Making Matrix</p> <p>Appendix 5 – Conflicts of Interest Policy</p>	

## 1 THE ISSUE

- 1.1. This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.
- 1.2. The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1.
- 1.3. The draft Governance Compliance Statement is set out in Appendix 2, with the Representation Policy attached as Appendix 2a.
- 1.4. The Scheme of Delegation (Appendix 3 & 3a) sets out how the Committee delegates some of its responsibilities to Officers. The Schedule details the responsibilities delegated, and the authorisation list sets out who is authorised and the limit of transaction they can authorise.
- 1.5. The Decision Making Matrix (Appendix 4) is attached for noting.
- 1.6. Amended conflicts of interest policy is attached as appendix 5.
- 1.7. Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.8. Members are requested to give delegated powers to Officers and the Chair to draft the Annual Report to Council on Committee activity in the past twelve months.

## **2 RECOMMENDATIONS**

### **The Committee:**

- 2.1 Approves the Terms of Reference of the Committee & Investment Panel
- 2.2 Approves the Governance Compliance Statement, including draft Representation Policy.
- 2.3 Approves the Scheme of Delegation
- 2.4 Approves the changes to the Conflicts of Interest Policy
- 2.5 Notes the Decision Making Matrix.
- 2.6 Notes the roles and responsibilities of the members, advisors and officers
- 2.7 Agrees independent member representation of the Brunel Working Group.
- 2.8 Agrees substitute of Brunel Oversight Board. Chair of Inv Panel
- 2.9 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.
- 2.10 Agrees to delegate the drafting of the Annual Report to Council to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial considerations as this report is for information only.

## **4 ROLES & RESPONSIBILITIES**

- 4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

### **The Committee and Investment Panel:**

- 4.2 No changes have been made to the The Terms of Reference (ToR) for the Committee & Investment Panel apart from minor job title changes. The minor changes were approved by Council on 22nd May.
- 4.3 Membership of the Investment Panel reflects best practice and ensures there is a full range of independent expert advice available. The Panel shall comprise up to 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors (including the Chair and Vice-Chair) and 3 of whom shall be the independent members who provide investment expertise to the Panel and continuity over the electoral cycles. Furthermore, the term of the Panel is to be for the full Committee term of 4 years.
- 4.4 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.
- 4.5 The Fund is a member of Brunel Pension Partnership and has delegated the management of its asset to Brunel Pension Partnership Ltd. (Brunel) Brunel is responsible for appointing managers to manage the assets within each Brunel portfolio, monitoring the managers and reporting back to the Fund about the performance of each portfolio. The Fund retains responsibility for its legacy portfolios mainly private market assets that will be wound down over time and

then transition into Brunel in line with the strategic asset allocation at the time. The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.

- 4.6 The Chair of the Committee is the Fund's representative on the Brunel Oversight Board of the Brunel Pension Partnership.
- 4.7 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.
- 4.8 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.
- 4.9 Members are required to undertake training to ensure they can discharge their responsibilities. The SAB's Good Governance Review and The Pensions Regulator's (TPR) General Code of Practice requires greater disclosure of member training and requires all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all Committee members are required to undergo Hyman's LGPS Online Learning Academy modules within a year of when they are appointed to the Committee and every three years thereafter. This requirement forms part of the Fund's Training Policy.
- 4.10 In addition, the MiFID II (Market in Financial Instruments Directive) categorises an LGPS fund as a retail client which restricts the Fund's ability to invest in more complex and diversified investments. As a result the Fund has been opted up by its investment managers to 'elective professional client' status. To achieve this status the Fund must on an on going basis satisfy (and provide evidence to) its managers that it has the knowledge and expertise within its governance structure to make decisions around complex investments. Therefore ongoing training of all committee members is crucial to maintaining our elective professional status.
- 4.11 The Committee Training plan is reviewed at each quarterly Committee meeting. It includes training sessions and workshops to support the Committee agenda as well as wider knowledge and skills.

#### **Fund Advisors:**

- 4.12 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states "Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries." Regulation 7(2)(b) states that the Fund must "take and act on proper advice in assessing the suitability of their investment portfolio" and regulation 7(2)(e) states "When making investment decisions, administering authorities must take proper advice and act prudently".
- 4.13 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/MHCLG).

*Principle 1: Effective decision-making - requires that "administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively... and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive..."*

- 4.14 All advisory appointments are appointed under a separate procurement process which will follow the Council's procurement policy. National LGPS procurement frameworks are used where possible as it is a more efficient procurement route and the frameworks are closely monitored for value for money and service levels.
- 4.15 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee's agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund's investment strategy and the managers' performance.
- 4.16 Under the CMA (Competition and Market's Authority) Order 2019, the Fund is required to monitor the investment advice provided by Mercer against strategic objectives set by the fund and to submit a compliance statement annually to the CMA.
- 4.17 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that "An administering authority must obtain (a) an actuarial valuation" and (b) "a report by an actuary in respect of the valuation".
- 4.18 The Fund is externally audited annually and the Committee considers the governance report submitted by the auditor at the end of the audit. Currently the Council's Corporate Audit Committee approves the Fund's Financial Statement as it forms part of the Council's Financial Statement.
- 4.19 Internal audit undertakes work annually on different aspects of the pension fund, covering new regulations, high risk projects, fraud, governance and process reviews. The Committee reviews all Internal Audit reports and proposed management actions.

#### **Fund Officers:**

- 4.20 The officers' role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition, officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.
- 4.21 The Section 151 Officer has delegated its powers regarding urgent actions to the Director of Financial Services, Assurance & Pensions, and these would be exercised having consulted with the Chair of the Committee where possible. (The Director of Financial Services, Assurance & Pensions is currently the interim 151 Officer) For investment policy issues the Director of Financial Services, Assurance & Pensions will also consult with the Chair of the Investment Panel where possible.
- 4.22 The Funding & Risk Management Group (FRMG) is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies. Its full role is set out in the Terms of Reference, section 6.



## **5 SCHEME OF DELEGATION**

- 5.1 In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions are delegated to officers by the Pension Fund Committee.
- 5.2 The Scheme of Delegation schedule (appendix 3a) sets out the responsibilities delegated by the Committee to officers and how these operate in practice.
- 5.3 The Scheme of Delegation authorisation list (appendix 3) sets out the job role or person authorised and the limit of transaction they can authorise.

## **6 GOVERNANCE COMPLIANCE STATEMENT**

- 6.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement setting out how it complies with a number of statutory governance principles. There are no significant changes to the statement apart from a few minor editorial changes.(Appendix 2)
- 6.2 The Representation Policy (Appendix 2a) sets out in more detail how members and employers are represented on the Pension Committee & Pension Board.

## **7 DECISION MAKING MATRIX**

- 7.1 Following the recommendation from the Good Governance review the Fund has put in place a matrix setting out how decisions are reached, including roles and responsibilities.

## **8 CONFLICTS OF INTEREST POLICY**

- 8.1 This policy sets out how conflicts of interest are identified, managed and mitigated by all those involved in managing, overseeing or advising the Fund. The policy has been reviewed inline with TPR's general code of practice and a small change has been made to confirm that where considered necessary by officers independent legal advice will be sought to help decide the best approach to manage an actual or potential conflict.

## **9 BRUNEL OVERSIGHT BOARD REPRESENTATIVE**

- 9.1 As one of the 10 clients within the Brunel Pension Partnership, the Fund is represented on the Brunel Oversight Board. As our representative represents both the Committee and Shareholder on the Board, the representative is the chair of the Committee. A substitute will also be agreed at the meeting.

## **10 BRUNEL WORKING GROUP**

- 10.1 Given the importance of Brunel to the Fund, a working group considers issues arising from Brunel Pension Partnership with Officers such as Reserve matters and Oversight Board papers. This working group will not consider routine investment matters which will be monitored and dealt with by the Investment Panel. Representation from one of the independent members will be agreed at the meeting.

## **11 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEETINGS**

- 11.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on

governance, environmental and social issues that could materially affect the financial performance of a company. It also advises its members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.

- 11.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Members are invited to nominate themselves to represent the fund at these meetings. (there can be up to two member representatives from the Fund attending any meeting).

## **12 ANNUAL REPORT TO COUNCIL**

- 12.1 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report will also include a reference to the future work programme. In addition, the Avon Fund Pension Board will also publish its annual report detailing the work undertaken by the Board during the year, which will be included in the report to Council. Both reports will be published so that they are available for all stakeholders.

- 12.2 The annual report will be presented to Council at the 22 November 2025 meeting. Committee are asked to give delegated powers to Officers to draft the report which will be circulated to all Committee members for comment before being approved by the Chair.

## **13 RISK MANAGEMENT**

- 13.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

## **14 EQUALITIES STATEMENT**

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

## **15 CLIMATE CHANGE**

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

## **16 OTHER OPTIONS CONSIDERED**

- 16.1 None.

## **17 CONSULTATION**

- 17.1 The Council's Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	Carolyn Morgan, Governance & Risk Advisor 01225 395240
<b>Background papers</b>	None

**Please contact the report author if you need to access this report in an alternative format.**

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# **Avon Pension Fund Committee Terms of Reference 2025**

## **Appendix 1**

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# **(1) AVON PENSION FUND COMMITTEE**

## **Committee Scope**

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel Pension Partnership Ltd (BPP Ltd) who will be responsible for implementing the Fund's Investment Strategy. Most of the Fund's assets have transferred to portfolios offered by Brunel with only less liquid legacy assets remaining under direct management of the Fund. Once Avon's assets are held within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of BPP Ltd.

## **Functions and Duties**

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, the investment strategy and the investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Having taken appropriate advice determining the following:
  - a. the investment strategy and strategic asset allocation
  - b. the administration strategy
  - c. the funding strategy.
2. Monitoring the performance of the investment strategy, scheme administration, and external advisors.
3. Ensuring that the investment strategy can be delivered by the portfolios offered by BPP Ltd. If not, agree alternative arrangements. In relation to Brunel Pension Partnership:
  - a. Monitoring the performance of BPP Ltd in delivering investment services to the Fund. Make representations to the Brunel Oversight Board on matters of concern regarding the service provided by BPP Ltd and the performance of its portfolios.
  - b. Monitoring the governance of Brunel Pension Partnership and making recommendations to the Brunel Oversight Board. Terminating the Service Agreement with BPP Ltd.
4. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.

5. Approving the annual budget and 3-year Service Plan and resource requirements to deliver the work plan.
6. Approving variances to budget within a financial year.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's work plan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
9. Making representations to government and responding to consultations as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative (and named substitute) from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

## **Delegations**

In discharging its role, the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out below.

## **Composition**

### **Voting members (14)**

- 5 elected members from B&NES (subject to the rules of political proportionality of the Council)
- 3 independent members
- 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council
- 1 nominated from the Higher and Further education bodies
- 1 nominated from the Academy bodies
- 1 nominated by the trades unions

### **Non-voting members (3)**

- 1 nominated from the Parish Councils
- Up to 2 nominated from different Trades Unions

The Council will nominate the Chair and Vice Chair of the Committee. The Vice Chair will be the Chair of Investment Panel.

## **Meetings**

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

## **Quorum**

The quorum of the Committee shall be 5 voting members who shall include at least 1 member not from Bath and North East Somerset Council.

## **Substitution**

Named substitutes to the Committee are allowed.

## **(2) INVESTMENT PANEL**

### **Committee Scope**

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

### **Functions**

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the performance of the investment and risk management strategies
3. Report matters of strategic importance to the Committee.

And have delegated authority for:

4. Monitoring the transition of assets to the Brunel portfolios and allocate assets to the relevant portfolio offered by Brunel
5. Approve and monitor tactical positions within strategic allocation ranges.
6. Approve allocations to emerging opportunities within the strategic allocations.
7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations.
8. For the Risk Management Strategies monitor the outcome versus strategic objectives and consider whether any strategic changes are required to manage emerging risks.
9. For assets held outside Brunel:
  - a) Implement investment management arrangements in line with strategic policy.
  - b) Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
10. Monitor the investment performance of the portfolios managed by BPP Ltd and report to Committee on investment matters with specific reference to strategy delivery.
11. Delegate specific decisions to Officers as appropriate.



## **Composition**

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors (including the Chair and Vice-Chair of the Committee) and 3 will be the Independent Members.

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a full 4-year Committee term.

The Council will nominate the Chair of the Panel.

## **Panel Meetings**

Though called a “Panel”, it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

## **Quorum**

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

## **Substitution**

Substitutes for the Panel must be members of Committee or their named Committee substitute.

## **Minutes**

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

## **(3) BRUNEL OVERSIGHT BOARD REPRESENTATIVE**

### **Committee Scope**

Brunel Oversight Board (the Board) is the primary governance body within the Brunel Pension Partnership. Each Fund within the partnership has a representative on the Board and this representative represents the Committee when discharging its duties. The Fund’s representative will be the Committee Chairperson.

## Functions

Acting for the administering authorities in their capacity as shareholders in BPP Ltd., the Board has responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling across the Brunel Pension Partnership.

Subject to the terms of reference for the Board and the applicable shareholder documentation, the Board's role is to consider and address relevant matters on behalf of the administering authorities. These include the monitoring and strategic oversight functions necessary to its role, as well as acting as a conduit and focus of shareholder requirements and views.

Consistent with this role, the Board's duties include reviewing and discussing any matter which it considers appropriate in relation to BPP Ltd including BPP Ltd.'s services, performance, operations, governance, strategy, financing and management.

The main duties of the Board Representative are:

1. To represent the Committee and Shareholder on the Brunel Oversight Board.
2. To ensure that the Committee's views are communicated to the Board and BPP Ltd.
3. To ensure the Fund's and shareholder's interests are protected within Brunel in line with the legal framework within which Brunel operates.
4. To report back to the Committee and Shareholder all relevant issues discussed by the Board and recommendations to the Brunel Client Group and/or the Shareholders.
5. To seek the consensus view of the Committee for Shareholder and Board matters where necessary.
6. To raise issues with the Board at the request of Committee members, the shareholder representative or Head of Pensions.

## (4) BRUNEL PENSION PARTNERSHIP WORKING GROUP

### Committee Scope

This is a group of Committee members whose role is to consider in greater detail any issues arising from Brunel Pension Partnership with Officers, for example Reserve Matters, papers to be discussed at BOB. This will not include routine investment matters which are monitored by the Investment Panel.

### Functions

With regard to any matters arising from Brunel Pension Partnership where the Avon Pension Fund have an interest:

- a) to consider each matter that will be brought to the Pension Committee and/or Shareholder representative for decisions in due course

- b) to provide guidance to the Pension Committee and/or Shareholder Representative in relation to each matter when they are being considered
- c) to provide guidance to the BOB representative as required
- d) to make recommendations to the Pension Committee regarding general oversight of the pool, as considered appropriate.

## **Composition**

This group will consist of:

- a) the BOB Representative,
- b) named BOB substitute
- c) the Chair and/or Vice Chair if not the BOB representative /substitute
- d) an independent committee member.
- e) Head of Pensions
- f) Group Manager, Funding, Investments and Risk

## **Quorum**

The Working Group shall be quorate if three members are in attendance, with at least 2 that are not fund officers. The Head of Pensions shall chair the Working Group.

## **Meeting Arrangements**

The Working Group shall meet as and when required as determined by the Head of Pensions. Meetings may be via telephone conference.

Key discussions and action points from the Working Group will be recorded and the committee will be updated at the next committee meeting.

## **(5) OFFICER DELEGATIONS**

In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee. These are set out in the Fund's Scheme of Delegation and include the following:

1. Implementation and day to day monitoring of the administration, investment and funding strategies and related policies.
2. Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
3. Implementing investment management arrangements in line with the strategic policy as follows:

- a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.
  - b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio.
4. Implement the strategic risk management objectives of the Fund and take necessary action to ensure delivery of strategic outcomes. Ongoing consideration of these issues will be undertaken by the Funding and Risk Management Group (see section 6) who will report decisions and ongoing considerations to the Investment Panel.
5. Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
6. Representing the Fund on the Brunel Client Group to develop Brunel investment strategies and policies which effectively support the interests of the Fund.
7. Commissioning Elective Services from BPP Ltd and issuing instructions as permitted by the Brunel Service Agreement to BPP Ltd.
8. The appointment of specialist advisors to support the Committee and Officers in discharging their functions.
9. Determining policies that support the investment and funding strategies having taken expert advice.
10. In consultation with the Chair of the Committee, the Head of Pensions will approve the draft Statement of Accounts and Annual Report for audit.
11. Authorising expenditure from the Fund in accordance with the annual budget.
12. Admitting new admitted bodies into the Fund subject to them meeting Fund policy.
13. The Director of Financial Services, Assurance and Pensions has authority to dismiss investment managers, advisors and 3<sup>rd</sup> party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
14. The Director of Financial Services, Assurance and Pensions has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount.
15. Under its wider delegated powers, the Director of Financial Services, Assurance and Pensions has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
16. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
17. Decisions regarding the Local Impact Portfolio Framework are delegated to The Head of Pensions in conjunction with the working group. The Working Group will consist of at least 3 Panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group

Manager Investments and the Investments Manager. The formal decision is taken by the Head of Pensions as an Officer Decision Report via the democratic reporting processes within Bath and North East Somerset Council.

## **(6) FUNDING AND RISK MANAGEMENT GROUP**

### **Committee Scope**

The Funding and Risk Management Group (FRMG) is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies.

### **Functions**

In addition, it has specific delegated authority as follows:

1. Agree the operational structures to meet the strategic objectives determined by the Avon Pension Committee
2. Make changes to the structures as needed to ensure strategic outcomes continue to be achieved or to manage emerging risk
3. Implement the strategies including
  - a. Counterparty selection
  - b. Trigger frameworks
  - c. Collateral arrangements
  - d. Setting benchmarks
4. Determine the framework for monitoring the strategies and reporting to Panel & Committee

### **Composition**

The Group will consist of the following:

From the Avon Pension Fund:

- Head of Pensions
- Group Manager, Funding, Investments and Risk
- Investment Manager
- Senior Investments Officer
- Other Fund Officers as required (for example Funding Manager, Governance & Risk Advisor)

Advisors

- Investment Consultant or deputy
- Risk Consultant or deputy
- Scheme Actuary or deputy
- Investment Manager as required

## **Quorum**

FRMG shall be quorate if the following are in attendance:

- 2 Pension Fund Officers one of which must be the Head of Pensions or Group Manager, Funding, Investments and Risk
- Risk Consultant or deputy
- Investment Consultant or Scheme Actuary

## **Meeting Arrangements**

FRMG will meet as and when required as determined by the Head of Pensions/Group Manager, Funding, Investments and Risk, but at a minimum quarterly. Meetings will be virtual.

Meetings will be chaired by the Head of Pensions or Group Manager, Funding, Investments and Risk. Key discussion and action points will be recorded, and minutes will be circulated to the Investment Panel. The group will also update the Panel at the following meeting.

**DRAFT to be Approved by Committee 27 June 2025**

**Avon  
Pension  
Fund**



Your pension, your future

# **Governance Compliance Statement**

## **Avon Pension Fund**

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	Compliance status and justification of non-compliance
<b>A - Structure</b>	<b>Compliant</b>
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Bath &amp; North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice. In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee and these are set out in the Fund's Scheme of Delegation.</p>
<p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p>	<p>The APF Committee consists of 14 voting members:</p> <ul style="list-style-type: none"> <li>- 5 elected members from Bath &amp; North East Somerset Council</li> <li>- 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council</li> <li>- 1 nominated by the trades unions</li> <li>- 1 nominated by the Higher/Further education bodies</li> <li>- 1 nominated by Academy bodies</li> <li>- 3 independent members</li> </ul> <p>and 3 non-voting members:</p> <ul style="list-style-type: none"> <li>- 2 nominated by the trades unions</li> <li>- 1 nominated by the Parish/Town Councils</li> </ul>
<p>c) That where a secondary committee or panel has been</p>	<p>The Avon Pension Fund has a sub-committee, the Investment</p>



<p>established, the structure ensures effective communication across both levels.</p>	<p>Panel, to consider matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.</p> <p>The Funding &amp; Risk Management Group (FRMG) has also been set up and is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies and to make recommendations to the Committee.</p>
<p>d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>Every member of the Investment Panel is a member of the main committee.</p>
<p>e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established.</p>	<p>The Board's remit – set out in its formal Terms of Reference – is to assist the administering authority to</p> <ul style="list-style-type: none"> <li>(i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and</li> <li>(ii) ensure effective and efficient governance and administration of the Scheme.</li> </ul> <p>The Pension Board comprises 7 members – 3 employee members,</p>

	<p>3 employer members and an independent chairperson. Employer and employee members have voting rights.</p> <p>The Board publishes an annual report to Council containing any recommendations on process or governance. The Board reports any material concerns to the Director of Financial Services, Assurance &amp; Pensions.</p> <p>Board minutes are circulated to the administering authority (the Pension Committee), Director of Financial Services, Assurance &amp; One West and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.</p> <p>Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pension Committee) the Board shall:</p> <ol style="list-style-type: none"> <li>1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board</li> <li>2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach</li> <li>3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.</li> </ol>
f) The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership (BPP).	The Fund has established an FCA regulated company (Brunel) with 9 other LGPS funds which implements the investment strategies of the 10 funds who participate in BPP. The Fund

	<p>allocates its assets to portfolios offered by Brunel in line with the Investment Strategy agreed by the Committee.</p> <p>The Chair of the APFC represents the Avon Pension Fund on the Brunel Oversight Board (BOB). The Group Manager, Funding, Investments &amp; Risk represents the Fund on the Client Group, a practitioner group engaging directly with Brunel.</p> <p>Minutes of BOB meetings are included in Pension Fund Committee and Pension Board agendas.</p> <p>A Brunel Working Group, comprising the Chair and Vice Chair of the Committee, an independent member (on the Panel), the Head of Pensions and the Group Manager, Funding, Investments &amp; Risk has been established to consider in detail any issues arising from Brunel Pension Partnership such as reserve Matters.</p>
<b>B – Representation</b>	<b>Partial Compliance</b>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers, e.g. admission bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members);</li> <li>iii) where appropriate, independent professional</li> </ul>	<p>There are 14 voting members representing employers across the unitary authorities, Higher and Further Education bodies and Academies, plus 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure as it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members with voting rights was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the</p>

<p>observers;</p> <p>iv) expert advisors.</p>	<p>Fund undertakes with its stakeholders.</p> <p>There are also arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.</p> <p>There are up to 3 trades union representatives (1 with voting rights and 2 non-voting), nominated by the individual trade unions on the committee. These committee members also represent the deferred and pensioner members.</p> <p>The Fund has not appointed an independent professional observer. There is significant external oversight of the Fund, committee and decision-making process. Furthermore, three members are appointed to the committee independent of the administering authority and employers to strengthen the independence of the governance process. And the pension fund and its governance processes are scrutinised annually by external audit.</p> <p>The Fund's investment consultant attends all committee and panel meetings and other expert advisors, such as the Scheme Actuary, attend on an ad hoc basis when appropriate.</p>
<p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.</p>	<p>All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision-making process. The attached appendix contains the Fund's full policy on representation.</p>

<b>C – Selection and role of lay members</b>	<b>Compliant</b>
a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Declarations of interest is a standing item on every committee agenda.
<b>D – Voting</b>	<b>Compliant</b>
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
<b>E – Training/Facility time/ Expenses</b>	<b>Compliant</b>
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	The Fund has a clear policy on training and maintains a training log. Costs of approved external training is paid by the Fund. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for committee members and	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised

maintains a log of all such training.	training course. A formal training plan is agreed on an annual basis which is responsive to the needs of the committee agenda. A training log is maintained.
<b>F – Meetings (frequency/quorum)</b>	<b>Compliant</b>
a) That an administering authority's main committee or committees meet at least quarterly.	The committee meetings are held quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.
c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.
<b>G – Access</b>	<b>Compliant</b>
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
<b>H - Scope</b>	<b>Compliant</b>
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.

I – Publicity	Compliant
<p>a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p>All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Governance &amp; Risk Advisor. A summary of the governance compliance statement is included in the Annual Report.</p>

*DRAFT to be Approved by Avon Pension Fund Committee on 27 June 2025*

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## **Avon Pension Fund – Representation Policy**

### **Background**

The Local Government Act 1972 allows local authorities wide discretion over Committee appointments and delegations and so the issue of representation on the Pensions Committee remains one for local democracy.

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance, including representation.

The Scheme Advisory Board's Good Governance review phase 2 report published in November 2019 also made the recommendation that *"Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party."*

The terms of reference and composition of the Pension Committee is also set out within Bath & North East Somerset [Council Constitution](#)

### **Representation**

The Fund aims to provide the opportunity for all stakeholders to be represented within the committee and Local Pension Board structures.

This policy sets out the Fund's approach to representation of scheme members and non-administering authority employers.

### **Pension Committee**

As administering authority, Bath and North East Somerset Council (the Council) has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the Committee) which is the formal decision-making body for the Fund.

The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework.

Key stakeholders are represented as follows:

### **Unitary Authorities**

Bath & North East Somerset Council nominates the Chair and Vice Chair of the Committee plus three further Councillors subject to the rules of political proportionality.

The other three unitary authorities within the Avon Pension Fund area (Bristol, South Gloucestershire & North Somerset) nominate a representative each.

### **Education Bodies**

One representative nominated by Higher & Further education bodies and one nominated from Academy & Multi Academy Trust employers.

### **Parish Councils**

One member is nominated by Parish Councils. This member is a non-voting member.

### **Trade Unions**

Members (active, deferred and pensioner members) are represented by three trade union representatives from each of the main trade union bodies. One member will have voting rights. Voting rights are rotated between the three representatives each year.

### **Admission Bodies**

Admission Bodies are currently not formally represented within the committee structure as it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers.

All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders.

There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.

### **Independent Members**

Three independent members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process and to provide specialist knowledge of investments, funding and pensions administration.

The existing committee structure consists of:

Voting members (14):

- 5 elected members from Bath & North East Somerset Council
- 3 elected members nominated from each of the other West of England unitary councils
- 3 independent members
- 1 nominated from the Higher/Further Education bodies
- 1 nominated from Academy bodies
- 1 nominated by the Trades Unions

Non-voting members (3):

- 1 nominated from the Parish Councils
- 2 nominated from the Trades Unions

All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.

The representation of the Committee was last reviewed in 2019 and will be further reviewed on a regular basis or at least every 3 years.

## **Pension Board**

In accordance with Section 5 of the Public Service Pensions Act 2013 and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended), the Fund has established its Local Pension Board. The role of the Board is to assist the administering authority with compliance with regulations, requirements of the Pension Regulator (TPR) and to ensure effective and efficient governance and administration of the Scheme.

The Board has an advisory role in assisting the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision-making role with regard to strategy or policy nor will it ratify or challenge decisions made by the administering authority. Its role is to have oversight of the governance process for making decisions and agreeing policy and assisting the Avon Pension Fund Committee in improving its governance and administrative arrangements.

There will be up to seven Board members comprising three member representatives, three employer representatives and an Independent Chairperson.

Member representatives can be drawn from the membership and are not restricted to Trades Union representatives. Employer representatives should be representative of the employers within the scheme.

No officer or councillor of the administering authority who is responsible for the discharge of any function under the LGPS regulations can be a member of the Board.

In respect of the Chairperson the term independent means having no current employment, contractual, financial or other material interest in either the Council or any scheme employer in the Avon Pension Fund. The Chairperson can delegate to another Board member if unable to attend a meeting.

The Director of Financial Services, Assurance & One West will represent the Administering Authority as an independent support to the Board and oversee the operation of the Board to ensure it is achieving its terms of reference. They can make recommendations on any changes to Board membership or the terms of reference of the board to Council on an annual basis.

All member and employer representatives have voting rights. The independent chair is a non-voting member.

*Avon Pension Fund June 2025*

## **Scheme of Delegations – Authorisations June 2025**

The Pension Fund Committee has delegated responsibility for agreeing authorisation of transactions to officers. The Head of Pensions agrees the job role or person authorised and the limits as set out below and in the appropriate schedules.

Authorised Signatory List	Instructions (for investment transactions) which result in the movement of cash with a value of under £10m can be authorised by one of the signatories. Movement of cash with a value of £10m or more must be authorised by two of the signatories. Legal agreements require two authorised signatories unless the agreement is sealed by Bath & North East Somerset Council. All other instructions of a more routine nature can be signed by only one of the signatories.		Names as per schedule  <a href="#">Authorised Signatory List - June 2025.pdf</a>
Authorisation of Pension Benefits	Up to £100,000	Up to £150,000	Over £150,000
All types of pension benefits including retirements, deaths, transfers and refunds	Member Services Senior Pension Officers	Member Services Team Leaders (excluding Pensions Payroll TL)	Service Managers or Technical & Compliance Advisor Plus Pensions Operations Manager or Head of Pensions
Authorisation to request AVC payments from Legal & General  Authorisation to set up new AVC schemes (employers) with Legal & General	Individual cases  Individual new employers	Officers listed on authorisation list Officers listed as 'Trustees' with Legal & General	<a href="#">L&amp;G Authorised Signatory List - November 2024.pdf</a>
Authorisation of payments list to be paid via PT-X	Individual cases	Service Managers & Pensions Operations Manager	

Authorisation of PT-X (Payroll Bacs Payments)	All Amounts	Named Pension & Finance Managers not involved in day-to-day processing of Benefits	Names as per schedule <a href="#">PTX Approvers 23.04.2025.xlsx</a>
Agresso Payments (Invoices & pension related payments)	Limits as per schedule (link)	Head of Pensions Group Manager, Funding, Investments and Risk Pensions Operations Manager Payroll Services Manager Technical & Compliance Advisor Governance & Risk Advisor Director of Financial Services, Assurance & Pensions (Pension Board Transactions) Business Change Manager	Names as per schedule <a href="#">Agresso Authorisations 11.04.2025.xlsx</a>
Treasury Management transactions (on behalf of Pension Fund)	All amounts	Treasury Management Team on authorised list	Names as per schedule <a href="#">TM Authorised Signatories April 2025.pdf</a>

### **Scheme of Delegations – June 2025**

In addition to the responsibilities listed in the Council's schemes of delegation, some additional responsibilities for functions specifically related to pension fund activities have been delegated to officers by the Pension Fund Committee.

<b>Power of Attorney – Custody Accounts and Investment Managers</b>	The authorisation of Power of Attorney's on behalf of the Pension Fund is delegated to Officers on the Authorised Signatory list.
<b>Termination of Contracts and Investment Managers</b>	The Director of Financial Services, Assurance & Pensions has authority to dismiss investment managers, advisors and 3 <sup>rd</sup> party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
<b>Debt management</b>	The Director of Financial Services, Assurance & Pensions has authority to manage the liabilities of the Fund including the recovery of debt.
<b>Admissions of new bodies</b>	Officers have authority to admit new admission bodies that are guaranteed subject to them meeting Fund policy. If a body is not guaranteed or does not meet Fund policy, approval is required from the Pension Fund Committee
<b>Approval of Pension Fund Accounts</b>	In consultation with the Chair of the Committee, the Head of Pensions has delegated authority to approve the draft Statement of Accounts and Annual Report for audit.
<b>Reports back to the Committee</b>	In all cases where a decision has been delegated to Officers, decisions made will be reported back to the Committee or Panel at the next meeting for information only.
<b>Internal Dispute Resolution Procedure</b>	Members can appeal against decisions made by the employer or the Fund about pension entitlement. This is a two-stage process: Stage 1 – Employer decision - dealt with by the appointed person at the employer organisation. Stage 1 – Fund decision - dealt with by the Fund's Technical & Compliance Advisor (or the Pensions Operations Manager in their absence). Stage 2 – Employer decision - dealt with by the Fund's Technical & Compliance Advisor (or the Pensions Operations Manager in their absence).

	Stage 2 – Fund decision – dealt with by the Head of Pensions following a review of the case being undertaken by Osborne Clarke.
<b>Death Grants</b>	<p>The decision to pay a death grant to the member's beneficiary:</p> <ul style="list-style-type: none"> <li>- Non contentious cases sign off from the relevant Service Manager plus Pensions Operations Manager</li> <li>- Contentious cases require the third signature of the Head of Pensions</li> </ul>
<b>Discretions</b>	<p>Officers are responsible for exercising the Administering Authority discretions specified in the LGPS regulations. Full details of the discretions can be found here</p> <p><a href="https://www.avonpensionfund.org.uk/sites/default/files/2025-04/avon-pension-fund-administering-authority-discretions.pdf">https://www.avonpensionfund.org.uk/sites/default/files/2025-04/avon-pension-fund-administering-authority-discretions.pdf</a></p>
<b>Early release of Benefits</b>	The decision to release benefits early for members where their employer no longer exists is delegated to an appropriate officer of the Administering Authority (Bath & North East Somerset Council)
<b>Strategies &amp; Policies</b>	Officers are responsible for the day to day implementation & monitoring of the investment, funding & administration strategies and related policies with progress reported regularly to the Pension Committee
<b>Strategic Asset Allocation</b>	The Pension Committee has delegated the following to Officers which are reported back to the next Committee or Panel if not discussed prior to the decision:
	Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
	<p>Implementing investment management arrangements in line with the strategic policy as follows:</p> <ul style="list-style-type: none"> <li>a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.</li> <li>b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio. One authorised signatory required to approve instruction.</li> </ul>
	Restructuring the risk management strategies as required where sensitive to market prices or technical in nature, having taken expert advice.



	Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
	The Director of Financial Services, Assurance & Pensions has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount.
<b>Contracts and Agreements</b>	Officers have authority to enter into contracts on behalf of the pension fund. Where appropriate, agreements are sealed under the Sealing arrangements of Bath & North East Somerset Council. Other contracts are signed by two Officers from the Authorised Signatory list.
	Where an investment is made (i.e. via a pooled fund), Officers have authority to subscribe/redeem units on behalf of the pension fund (notices to be signed by two Officers from the Authorised Signatory list).
	Officers have authority to commission Elective Services from Brunel and issuing instructions as permitted under the Brunel Service Agreement to Brunel Pension Partnership Ltd.
	Officers have authority to appoint specialist advisors to support the Committee and Officers in discharging their functions. Appointments must be in line with the Council's procurement framework and make use of LGPS National Frameworks where available.

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Area	Task	Pension Committee	Pension Board	S151 Officer	Director Fin Services, Assurance & Pensions	Head of Pensions	Fund Officers	Advisors
<b>Mission Objectives Beliefs</b>	Mission Statement	Approve	Informed	Informed	Consult	Accountable	Consult	Consult
	Recommend representation policy to full Council	Approve	Informed	Informed	Consult	Accountable	Consult	
	Objectives for Governance, Funding, Investments	Approve	Informed	Informed	Consult	Accountable	Consult	
	Investment beliefs inc. climate change	Approve	Informed	Informed	Consult	Accountable	Consult	Consult
<b>Governance</b>	Risk management framework	Approve	Consult	Informed	Consult	Accountable	Consult	Consult
	Valuation - annual & triennial - inc. assumptions & contributions	Approve	Informed	Informed	Consult	Accountable	Consult	Consult
	Funding Strategy Statement	Approve	Oversight	Informed	Consult	Accountable	Consult	Consult
	Adequate systems of internal controls	Approve	Oversight		Consult	Accountable	Consult	
	Governance compliance statement	Approve	Oversight		Consult	Accountable	Consult	
	Business plan (inc. budget)	Approve	Oversight	Informed	Consult	Accountable	Consult	
	Conflicts of interest policy	Approve	Oversight		Consult	Accountable	Consult	Consult
	Administration strategy	Approve	Consult	Informed	Consult	Accountable	Consult	Consult
	Discretionary policies	Approve	Oversight		Consult	Accountable	Consult	
	Training strategy	Approve	Consult		Consult	Accountable	Consult	Consult
	Cyber security policy inc. incident response plan	Approve	Consult	Informed	Consult	Accountable	Consult	Consult
	ToR for Committee and Pension Board	Approve	Consult	Informed	Consult	Accountable	Consult	
	Scheme of Delegation	Approve	Oversight	Informed	Consult	Accountable	Consult	
	Committee's annual report to Council	Approve	Informed	Approve	Consult	Accountable	Consult	
	Covenant arrangements	Approve	Informed	Informed	Informed	Accountable	Consult	Consult
	Treasury Management Policy	Approve	Informed	Informed	Informed	Accountable	Consult	
	Report regulatory breaches	Informed	Consult	Informed	Informed	Approve	Accountable	
	Pension Board's annual report	Informed	Approve	Approve	Consult	Accountable	Consult	
<b>Control</b>	Finalise fund accounts	Informed	Informed	Approve	Consult	Accountable	Consult	
	Recommend fund accounts to relevant Council Committee	Approve	Informed	Approve	Consult	Accountable	Consult	
	Agree anti-pension scam (anti-fraud) policy	Approve	Informed	Informed	Consult	Accountable	Consult	Consult
	Fund Annual report	Approve	Informed	Informed	Consult	Accountable	Accountable	
	Completion of Year-end exercise	Informed	Informed		Informed	Approve	Accountable	
	Annual benefit statement process	Informed	Informed		Informed	Approve	Accountable	
	Issue annual allowance statements	Informed	Informed		Informed	Approve	Accountable	
	Set target service standards	Approve	Consult		Consult	Accountable	Consult	
	Manage fund vs service standards, Reporting, Actions	Approve	Consult		Consult	Accountable	Consult	
	Procure admin system provider	Informed	Consult	Informed	Approve	Accountable	Consult	
	Agree business continuity plans	Informed	Informed	Informed	Informed	Approve	Accountable	
	Organisation Structure of pension service	Oversight	Consult	Informed	Approve	Accountable	Consult	
<b>Investments</b>	Agree Investment strategy statement (including RI)	Approve	Oversight	Informed	Consult	Accountable	Consult	Consult
	Agree asset allocation	Approve	Informed		Consult	Accountable	Consult	Consult
	Agree allocations to new asset classes	Approve	Informed		Consult	Accountable	Consult	Consult
	Appoint fund manager outside Brunel, e.g. local impact	Consult	Informed		Consult	Approve	Accountable	Consult
	Appoint fund actuary / investment advisor	Consult	Informed		Consult	Approve	Accountable	
<b>Oversight</b>	Monitor the Fund's Investment performance	Informed	Informed		Informed	Accountable	Consult	Consult
	Monitor fund managers' ESG and sustainability policies	Informed	Informed		Informed	Accountable	Consult	Consult
	Monitor cashflow management	Informed	Informed	Informed	Informed	Accountable	Consult	Consult

Approve	Approval of a decision following recommendation
Accountable	Recommendation of decision - with advice & input from others
Consult	Active input sought
Informed	FYI
Oversight	Scrutiny of decisions or recommendations
	No role

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## Avon Pension Fund – Conflicts of Interest Policy

### Background

This policy sets out how Bath and North East Somerset Council (the “Council”) will identify, manage and mitigate potential conflicts of interest that may arise in carrying out its role as the administering authority for the Avon Pension Fund (the “Fund”).

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. Furthermore, those individuals involved in managing, overseeing or advising the Fund may, from time to time, find that they face competing incentives, financial or otherwise, as a result of their professional or personal circumstances.

In addition, members of the committee who are a representative of an employer or stakeholder group may also have conflicts of interest between their role as committee member and the view or stance of their employer/ stakeholder group they represent.

It is important, therefore, that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund’s employers and scheme members are treated fairly and equitably.

### Objectives

- To ensure that those involved in the operation of the Fund fulfil their duties under public law to act solely in the interests of the Fund’s employers and scheme members.
- To provide confidence to scheme members, employers, regulators or any other interested parties that those responsible for the Fund are fully committed to identifying, managing and monitoring conflicts of interest.
- To minimise the risk to the Fund that conflicts of interest arise that prejudice good decision making or any other aspect of the good management of the Fund.
- To promote openness, transparency and a commitment to the Seven Principles of Public Life in all aspects of the Fund’s business.

### Application of this policy

This policy applies to all members of the Avon pension committee, local pension board, section 151 officer, Director of Financial Services, Assurance & Pensions and officers who carry out functions on behalf of the Pension Committee and any third parties providing advice or services to the Fund.

Every individual covered by this policy must take individual responsibility for the management of potential conflicts of interest.

The **Governance & Risk Advisor** will be responsible for ensuring that this policy is adhered to and that any processes for managing conflicts of interest are followed.

**Avon Pension Fund, Local Government Pension Scheme administered by Bath & North East Somerset Council.**

In any situation where the Governance & Risk Advisor may have a potential or actual conflict of interest, the responsibility for ensuring that this policy is adhered to and that any relevant processes are followed shall lie with the Monitoring Officer for Bath and North East Somerset Council.

Where considered necessary by officers, independent legal advice will be sought to help decide the best approach to manage an actual or potential conflict.

## Defining conflicts of interest

The Fund has adopted the definition of conflict of interest defined in The Public Service Pensions Act 2013<sup>1</sup>;

*“conflict of interest”, in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).*

In addition to this policy there are other legal requirements which are also relevant to the Fund's management of conflicts of interest, these include;

- Regulation 108 of The LGPS Regulations 2013, which places duties on The Council, as the administering authority to the Fund, to be satisfied that Local Pension Board members do not have conflicts of interest on appointment to, or whilst a member of, the Board.
- The Localism Act 2011<sup>2</sup> requires elected members to comply with their own authority's code of conduct and to declare pecuniary interest and interests other than pecuniary interests.
- The 'Seven Principles of Public Life', also known as the 'Nolan Principles', with which any holder of public office is also expected to comply. These are;

<b>Selflessness</b>	Holders of public office should act solely in terms of the public interest.
<b>Integrity</b>	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
<b>Objectivity</b>	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
<b>Accountability</b>	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
<b>Openness</b>	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
<b>Honesty</b>	Holders of public office should be truthful.
<b>Leadership</b>	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

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<sup>1</sup> Section 5(5)

<sup>2</sup> Chapter 7

## **Managing conflicts of interest**

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest to arise in certain areas. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund's employers and scheme members are treated fairly and equitably.

These areas are considered in more detail below.

### ***Contribution setting for employers***

The setting of employer contribution rates must be done in a way that is fair and transparent. No employer or individual should be in the position to unduly influence the contribution setting process.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund Actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.

### ***Delivering the LGPS function for all employers***

All employers within the Fund are entitled to receive the same high-quality service and support from the Fund. Equally, the expectation on employers in respect of their obligations under the LGPS are the same for all employers. There should be no perception that the Council receives more favourable terms with regards to the service received from, or the obligations expected to, the Fund.

- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are approved by the Pension Committee on recommendation from the Head of Pensions.

### ***Investment decisions***

The primary investment objective of the Fund is to ensure that over the long term there will be sufficient assets to meet all pension liabilities as they fall due. Investment decisions have an impact on all employers within the Fund and so should reflect the long-term requirements of the Fund.

- The Investment Strategy Statement sets out how the Fund's money will be invested in order to meet future liabilities and contains the Fund's investment objectives and the asset classes in which it will invest. It also contains the Fund's approach to assessing environmental, social

and governance risks and how it will act as a responsible asset owner with regard to engagement and voting shares for companies in which it is invested. The Statement also explains the Fund's approach to investments which deliver a social impact as well as a purely financial return.

- The Investment Strategy Statement is a statement of the beliefs, objectives and strategies pertaining to pension fund investments and is separate to and distinct from any policies that apply to the Council, any other employer or stakeholder group. For example, the local authorities within the Fund may have particular strategies regarding tobacco investment as a consequence of their public health duties. This should remain distinct from the Fund's investment strategy, as set by the Pension Committee and which is operated on behalf of all Fund employers. A similar situation arises in respect of a local authority's policy regarding matters such as investment in local housing or other infrastructure within the Avon area, which remain distinct from the policies and strategies of the Pension Fund.
- From time to time the Council may pursue certain climate related goals, for example a commitment to being carbon neutral by a certain date. Actions taken in pursuit of these goals may impact on members and employees of the Council in certain ways, for example members and staff may be required to pursue low carbon travel options when travelling on Council business. Where this is the case, members and employees carrying out work related to the management of the Fund will be subject to the same policies as all other Council members or staff, insofar as they reflect operational matters. However, decisions in respect of Fund investments are made by the Pension Fund Committee on behalf of all employers in the Fund and as such will be made independently of any such Council or scheme employer policies and strategies, though the Committee could independently reach the same outcomes.
- All investment decisions are taken in accordance with the Investment Strategy Statement, following appropriate professional advice. No person with a conflict of interest relating to a particular investment decision may take part in that decision.
- The Fund invests its assets in a wide range of investments across the world. Inevitably, some of the businesses it invests in may be regulated by one or more of the scheme employers. Any conflict of interest between the Fund and the scheme employers is mitigated as far as reasonably practicable. Fund officers responsible for the operation of the Fund are a separate team in the Council and separated from all other employing bodies and they will act for, and represent the views of, the pension fund and not an employer and will adhere to pension fund policies at all times.
- Selection and management of the investment portfolios have been delegated to Brunel Pension Partnership (Brunel) and the Fund only directly manages a few legacy pooled funds. Decisions regarding the legacy portfolios are the responsibility of the Committee. The Fund is not involved in the decisions regarding the selection of individual companies in the Brunel managed portfolios. Neither does the Fund direct voting decisions concerning companies held within its portfolios as this is delegated to Brunel.

### ***Standards and behaviours***

It is important that those managing the Fund adhere to the highest standards of public office.

- The Bath and North East Somerset Council Code of Conduct for Members applies to all members or voting co-opted members of the Council. In addition, the code has been adopted to apply to all members of the Pension Committee and Local Pension Board. The policy) is set out in part 4 of the [Council Constitution](#) and confirms the Council's approach to;



- Standards of behaviour
- Registration of members' interests
- Disclosable pecuniary interests
- Sensitive interests
- Gifts and hospitality

### **Pooling**

The Council is one of 10 equal shareholders in the Brunel Pension Partnership ("BPP"). The shareholders, as LGPS administering authorities, also purchase investment management services from BPP. The nature of this relationship has the potential to lead to conflicts of interest that must be managed. The following mechanisms are in place.

- The interests of the shareholders of BPP and those of any specific administering authority may not always be aligned. To ensure that the interests of the shareholders and of those procuring services from BPP are both protected it is important that there is appropriate separation between the two functions. The Shareholder Agreement sets out the obligations and rights for each party in the pool and the Service Agreement sets out the services to be provided to each client. Included are processes for resolving disagreements and conflicts between the differing parties. The governance arrangements that include committee representatives and officer representatives is designed to reach consensus across the pool on all matters where possible.
- BPP has its own conflicts of interest policy, contained within the Service Agreement (specifically Schedule 7 (Manager's Conflicts of Interest Policy)) signed by all 10 client funds. This document contains the key principle that "Brunel should not provide services in a manner that will advance one client's interest over another's". The policy sets out how BPP manages potential conflicts of interest through the various mechanism, which are summarised below;
  - Training staff on the types of conflicts which may arise, including providing examples of such potential conflicts
  - Adopting specific policies on potential conflict situations that may arise through the possession of inside information, such as its Market Abuse & Insider Information Policy, Personal Account Dealing Policy and Gifts & Entertainment Policy
  - Requiring all staff to disclose conflicts immediately upon becoming aware of them
  - Setting out clear roles and responsibilities, both in relation to the Policy and the processes described within it
  - Maintaining a register of staff external interests to allow potential conflicts to be identified and avoided before they arise
  - Maintaining a register of instances of conflicts as they arise
  - Carrying out a rigorous assessment of any potential conflicts that are identified and adopting appropriate measures, including escalation where required, to avoid or minimise any actual conflicts, always putting clients' interests first
- It is important that no administering authority has undue influence on decisions made by Brunel. In order ensure this is the case the service agreement requires that BPP must act in the interest of the Pool as a whole and may not favour any individual or group of clients over the rest. The Shareholders Agreement requires that certain key decision must be carried

with agreement from eight of the ten constituent client funds. Some decisions only require a simple majority.

- There is a provision within the Service Agreement for individual client funds to contract separately for service from BPP. This might occur where a client wishes to access an asset class that no other funds require. In reaching such agreements BPP must recognise its obligation to act in the interest of all Pool members and so may not enter into such an arrangement where there may be a conflict of interest with other constituent clients or where doing so may lead to a detrimental service being provided to the Pool as a whole.
- Given the nature of the LGPS the likelihood exists that individuals with particular skills may move from employment with an administering authority to BPP or the other way around. This is perfectly appropriate, and the transfer of knowledge can be beneficial to all parties. However, it is important that there is no suggestion that any individual is in a position to influence unduly the recruitment or remuneration setting processes. This is managed by ensuring that all recruitment to BPP and to the constituent clients is carried out through a robust, open, competitive recruitment process involving HR professionals. This ensures that no one individual has the ability to influence policy in those areas unduly.

### ***Third parties***

- The Fund requires its professional advisors, suppliers and any other third-party providing advice or services to have in place conflict management plans which set out how those firms will;
  - declare any potential conflict of interest that exists on appointment;
  - communicate with the Administering Authority on any conflicts of interest that arise during the course of the contract;
  - put in place processes that will manage those conflicts.

### ***Officers***

- The Conflicts of Interest Policy applies to all employees within the Avon Pension Fund. All officers, including senior managers, are required to:
  - declare any potential conflict of interest that exists on employment;
  - communicate with the Administering Authority on any conflicts of interest that arise during the course of their employment.
- In addition to this policy, officers must adhere to the Council's Employee Code of Conduct that can be found in the [Council Constitution](#)

[Last updated June 2025](#)

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 JUNE 2025</b>
TITLE:	<b>INVESTMENT STRATEGY (for periods ending 31 March 2025)</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p>List of attachments to this report:</p> <p>Appendix 1 – Mercer Quarterly Investment Performance Report</p> <p>Appendix 2 – Quarterly LAPFF Engagement Report</p>	

## **1 THE ISSUE**

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level, policy and operational aspects of the Fund.
- 1.2 Investment performance over the quarter met the benchmark return however over longer timeframes the Fund is behind the benchmark. Return drivers are discussed in further detail in section 4 of this report.
- 1.3 The Mercer Investment Performance Report at Appendix 1 contains performance statistics for periods ending 31 March 2025. Mercer will present their paper at the meeting.
- 1.4 Appendix 2 summarises the voting and engagement activity undertaken on behalf of the Fund by the Local Authority Pension Fund Forum (LAPFF).
- 1.5 The Fund undertakes in-depth carbon analysis on an annual basis and publishes the results in its Annual Responsible Investment Report, which is considered by Committee in September.

## **2 RECOMMENDATIONS**

**The Avon Pension Fund Committee is asked to:**

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

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The returns achieved by the Fund for the three years commencing 1 April 2023 will impact the next triennial valuation which will be calculated as at 31 March 2025. The returns quoted are net of investment management fees.

## 4 INVESTMENT STRATEGY

### A – Funding Level and Investment Performance (‘Amber’ Ratings)

- 4.1 The Fund’s assets were £5,776m on 31 March 2025 and delivered a net investment return of -1.9% over the quarter which was in line with the strategic benchmark (-1.8%). The decrease in the value of Fund assets over the quarter was primarily due to volatile equity markets, resulting in negative returns for all listed equity portfolios, as well as rising gilt yields which had a detrimental effect on the LDI portfolio.
- 4.2 Over one year the Fund delivered an absolute return of -0.6% and underperformed its benchmark by 5.4% in relative terms, where most portfolios underperformed their respective benchmarks. Of the listed equity portfolios, underperformance was most pronounced in the Global Sustainable Equity portfolio, with Global High Alpha also lagging its benchmark return. A key driver of this underperformance was the Fund’s underweight exposure to the ‘Magnificent 7’ technology stocks which were the primary contributors to global equity gains during the period. The equity protection strategy, designed to mitigate downside risk, also detracted from returns in what was a positive but narrowly led equity market. This environment proved particularly challenging for active managers as gains were concentrated in a small subset of mega-cap technology names. Additional drag came from other components of the broader portfolio, including the Diversified Returns Fund and the LDI portfolio, compounding the overall performance shortfall.
- 4.3 Over three years, the Fund returned -0.2% in absolute terms, underperforming the benchmark by 4.5%. The main drivers of underperformance over three years included the active equity mandates, the equity protection strategy, Property and Secured Income mandates.
- 4.4 Manager performance is monitored in detail by the Investment Panel. The Fund’s investment return and performance relative to the benchmark is summarised below.

**Table 1: Fund Investment Returns (to 31 March 2025)**

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	-1.9%	-0.6%	-0.2%
Avon Pension Fund (excl. currency hedging)	-2.4%	-1.2%	-0.3%
Strategic benchmark (no currency hedging)	-1.8%	4.8%	4.3%

- 1.1. As outlined above, the Fund’s assets decreased by 1.9% over the quarter, whilst the liabilities are estimated to have increased by c.1.4%. The combined effect of this saw the estimated funding level decrease to c.102% at March-31 (c. £86m surplus).
- 1.2. The Value-at-Risk decreased over the quarter to £1,547m due to the fall in asset values, but fell slightly as a percentage of liabilities to c.27%.

### B – Portfolio Performance

- 4.5 Brunel reports on the performance of the assets they manage on behalf of the Fund. The Brunel quarterly performance reports are presented to the Investment Panel. The Fund’s top 10 equity positions and a brief summary of portfolio level performance can be found below. Further detail for both Brunel

and legacy portfolio performance can be found in Section 4 of the Mercer report (Appendix 1).

**Table 2: Top 10 Equity Holdings**

<b>Security Name</b>	<b>Sector</b>	<b>Country</b>	<b>Value of Holding</b>	<b>% of Fund assets</b>
Microsoft	Information Technology	United States	£73.0m	1.7%
Amazon	Consumer Discretionary	United States	£62.1m	1.1%
Mastercard	Financials	United States	£42.5m	0.7%
NVIDIA	Information Technology	United States	£37.1m	0.6%
Alphabet	Communication Services	United States	£33.3m	0.6%
Apple	Information Technology	United States	£29.3m	0.5%
Taiwan Semiconductor	Information Technology	Taiwan	£25.7m	0.4%
UnitedHealth	Health Care	United States	£24.9m	0.4%
Visa	Financials	United States	£24.3m	0.4%
SAP	Information Technology	Germany	£24.2m	0.4%
<b>TOTAL</b>	<b>--</b>	<b>--</b>	<b>£376.4m</b>	<b>6.8%</b>

\* Table excludes cash and legacy assets. Estimated aggregate position using Brunel Portfolios

**4.6 Listed Markets.** Over the year to 31 March 2025, Brunel's listed equity and multi-asset portfolios experienced mixed performance with the majority of portfolios underperforming their benchmarks. The Global High Alpha portfolio returned 0.8%, underperforming the MSCI World by 4.4%, largely due to underexposure to the Magnificent 7 US technology stocks. The Global Sustainable Equity portfolio fell by 2.7%, trailing the MSCI ACWI by 8.0%, as its sustainability-driven mandate led to structural underweights in sectors that performed strongly, such as energy and financials, which acted as a headwind to returns. The Paris Aligned Developed Equities portfolio returned 3.3%, closely tracking its benchmark. This portfolio did benefit from owning some of the major tech names such as Apple, Amazon and Tesla, though a lower allocation to these than broader indices and sector exclusions limited the upside in a narrowly concentrated market. The Multi Asset Credit portfolio delivered a healthy 8.4% return while the Diversifying Returns fund delivered 3.2%. Despite giving positive absolute returns, both underperformed their cash+ benchmarks.

**Private Markets.** Brunel's Private Market portfolios have delivered strong performance over the past year to the end of March, with many strategies exceeding their benchmark. The Private Debt strategies have benefited from elevated interest rates, which has boosted income yields. Infrastructure, especially renewable energy, has remained resilient, underpinned by long-term

contracts and inflation-linked revenues, although the sector faced renewed pressure in the most recent quarter from the new US administration. Property funds continue to dispose of assets in order to meet their redemption queues. However, there are tentative signs these queues are abating and new entrants into the sector are beginning to emerge, attracted by the strong fundamentals of attractive distribution levels and improving vacancy rates. As the Private Market portfolios continue to mature, some strategies are beginning to return capital.

- 4.7 **Returns versus the strategic assumptions:** Performance versus the 2022 expected strategic returns can be found on pages 16 & 17 on Appendix 1. In general returns have been lower than the strategic assumptions, with underperformance most pronounced in the active equity portfolios. Since 2022 gilt yields have increased materially, which has led to an increase in expected returns at 31-March 2025 across most asset classes with the exception of global equities where return assumptions are slightly lower versus 2022. The long-term investment return assumptions will be updated once the 2025 investment review has been completed.

## **5 INVESTMENT PANEL ACTIVITY**

- 5.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee.
- 5.2 Minutes of the last Panel meeting are available to read here: <https://democracy.bathnes.gov.uk/documents/g6646/Printed%20minutes%2004th-Jun-2025%2013.30%20Avon%20Pension%20Fund%20Committee%20Investment%20Panel.pdf?T=1>

### **Local Impact Portfolio**

- 5.3 The Panel were informed that the remaining £30m uncommitted local impact capital would be allocated to the Fund's existing three managers: Schroders Greencoat (Renewable Infrastructure), Octopus (Affordable Housing) and Foresight (SME Private Equity).
- 5.4 Mercer has previously provided suitability advice on all three managers and is supportive of the proposal given all managers have a demonstrable pipeline of opportunities and have successfully deployed capital in relatively short order. A 'top-up' of this size is unlikely to materially increase portfolio concentration in any one area or asset.
- 5.5 The Fund will be considering whether to raise its allocation to local impact as part of the 2025 Investment Strategy Review. Implementation of further local investments will fall to the new pooling provider. It is critical, therefore, that any future pooling partner has the expertise and technical knowledge to help the Fund achieve its aims in this area.

## **6 QUARTERLY STEWARDSHIP SUMMARY**

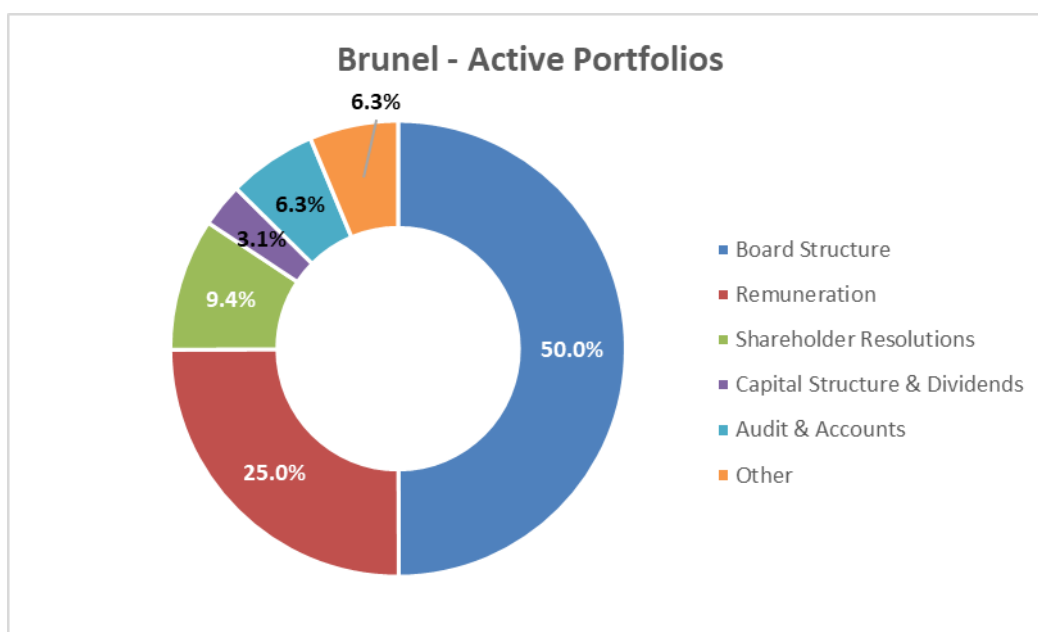
As a responsible investor, we actively endorse collaborative engagement and seek to use our power as a shareholder to encourage corporate change. Voting and engagement are delegated to the Brunel Pension Partnership for the actively managed equity portfolios and to Legal and General Investment Management (LGIM) for the passive portfolios. The voting records of Brunel

and LGIM at company meetings held over the last quarter are summarised in the following table:

**Votes cast at company meetings in the quarter to 31 March 2025:**

Manager	Quarter to 31 March 2025		
	Number of Meetings	Number of Resolutions	Votes against management recommendation
Brunel/LGIM - Passive Portfolios	127	1673	346
Brunel - Active Portfolios	32	507	32

6.1 The votes against management recommendations will reflect matters where there is concern that the company is not addressing the relevant issue and managing it effectively. The Fund would expect that votes against management should be primarily on the priority areas set out in the Fund's Investment Strategy Statement. An analysis of the issues where votes have been cast against management recommendations is set out below:



6.2 Brunel conduct significant engagement with investee companies on behalf of the Fund. A breakdown of the engagement undertaken over the last quarter is summarised as follows:

**Company engagement in the quarter to 31 March 2025:**

	Quarter to 31 March 2025	
	Number of Companies	Number of Issues
Brunel - Active Portfolios	151	504

6.3 Further information on Brunel's engagement activity can be found on their website using the following link: [Brunel Website](#)

6.4 Details of LAPFF lead initiatives and engagement work can be found at Appendix 2.

## **7 RISK MANAGEMENT**

7.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

## **8 EQUALITIES STATEMENT**

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

## **9 CLIMATE CHANGE**

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

## **10 OTHER OPTIONS CONSIDERED**

10.1 None.

## **11 CONSULTATION**

11.1 The Council's Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	Nathan Rollinson, Investments Manager 01225 395357
<b>Background papers</b>	Data supplied by Mercer & SSBT Performance Services
<b>Please contact the report author if you need to access this report in an alternative format.</b>	



# Avon Pension Fund

Page 2011  
Committee Investment Report  
Quarter to 31 March 2025

May 2025

Steve Turner

A business of Marsh McLennan



# Contents

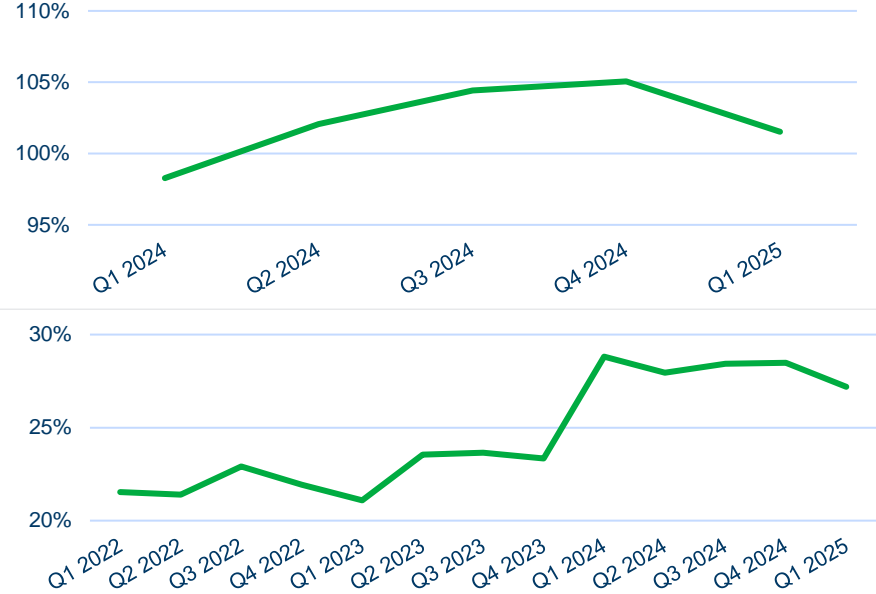
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# Executive Summary



# Executive Summary

Market background	<ul style="list-style-type: none"> <li>Continued rate cuts by most developed market central banks, the emergence of Deep Seek from China (to challenge US technology leadership through this low-cost rival to ChatGPT), European politics and tariffs were the key themes driving markets in the first quarter of 2025.</li> <li>While the US Federal Reserve held rates unchanged in Q1 2025, it revised lower its GDP growth projections for the year on the back of ‘uncertainty around the economic outlook’. In Europe, Germany’s political landscape and the approval of its €500bn fiscal package took centre-stage. Market sentiment continued to be driven by the soft-landing narrative in the US, as a result of uncertainty around policies under Trump’s presidency.</li> <li>Overall, global equities ended the quarter in the red driven by the considerable uncertainty from tariff and growth concerns.</li> <li>Changes in bond yields were mixed across developed markets. The curve steepened in the UK amidst hawkish BOE cuts, tariff woes and revised budget spending plans.</li> </ul>
Funding level and risk	<ul style="list-style-type: none"> <li>The funding level is estimated to have decreased over the quarter to c.102%, as the assets fell alongside an increase in the estimated present value of the liabilities.</li> <li>The funding level is estimated to be 3% higher over the year to 31 March 2025.</li> </ul>  <ul style="list-style-type: none"> <li>The Value-at-Risk decreased over the quarter to £1,547m due to the fall in asset values, but fell slightly as a percentage of liabilities to c.27%.</li> <li>As a reminder, the increase in Q1 2024 was primarily due to the agreed reduction in coverage of the Equity Protection Strategy.</li> </ul>
Asset allocation and strategy	<ul style="list-style-type: none"> <li>In March, the Synthetic Equity exposure was reduced by £300m to address the overweight position to equities relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%).</li> <li>Over the whole quarter, a net amount of c. £2m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Octopus Affordable Housing Fund, of c. £5m. This was effectively funded by a net value of distributions from the rest of the private market assets which have recently been cashflow positive in aggregate.</li> </ul>

# Executive Summary

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Performance	<ul style="list-style-type: none"><li>In aggregate, negative returns were driven by the equity holdings and LDI (due to a rise in UK gilt yields).</li><li>The Equity Protection counteracted equity market losses, and most of the alternative Liquid Growth and Illiquid Growth investments were positive.</li></ul>			
	<ul style="list-style-type: none"><li>At the underlying level, relative performance of the mandates against their respective benchmarks was mixed. Notable detractors included the active equity mandates, Overseas Property and Secured Income, whilst the Diversified Returns Fund and Equity Protection Strategy were positive contributors.</li><li>Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy (as expected in a positive environment for equity markets), the Diversified Returns Fund and the Overseas Property mandate, as well as the way in which the LDI allocation is reflected in the methodology for total Fund benchmark returns.</li><li>The drivers of underperformance over the three year period were the active equity, Equity Protection, Liquid Growth, Property and Secured Income mandates.</li><li>The Currency Hedge added to returns over the three month, one year and three year periods, due to the strengthening of Sterling.</li></ul>			
		3 Months (%)	1 Year (%)	3 Years (% p.a.)
	Total Fund (1)	-1.9	-0.6	-0.2
	Strategic Benchmark (2) (ex currency hedge)	-1.8	4.8	4.3
	Relative (1 - 2)	-0.1	-5.4	-4.5
	<ul style="list-style-type: none"><li>Absolute returns compared to the strategic returns modelled at the strategy review in 2023 have been positive for three out of four of the Equity mandates, with Sustainable Equities being the exception due to manager underperformance.</li><li>Within the Liquid Growth portfolio, relative returns have been positive for the Multi-Asset Credit mandate but negative for the Diversified Returns mandate.</li><li>Absolute returns have been negative for the Illiquid Growth assets except for Private Debt Cycle 3. However, many of these assets are still in the drawdown phase.</li></ul>			
Liability hedging mandate	<ul style="list-style-type: none"><li>BlackRock was in compliance with the investment guidelines over the quarter.</li><li>The interest rate and inflation hedge ratios are c.29% and c.15% respectively (as a proportion of assets).</li><li>The inflation triggers were reinstated in September 2024, which allow BlackRock to trade up to a 40% (as a % of assets) inflation hedge ratio in aggregate if triggers are attained.</li></ul>			
Collateral position	<ul style="list-style-type: none"><li>Inclusive of assets within the collateral waterfall and the updated collateral monitoring framework, there was a total interest rate buffer of 9.6% as at end March 2025.</li><li>BlackRock would request additional collateral if the interest rate buffer fell below 3%.</li></ul>			

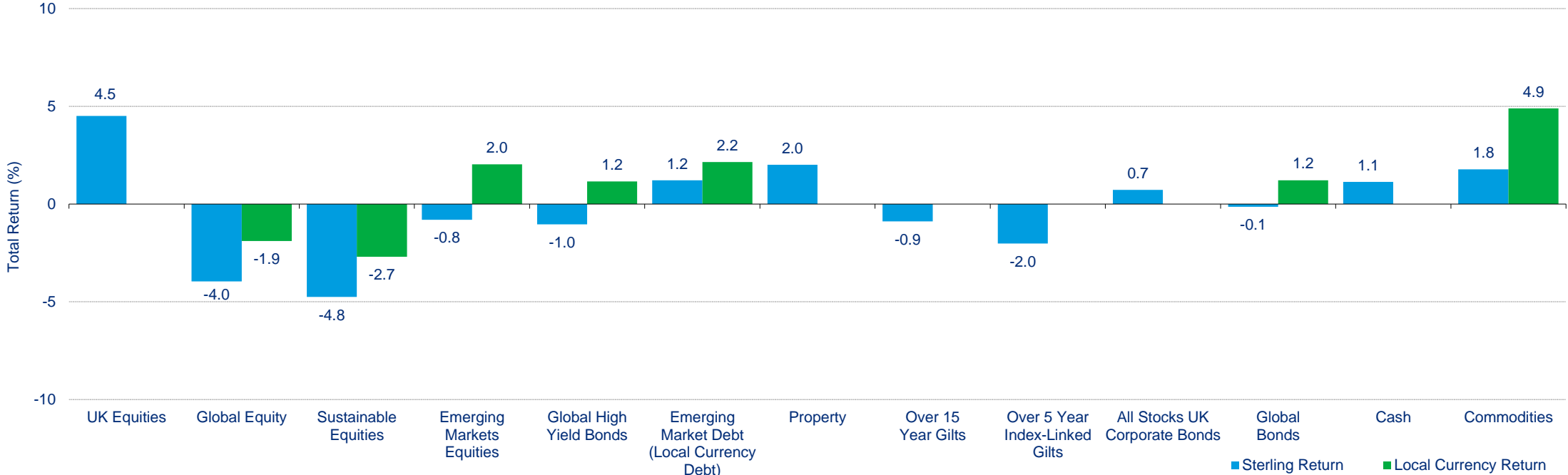
# Market Background



# Market Background

Return over 3 months to 31 March 2025 (%)

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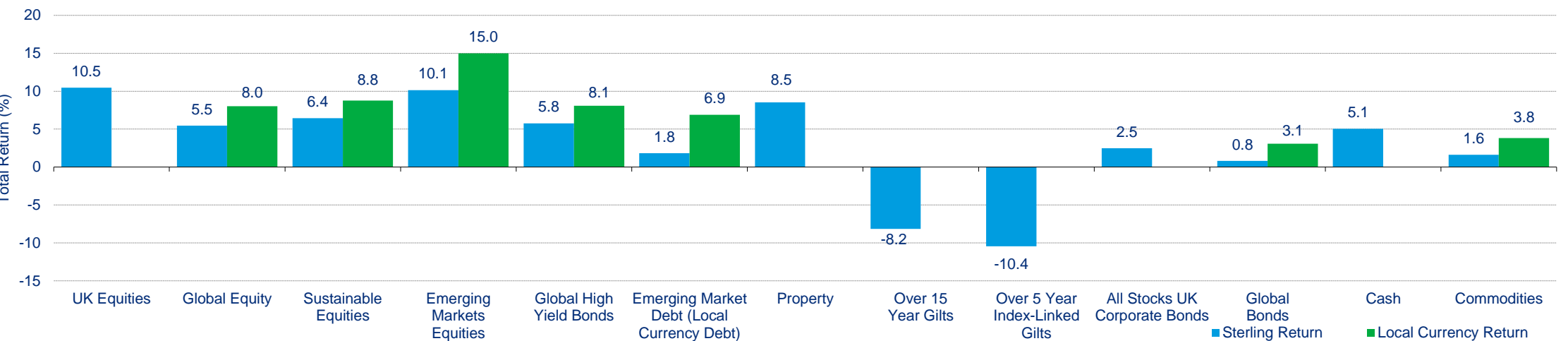


Continued rate cuts by most developed market central banks, the emergence of Deep Seek from China (to challenge US technology leadership through this low-cost rival to ChatGPT), European politics and tariffs were the key themes driving markets in the first quarter of 2025. While the US Federal Reserve held rates unchanged in Q1 2025, it revised lower its GDP growth projections for the year on the back of ‘uncertainty around the economic outlook’. In Europe, Germany’s political landscape and the approval of its €500bn fiscal package took centre-stage. Market sentiment continued to be driven by the soft-landing narrative in the US, as a result of uncertainty around policies under Trump’s presidency.

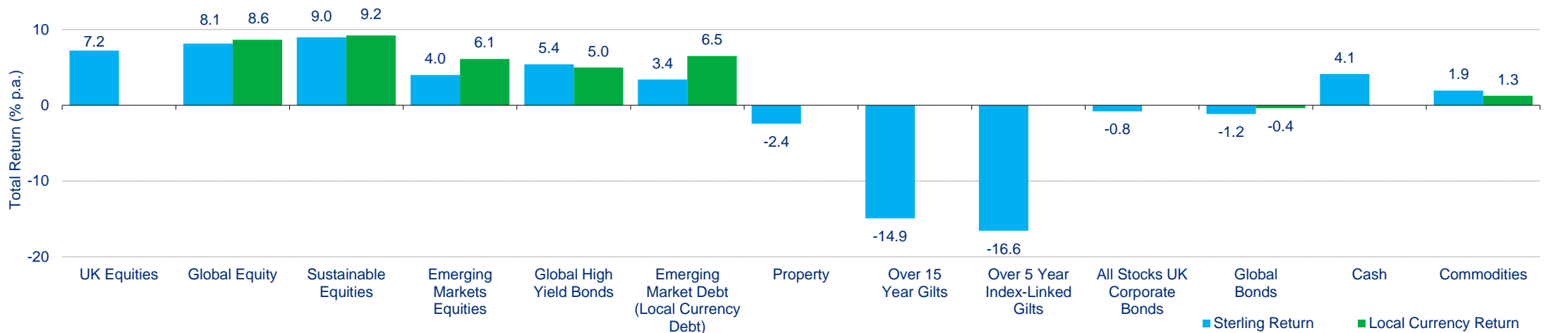
Overall, bond yields were mixed across developed markets, while global equities ended the quarter in the red.

# Market Background – 1 & 3 Years

Return over 1 year to 31 March 2025 (%)



Return over 3 years to 31 March 2025 (% p.a.)





# Funding Level and Risk



# Funding Level and Deficit

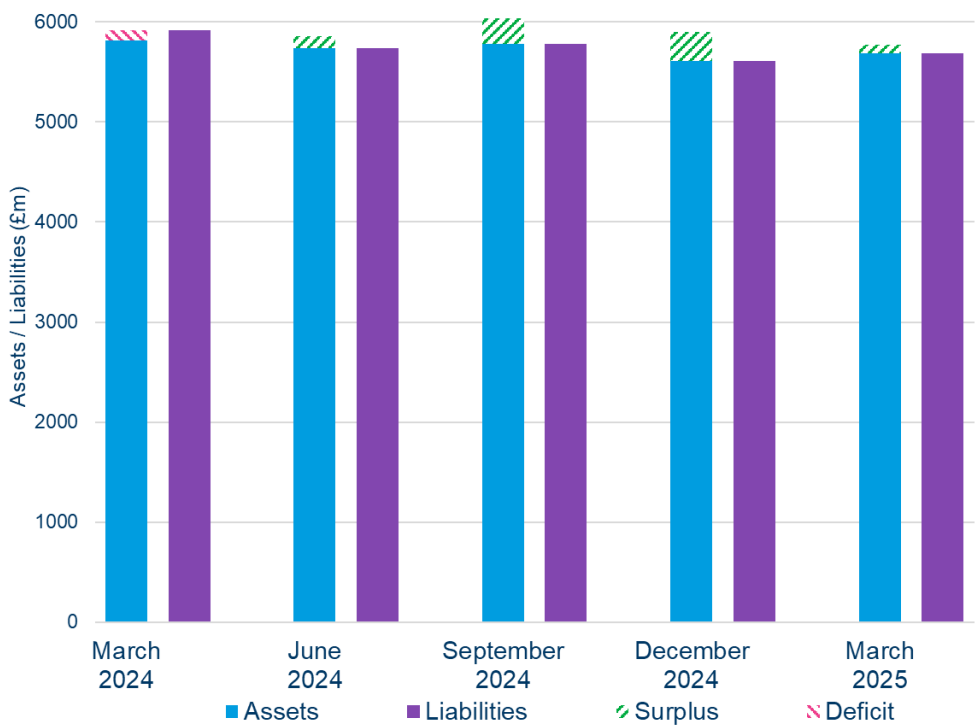
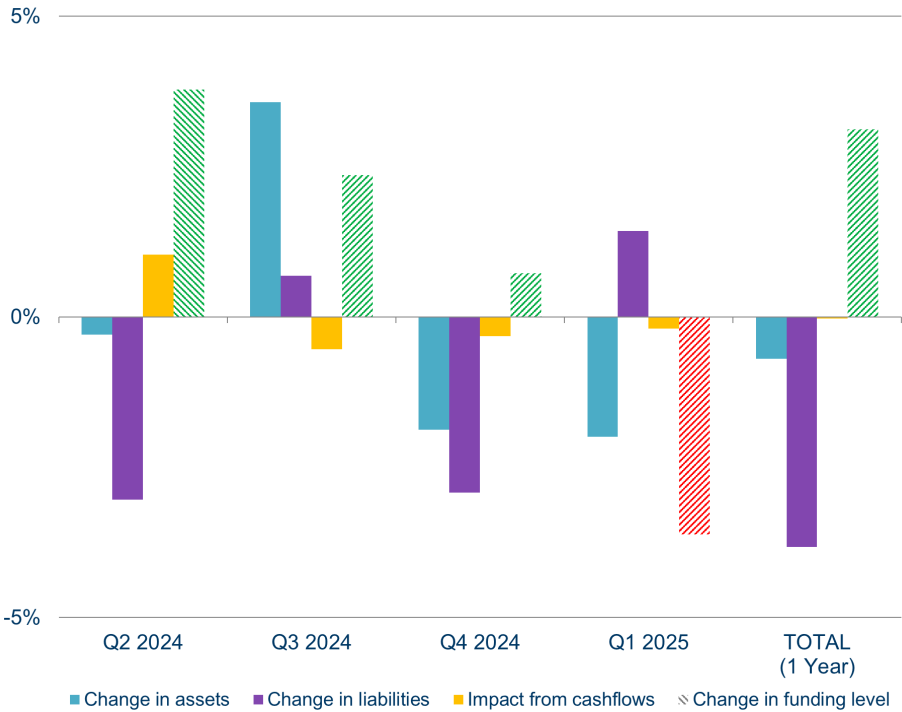
The Fund’s assets returned -1.9% over the quarter. The liabilities are estimated to have risen by 1.4%, which allows for market movements, benefit accrual and benefits paid.

The combined effect of this saw the estimated funding level decrease to c.102%.

The funding level is estimated to be c.3% higher over the year to 31 March 2025.

The surplus was estimated to have decreased over Q1 from £289m to £86m.

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Liability values are estimated by Mercer. They are based on the actuarial valuation assumptions as at 31 March 2022 and the ‘CPI plus’ discount basis. This margin above CPI is dynamic, and so changes on a monthly basis due to market conditions and is reviewed each quarter to also consider any changes in return outlook. This can sometimes result in retrospective changes to previous liability value estimates presented in previous reports. Impact figures are estimated by Mercer.

# Risk Decomposition – 3 Year Value at Risk

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



- As at 31 March 2025, if a 1-in-20 ‘downside event’ occurred over the next three years, the funding position could deteriorate by at least an additional **£1.5bn**.
- Each bar to the left of the total represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall, **the VaR decreased by £52m over the quarter**, due to the fall in asset values.
- However it fell slightly as a percentage of liabilities over the quarter to c.27%.

# Performance Summary



# Total Fund Performance

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	-1.9	-0.6	-0.2
Total Fund (ex currency hedge)	-2.4	-1.2	-0.3
Strategic Benchmark (2) (ex currency hedge)	-1.8	4.8	4.3
<b>Relative (1 - 2)</b>	<b>-0.1</b>	<b>-5.4</b>	<b>-4.5</b>

Source: Custodian, Mercer estimates. Returns are net of fees. 'Relative' figures may not sum due to rounding.

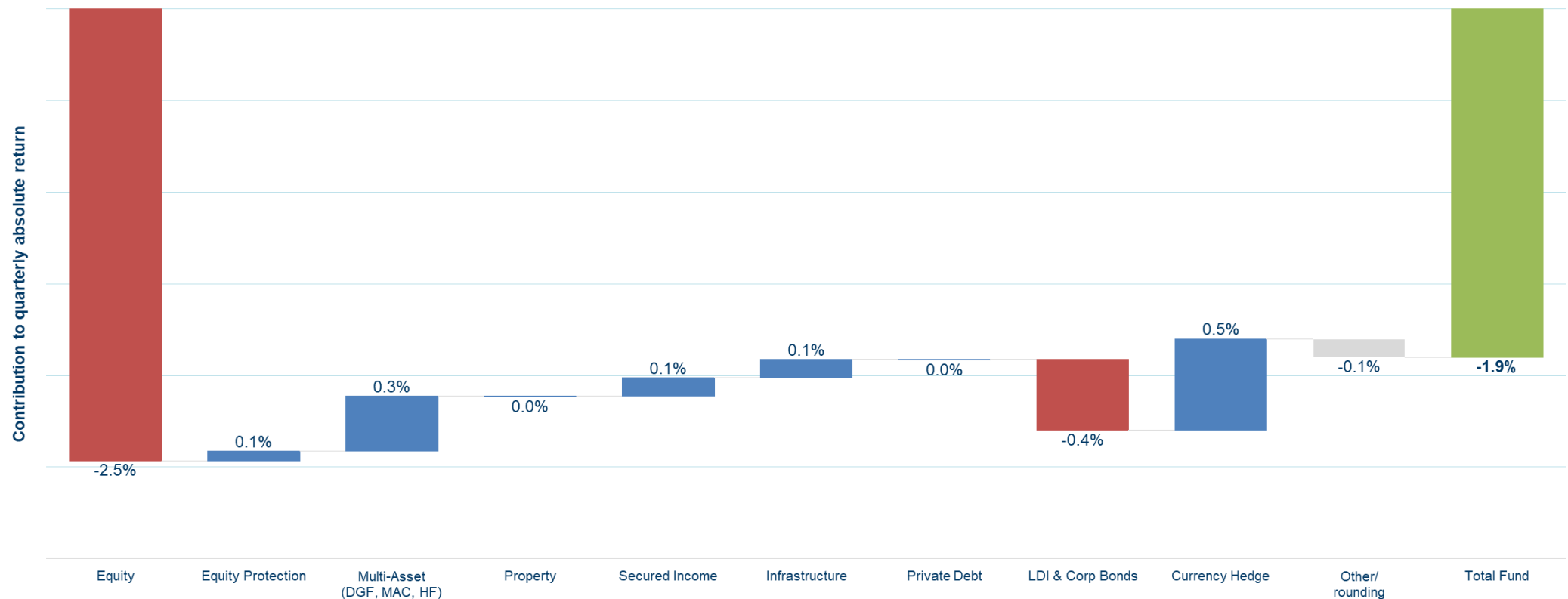
## Commentary

- As illustrated on the next slide, negative returns were predominantly driven by the Equity and LDI holdings.
- The Equity Protection offset this to dampen equity market losses, and most of the alternative Liquid Growth and Illiquid Growth investments were positive.
- At the underlying level, relative performance of the mandates against their respective benchmarks were mixed. Notable detractors included the active equity mandates, Overseas Property and Secured Income, whilst the Diversified Returns Fund and Equity Protection Strategy were contributors.
- Underperformance relative to the strategic benchmark over the one-year period was driven by the active equity mandates, the Equity Protection Strategy (as expected in a positive environment for equity markets), the Diversified Returns Fund and the Overseas Property mandate, as well as the way in which the LDI allocation is reflected in the methodology for total Fund benchmark returns\*.
- The drivers of underperformance over the three year period were the Active Equity, Equity Protection, Liquid Growth, Property and Secured Income mandates.
- The Currency Hedge added to returns over the three month, one year and three year periods, due to the strengthening of Sterling.

\*With regards to LDI, the total Fund benchmark assumes a fixed target % allocation, whereas in practice the allocation can vary materially, with the portfolio still delivering the expected performance in £ terms as it hedges the relevant liability exposures. As LDI performance was negative in Q4 2024 and Q1 2025 due to gilt yield movements, and the % allocation to LDI was above the SAA, this has had an unusually large impact on total performance.

# Total Fund Performance Attribution – Quarter

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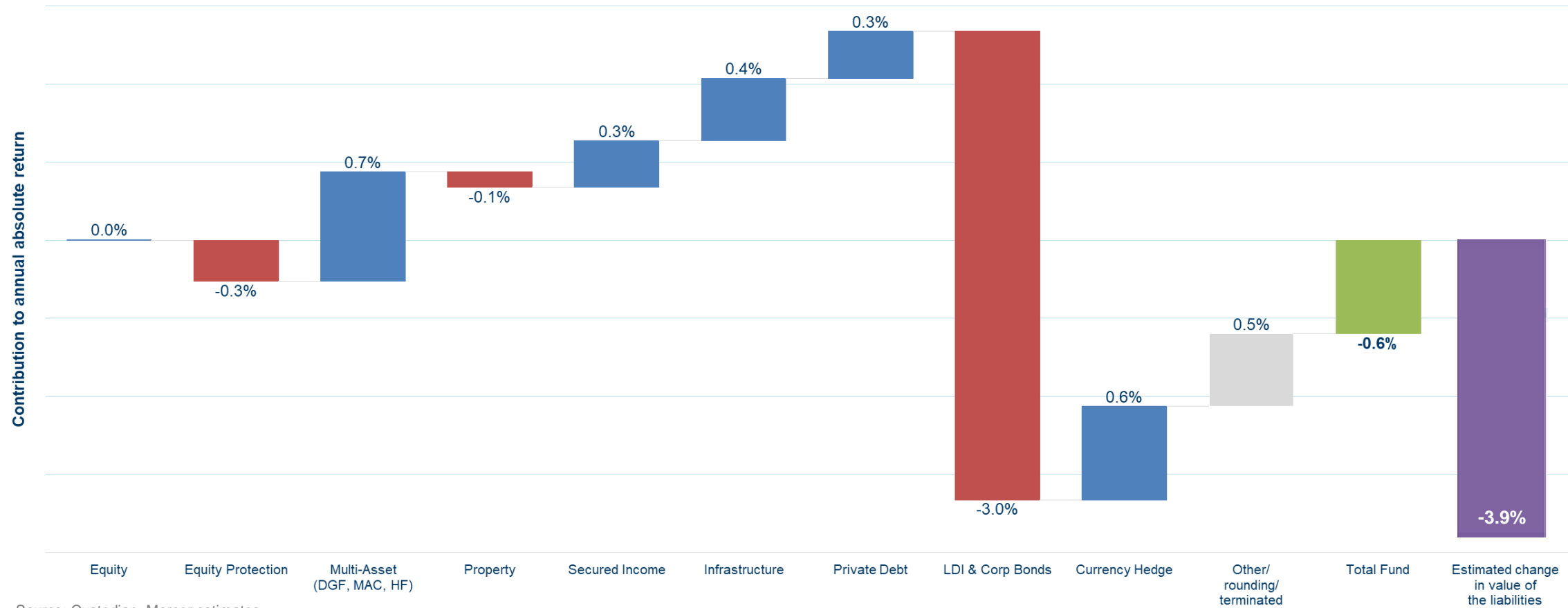


Source: Custodian, Mercer estimates.

Negative returns were driven by the Equity holdings and LDI (due to a rise in UK gilt yields).  
The Equity Protection counteracted equity market losses, although the effects are less visible quarter-on-quarter in terms of the ‘profit and loss’.  
In aggregate, each of the alternative Liquid Growth and Illiquid Growth asset class buckets were positive.  
The Currency Hedge contribution was positive due to the strengthening of Sterling.

# Total Fund Performance Attribution – 1 Year

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Source: Custodian, Mercer estimates.

The LDI was also the main driver of negative returns over the one year period, although the liabilities fell by a greater extent, in line with expectations.

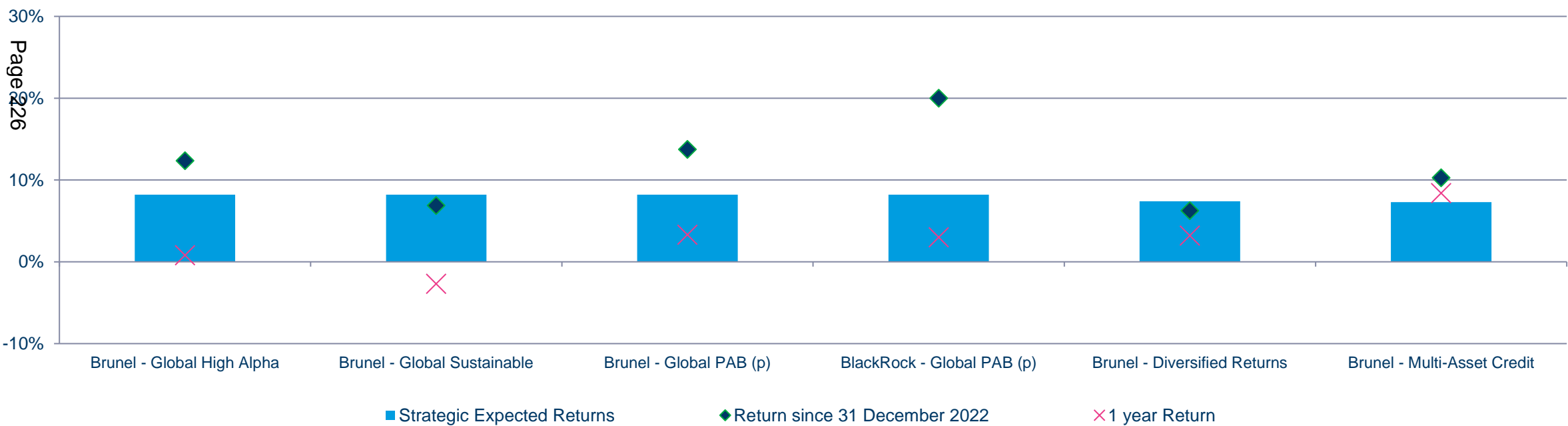
The overall contribution of the Equity holdings was flat due to the significant underperformance of the active mandates. The Equity Protection detracted due to the rise in underlying equity markets.

Each of the Liquid Growth and Illiquid Growth asset class buckets were also positive over the year, except for Property.

The Currency Hedge contribution was positive due to the strengthening of Sterling.

# Performance vs. Expected Strategic Returns

Growth Asset	Brunel Global High Alpha	Brunel Global Sustainable	Brunel / BlackRock Passive Global PAB	Brunel Diversified Returns	Brunel Multi-Asset Credit
Benchmark Allocation	10.5%	10.5%	20.5%	6.0%	6.0%
Commentary	Returns above expectations since December 2022 due to equity market strength, though mandate has underperformed the benchmark over this period.	Returns below expectations since December 2022 (despite equity market strength) due to manager underperformance.	Brunel PAB (FTSE index) returns above expectations since December 2022 due to equity market strength. BlackRock synthetic PAB (MSCI index) returns above expectations since May 2023; when exposure was put in place.	Returns below expectations since December 2022, due to muted returns in 2024.	Returns above expectations since December 2022 thanks to strength in high-yield debt markets.

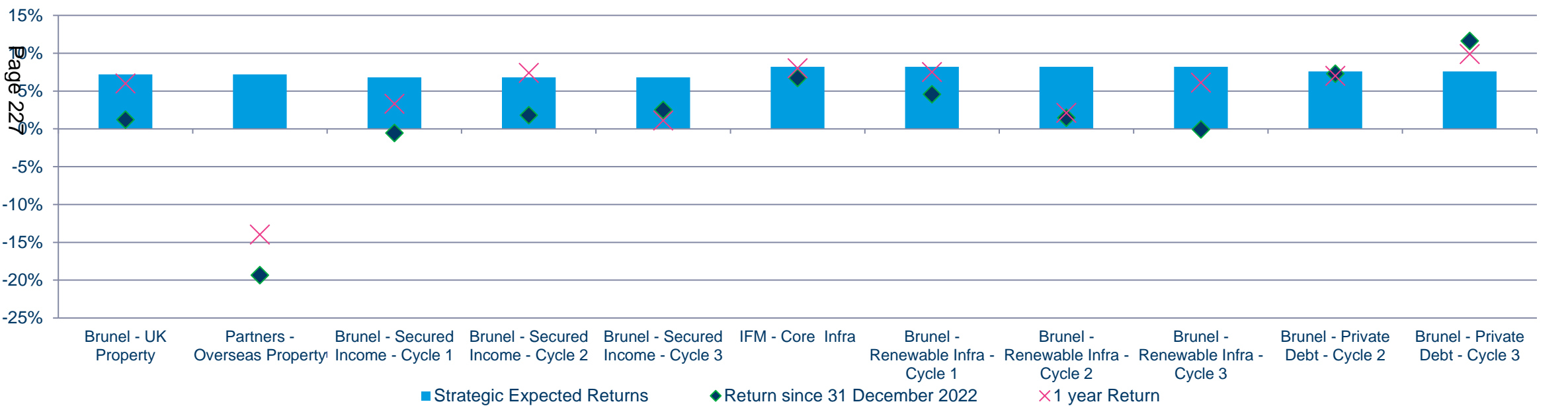


**Notes:**  
 We have illustrated the performance of the key mandates within the Fund’s investment strategy. Actual returns are from 31 December 2022 to 31 March 2025, except if otherwise stated below. Returns for periods over a year have been annualised. The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions. Mandates with a track record less than one year have not yet been included.



# Performance vs. Expected Strategic Returns

Growth Asset	Brunel UK Property	Partners Overseas Property <sup>1</sup>	Brunel Secured Income	IFM Core Infra	Brunel Renewable Infra	Brunel Private Debt
Benchmark allocation	3.5%	3.5%	9.0%	4.0%	5.0%	4.5%
Commentary	Returns below expectations since December 2022 due to the challenges seen in Property markets. Since inception performance for the winding down Partners mandate is more favourable at 2.1% p.a. IRR (net GBP). The Secured Income mandates came out of the drawdown phase relatively recently, with the last capital call to Cycle 3 occurring in Q2 2024.			Returns slightly below expectations since December 2022. Returns prior to this date, since the mandate's inception, are noticeably stronger.	Returns for all cycles below expectations since December 2022. Mandates are still in the drawdown phase; the first drawdowns were in Q1 2019, Q4 2020 and Q4 2022 respectively. Returns for all cycles are stronger over their since inception periods.	Returns marginally below expectations for Cycle 2 and above for Cycle 3 since December 2022. Mandates are still in the drawdown phase



**Notes:**  
We have illustrated the performance of the key mandates within the Fund's investment strategy.  
Actual returns are from 31 December 2022 to 31 March 2025, except if otherwise stated below. Returns for periods over a year have been annualised.  
The strategic expected returns are from the 2023 strategy review, which reflect the 10 year mean Mercer Q4 2022 asset model assumptions.  
Mandates with a track record less than one year have not yet been included.  
<sup>1</sup> Returns are shown up to 31 December 2024, as this is the latest data available.

# Mandate Performance to 31 March 2025

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)***	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
Brunel Global High Alpha Equity	-4.9	-4.6	-0.3	0.8	5.2	-4.4	6.9	8.8	-1.9	+2-3	Target not met
Brunel Global Sustainable Equity	-4.7	-4.2	-0.5	-2.7	5.3	-8.0	2.8	8.1	-5.3	+2	Target not met
Brunel Passive Global Equity Paris-Aligned	-7.9	-7.8	-0.1	3.3	3.4	-0.1	8.0	8.1	-0.1	-	N/A (p)
MSCI World Paris-Aligned (Synthetic)*	-5.6	-6.9	+1.3	-0.1	3.3	-3.4	-	-	-	-	N/A (p)
Brunel Diversified Returns Fund	3.5	1.9	+1.6	3.2	8.1	-4.9	3.6	7.2	-3.6	-	Target not met
Brunel Multi-Asset Credit	1.7	2.1	-0.4	8.4	9.2	-0.8	5.4	8.2	-2.8	-	Target not met
Brunel UK Property	1.8	1.4	+0.4	6.0	6.3	-0.3	-4.1	-3.4	-0.7	-	Target not met
Partners Overseas Property**	-4.7	2.5	-7.2	-14.0	10.0	-24.0	-14.4	10.0	-24.4	-	Target not met
Brunel Secured Income - Cycle 1	1.4	0.7	+0.7	3.3	2.6	+0.7	-4.2	5.2	-9.4	+2	Target not met
Brunel Secured Income - Cycle 2	-0.7	0.7	-1.4	7.4	2.6	+4.8	-1.2	5.2	-6.4	+2	Target not met
Brunel Secured Income - Cycle 3	-0.6	0.7	-1.3	1.1	2.6	-1.5	-	-	-	+2	N/A
IFM Core Infrastructure	1.9	2.3	-0.4	8.0	10.3	-2.3	7.5	9.3	-1.8	-	Target not met
Brunel Renewable Infrastructure - Cycle 1	2.3	0.7	+1.6	7.5	2.6	+4.9	7.5	5.2	+2.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 2	0.0	0.7	-0.7	2.1	2.6	-0.5	7.5	5.2	+2.3	+4	Target not met
Brunel Renewable Infrastructure - Cycle 3	0.7	0.7	0.0	6.1	2.6	+3.5	-	-	-	+4	N/A
Brunel Private Debt - Cycle 2	0.0	2.1	-2.1	7.0	9.2	-2.2	9.7	8.2	+1.5	-	Target met
Brunel Private Debt - Cycle 3	3.3	2.1	+1.2	9.9	9.2	+0.7	-	-	-	-	N/A
Schroders Greencoat Wessex Gardens	-1.1	1.9	-3.0	5.0	8.1	-3.1	-	-	-	-	N/A
Octopus Affordable Housing	-	-	-	-	-	-	-	-	-	-	N/A
BlackRock Corporate Bonds	0.1	0.1	0.0	0.4	0.4	0.0	-5.8	-5.8	0.0	-	N/A (p)
BlackRock LDI	-1.4	-0.9	-0.5	-11.6	-10.2	-1.3	-8.5	-7.9	-0.6	-	N/A (p)
Equity Protection Strategy	0.2	N/A	N/A	-1.0	N/A	N/A	-2.3	N/A	N/A	-	N/A

Source: Investment Managers, Custodian, Mercer estimates. Returns are net of fees, unless otherwise stated. Returns are in GBP terms

Relative returns are calculated arithmetically.

A summary of the benchmarks for each of the mandates is given in the Appendix.

Green = mandate exceeded target. Red = mandate underperformed target. Black = mandate performed in line with target (mainly reflecting passive mandates).

Performance for Partners in IRR terms. Performance for IFM is in TWR terms.

Performance of the Equity Protection Strategy is estimated by Mercer based on the change in market value of the options over time, accounting for realised profit/loss upon rolling of the strategy.

Performance for the LDI portfolio is estimated by Mercer based on the change in exposure. These returns are gross of fees.

\*Performance for MSCI World Paris-Aligned (Synthetic) has been converted to GBP by Mercer, as the associated index is denominated in USD. There will therefore be differences between actual performance and the benchmark shown as a result of only a portion of the mandate (the profit/loss on the positions) being exposed to currency movements, whilst the benchmark is entirely exposed to currency movements. The funding leg strain of synthetic equity will also have an impact on the mandate's relative performance, however this is offset elsewhere within the BlackRock portfolio so does not have an impact on overall relative performance.

\*\*Partners performance is to 31 December 2024, as this is the latest data available.

\*\*\*Where the outperformance target has not already been incorporated into the benchmark returns shown. See Appendix for further details.

# Asset Allocation



# Valuation by Asset Class

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Relative (%)
Global Equity	833,633	798,991	14.1%	13.8%	10.5	5.5	-	15.5	+3.3%
Global Sustainable Equity	680,760	648,956	11.5%	11.2%	10.5	5.5	-	15.5	+0.7%
Paris-Aligned Equity*	1,380,736	983,464	23.4%	17.0%	20.5	12.5	-	28.5	-3.5%
<b>Total Equity</b>	<b>2,895,129</b>	<b>2,431,412</b>	<b>49.1%</b>	<b>42.1%</b>	<b>41.5</b>	<b>36.5</b>	<b>-</b>	<b>46.5</b>	<b>0.6%</b>
Diversified Returns Fund	372,269	385,269	6.3%	6.7%	6.0	3	-	9	+0.7%
Multi-Asset Credit	363,090	369,145	6.2%	6.4%	6.0	3	-	9	+0.4%
<b>Total Liquid Growth</b>	<b>735,359</b>	<b>754,414</b>	<b>12.5%</b>	<b>13.1%</b>	<b>12.0</b>	<b>7</b>	<b>-</b>	<b>17</b>	<b>+1.1%</b>
Property	293,785	287,108	5.0%	5.0%	7.0	No set range			-2.0%
Secured Income	628,543	620,690	10.7%	10.7%	9.0	No set range			+1.7%
Core Infrastructure	242,402	246,967	4.1%	4.3%	4.0	No set range			+0.3%
Renewable Infrastructure	224,196	235,618	3.8%	4.1%	5.0	No set range			-0.9%
Private Debt	246,495	252,095	4.2%	4.4%	4.5	No set range			-0.1%
Local / Social Impact	36,646	40,984	0.6%	0.7%	3.0	No set range			-2.3%
<b>Total Illiquid Growth</b>	<b>1,672,068</b>	<b>1,683,463</b>	<b>28.3%</b>	<b>29.1%</b>	<b>32.5</b>	<b>No set range</b>			<b>-3.4%</b>
Corporate Bonds	182,357	182,592	3.1%	3.2%	2.0	No set range			+1.2%
LDI & Equity Protection	1,179,391	1,112,590	20.0%	19.3%	12.0	No set range			+7.3%
<b>Total Protection</b>	<b>1,361,748</b>	<b>1,295,182</b>	<b>23.1%</b>	<b>22.4%</b>	<b>14.0</b>	<b>No set range</b>			<b>+8.4%</b>
<i>Synthetic Equity Offset*</i>	-901,242	-541,658	-15.3%	-9.4%	-	-			-
Other**	135,408	153,279	2.3%	2.7%	-	0	-	5	+2.7%
<b>Total</b>	<b>5,898,491</b>	<b>5,776,113</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100%</b>				

Source: Custodian, Investment Managers, Mercer.

Totals may not sum due to rounding.

\*Paris-Aligned includes synthetic exposure via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.

\*\*Valuation includes the Fund of Hedge Fund mandate (due to be terminated), internal cash, the ETF and currency instruments.

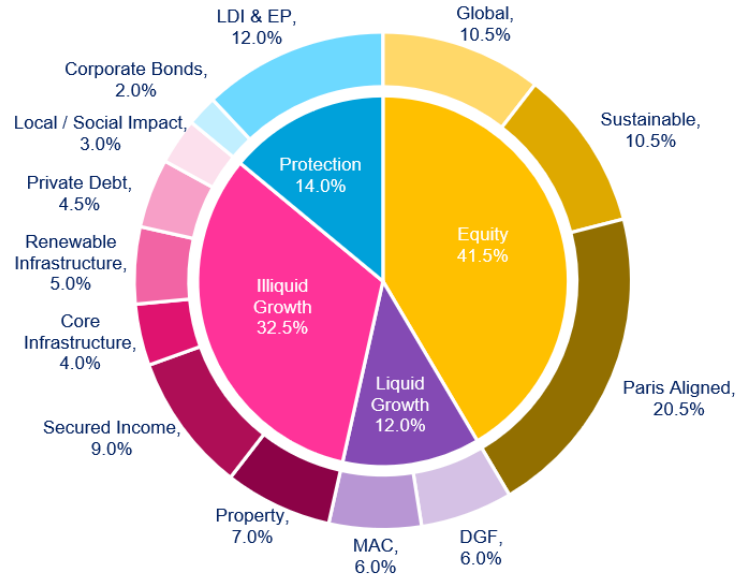
# Valuation by Manager

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Global High Alpha Equity	763,848	-	726,463	12.9	12.6
Brunel	Global Sustainable Equity	680,760	-	648,956	11.5	11.2
Brunel	Passive Global Equity Paris Aligned	479,494	- 12	441,806	8.1	7.6
BlackRock	MSCI Paris-Aligned (Synthetic)*	901,242	- 300,000	541,658	15.3	9.4
Brunel	Diversified Returns Fund	372,269	-	385,269	6.3	6.7
JP Morgan	Fund of Hedge Funds	18,789	- 3,570	15,206	0.3	0.3
Brunel	Multi-Asset Credit	363,090	-	369,145	6.2	6.4
Brunel	UK Property	185,498	- 355	188,821	3.1	3.3
Schroders	UK Property	14,403	-	13,105	0.2	0.2
Partners	Overseas Property	93,884	- 4,049	85,183	1.6	1.5
Brunel	Secured Income – Cycle 1	291,611	- 7,112	288,336	4.9	5.0
Brunel	Secured Income – Cycle 2	99,638	- 792	98,202	1.7	1.7
Brunel	Secured Income – Cycle 3	237,295	- 1,768	234,152	4.0	4.1
BlackRock	Core Infrastructure	242,402	-	246,967	4.1	4.3
Brunel	Renewable Infrastructure – Cycle 1	116,949	- 2,230	117,541	2.0	2.0
Brunel	Renewable Infrastructure – Cycle 2	87,342	+ 5,461	92,986	1.5	1.6
Brunel	Renewable Infrastructure – Cycle 3	19,905	+ 4,902	25,092	0.3	0.4
Brunel	Private Debt – Cycle 2	184,131	-	184,131	3.1	3.2
Brunel	Private Debt – Cycle 3	62,363	+ 3,107	67,964	1.1	1.2
BlackRock	Corporate Bonds	182,357	-	182,592	3.1	3.2
BlackRock	LDI & Equity Protection	1,179,391	-	1,112,590	20.0	19.3
BlackRock	Synthetic Equity Offset*	- 901,242	+ 300,000	- 541,658	-15.3	-9.4
Record	Currency Hedging (incl. collateral)	49,357	-	85,350	0.8	1.5
BlackRock	ETF	24,390	-	23,701	0.4	0.4
Schroders Greencoat	Wessex Gardens	36,646	- 649	35,591	0.6	0.6
Octopus	Affordable Housing	-	- 5,393	5,393	0.0	0.1
-	Internal Cash	112,227	-11,327	101,119	1.9	1.8
-	Residual Assets	430	-	432	0.0	0.0
Total		5,898,491	- 13,001	5,776,113	100.0	100.0

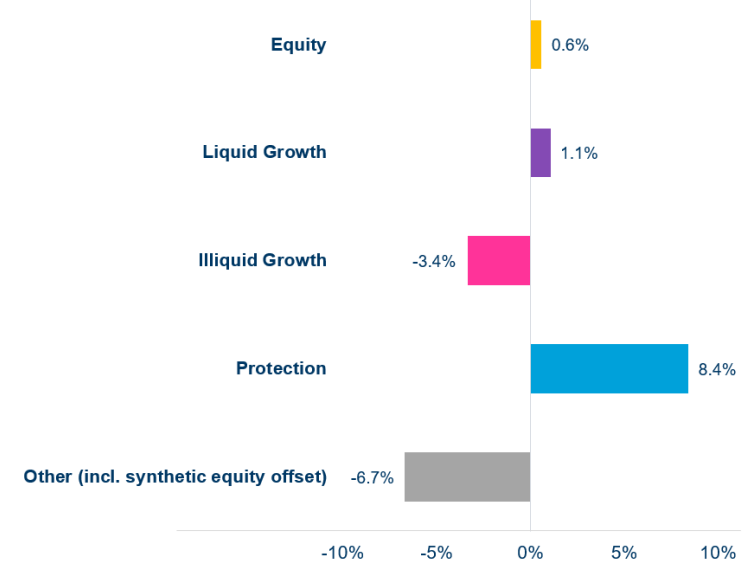
Source: Custodian, Investment Managers, Mercer. Totals may not sum due to rounding. The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund. \* MSCI Paris-Aligned synthetic exposure is via the BlackRock QIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark to market value of the holding.

# Positioning relative to target

## Strategic Asset Allocation (“SAA”)



## Relative positioning



### Commentary

- The Plan last updated its Strategic Asset Allocation as part of the 2023 Investment Strategy Review. The 2025 Investment Strategy Review is now underway, which may see further changes to the overall buckets and/or underlying allocations.
- The right hand side chart displays the actual relative weights of the key portfolio building blocks compared to the current SAA:
  - The underweight to Illiquid Growth reflects the fact that in aggregate, capital is still being drawn (i.e. in excess of distributions being returned).
  - The overweight to Protection reflects the collateral boost provided by the synthesising of some of the Equity allocation; meaning that in practice an overweight to this building block is likely to persist and is unlikely to trigger any consideration for action, which would continue to be driven more specifically by collateral adequacy requirements.
- In March, the Synthetic Equity exposure was reduced by £300m to address the overweight position to Equity (c. 8.6% as at 31 December) relative to the strategic benchmark. This brought the allocation back to within the target range (+/- 5%).
- Over the quarter, a net amount of c. £2m was drawn down to the private market portfolio. Amongst this was the first capital call towards the Octopus Affordable Housing Fund, of c. £5m. This was effectively funded by a net value of distributions from the rest of the private market assets which have recently been cashflow positive in aggregate.

# Appendix

# Q1 2025 Equity Market Review

In Q1 2025, global equities declined in local and sterling terms as considerable uncertainty from tariff and growth concerns weighed on risk assets. Within equities, emerging markets outperformed developed markets. Initially during the quarter, the risk off sentiment and the potential tariff threats weighed on emerging market equities. Later, stronger Chinese equities, weaker US dollar and higher commodity prices supported the market. Chinese equities were higher as additional government stimulus measures supported the economy and advances in artificial intelligence by Chinese companies boosted returns.

**Global equities** declined 4.0% in unhedged sterling terms and -1.9% in local currency terms as sterling appreciated against the US dollar.

**US equities** returned -4.3% in local currency terms, whilst European (ex-UK) equities returned 6.4%, and Japanese equities returned -3.9%.

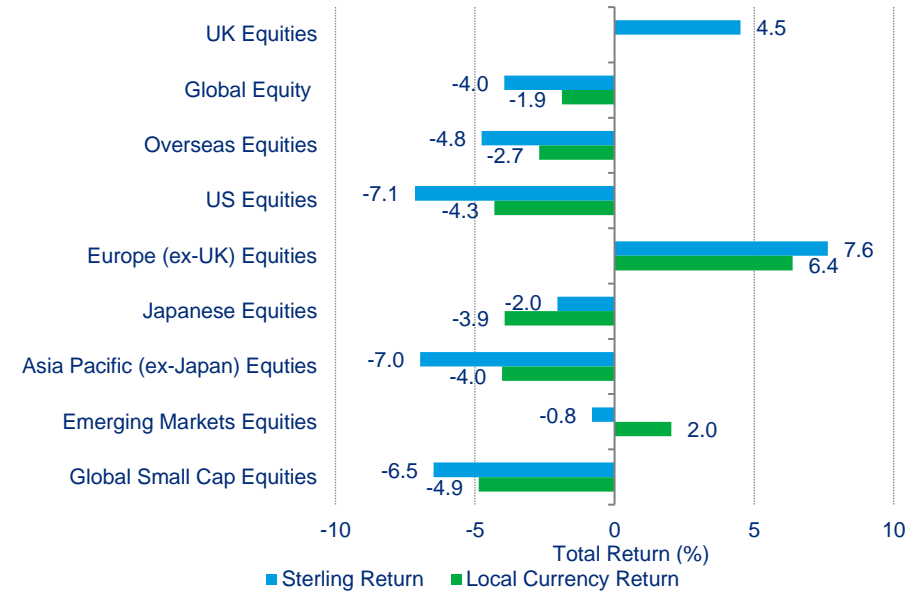
**Emerging markets equities** returned 2.0% in local terms.

**Global small cap stocks** returned -4.9% in local terms, amid ongoing worries around the global economic outlook.

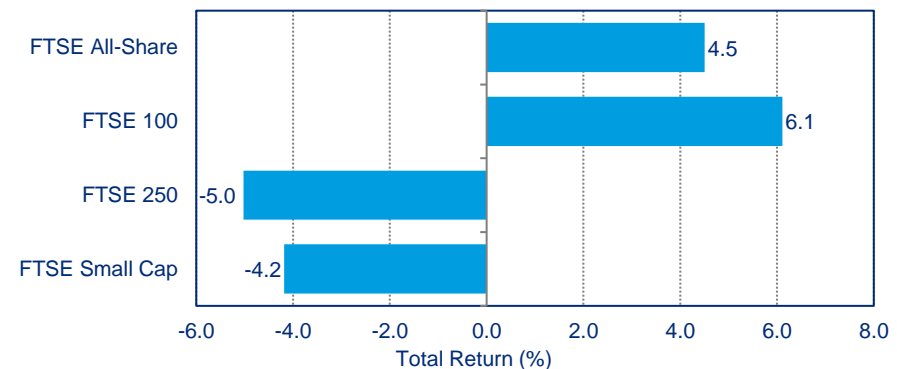
The **FTSE All Share** index returned 4.5% over the quarter, with the large-cap **FTSE 100** index returning 6.1%. More domestically focused equities (**FTSE 250**) also produced negative returns of 5.0%. The **small-cap** index produced a negative 4.2% return.

Sentiment towards UK small and mid-sized companies continued to deteriorate over the quarter.

## Equity Performance



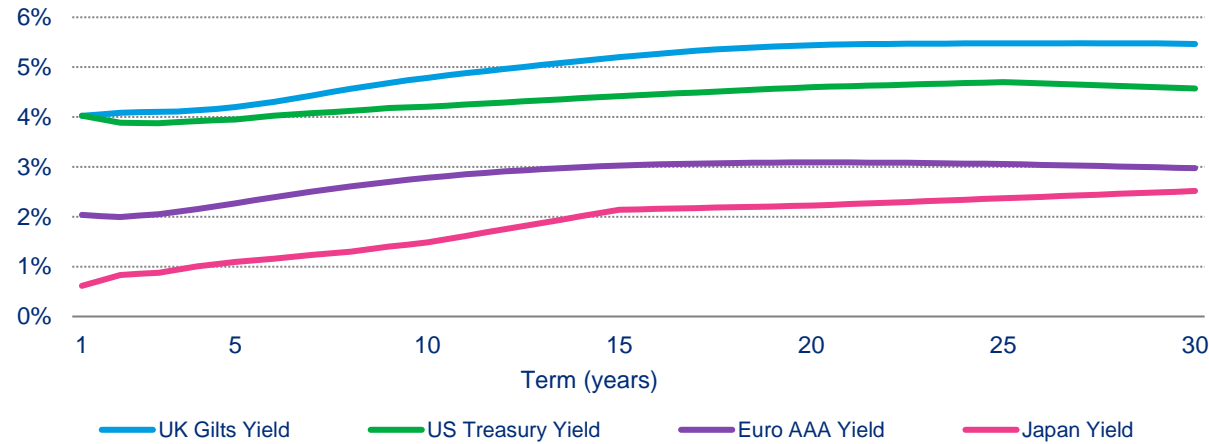
## FTSE Performance by Market Cap



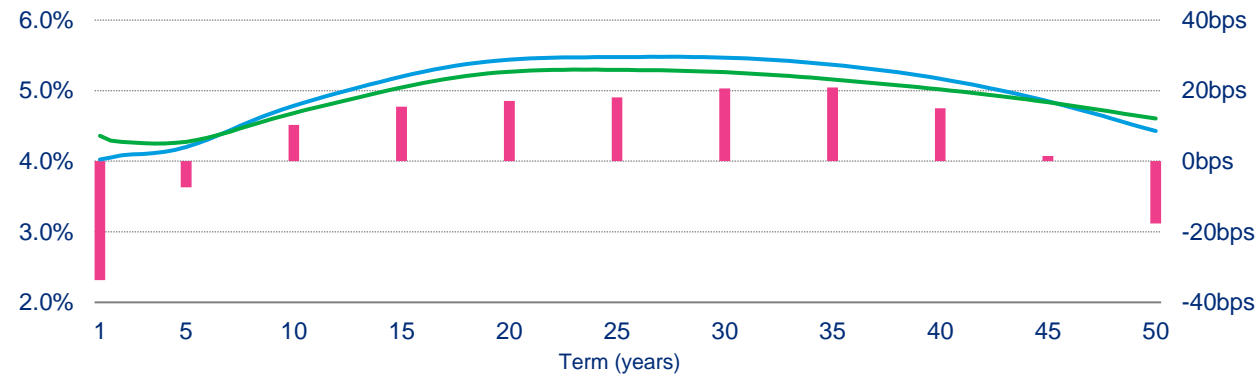


# Q1 2025 Bond Market Review

Page 235



Source: Mercer and Bloomberg



Source: Mercer

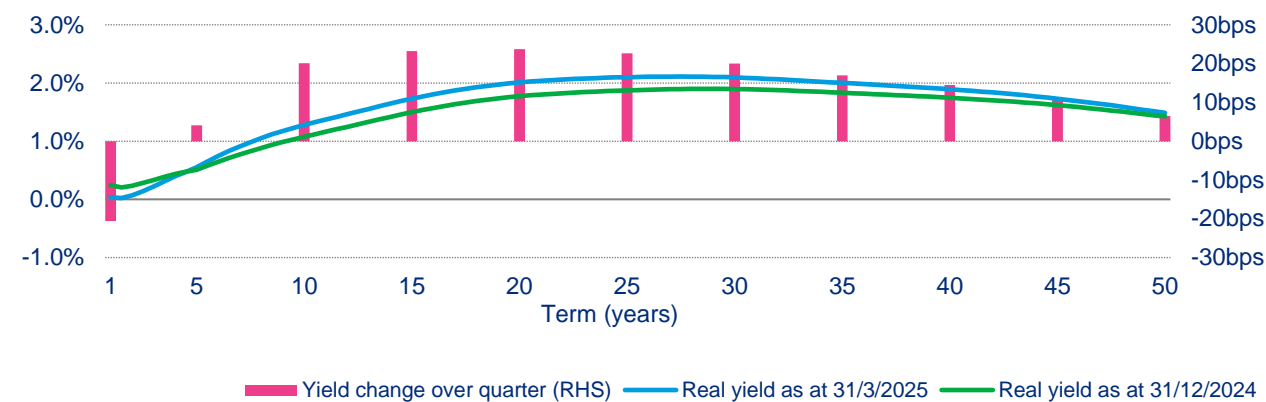
## Government Bond Yields

Global government bond yields were mixed over the first quarter.

In the US, Treasury yields declined on prospects of increased Fed rate cuts this year in response to signs of slowing US economic growth. In contrast, German bund yields moved higher following the sizeable fiscal announcement. Market uncertainty around Trump's economic agenda also added to the sell-off. Meanwhile, in the UK, the yield curve steepened in the quarter amidst hawkish BOE cuts, tariff woes and revised budget spending plans.

The 10-year benchmark bond yield in the US eased 0.37%, closing the quarter at 4.21%. In contrast, the UK and German 10-year yield rose 0.11% and 0.37%, respectively. The 10-year JGB yield also moved higher by 0.40% during the quarter as the macro landscape warranted more BOJ rate hikes.

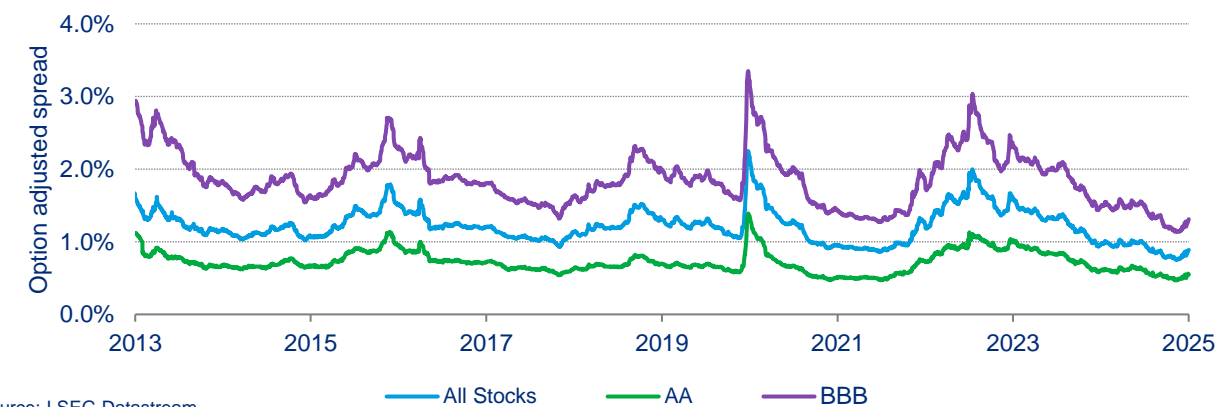
# Q1 2025 Bond Market Review



Source: Mercer

## UK Index-Linked Gilt Yields

UK real yields rose across the curve over the last quarter, with the 10-year real yield touching its highest level since 2009. Amidst signs of weak economic growth and sticky inflation, BOE cut rates by 25bps in Q1 2025, even as some stickiness in services inflation on account of wage growth was still prevalent. The cut was however followed by hawkish comments, warning of a temporary spike in inflation and uncertainty around growth prospects against the backdrop of a prospective global trade war. UK 5-year, 10-year and 30-year breakeven rates finished the quarter at 3.02%, 3.39% and 3.12%, respectively, down 10bps, 12bps and 5bps, from the previous quarter.



Source: LSEG Datastream

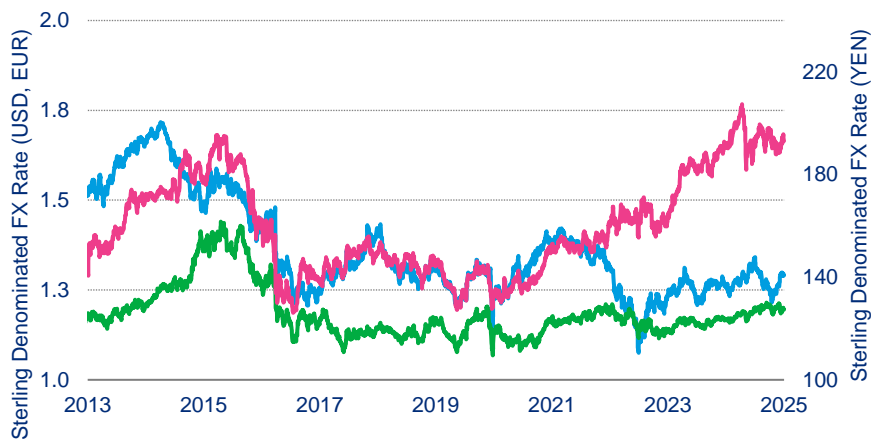
## Corporate bonds

Spreads on UK investment-grade credit widened marginally across the credit quality spectrum through the first quarter, with spreads for AA-rated credit up 5bps at 55bps, and that of BBB-rated credit up 1 bps at 131bps.

# Q1 2025 Currency Market Review

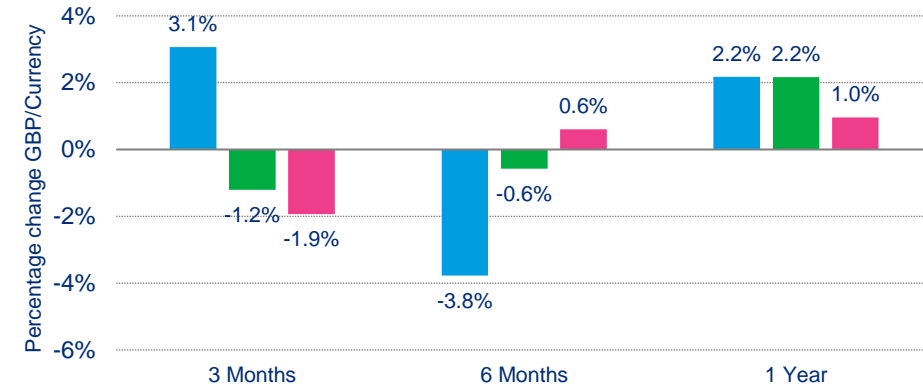
In the first quarter of 2025, sterling strengthened against the US dollar, while weakened against the Euro and the Japanese Yen. Sterling appreciated 3.1% against USD, while depreciating 1.2% and 1.9% against EUR and JPY, respectively. The US dollar fell ~4% over the six-month period on uncertainty around tariffs, trade and signs of slowing growth, putting the Fed on track to continue cutting rates. On a 12-month basis, sterling strengthened against USD, EUR and JPY, rising 2.2%, 2.2% and 1%, respectively.

Sterling Denominated FX Rate



Source: LSEG Datastream

Change in sterling against foreign currencies



Source: LSEG Datastream

# Q1 2025 Property

UK property as measured by the MSCI Index increased by 2.0% over the first quarter of 2025.

# Summary of Mandates

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)	Inception Date
BlackRock	Passive Paris-Aligned Equity (Synthetic Exposure)	MSCI World Climate PAB Index (USD - converted to GBP for performance measurement purposes)	-	May 2023
Brunel	Global High Alpha Equity	MSCI World	+2-3%	November 2019
Brunel	Global Sustainable Equity	MSCI AC World	+2%	September 2020
Brunel	Passive Paris-Aligned Equity	FTSE Developed World PAB Index	-	October 2021
Brunel	Diversified Returns Fund	SONIA +3-5% p.a.	-	July 2020
Brunel	Multi-Asset Credit	SONIA +4-5% p.a.	-	June 2021
Brunel	UK Property	MSCI/AREF UK Quarterly Property Fund Index	-	January 2021
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-	September 2009
Brunel	Secured Income (Cycles 1-3)	CPI	+2%	January 2019
IFM	Core Infrastructure	SONIA +5% p.a.	-	April 2016
Brunel	Renewable Infrastructure (Cycles 1-3)*	CPI	+4%	January 2019
Brunel	Private Debt (Cycles 2-3)	SONIA + 4% p.a.	-	September 2021
Schroders Greencoat	Local Impact – Renewables*	SONIA + 3% p.a.	-	February 2024
Octopus	Local Impact - Affordable Housing*	SONIA + 3% p.a.	-	March 2025
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-	February 2016
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-	February 2016
Record	Passive Currency Hedging	N/A	-	March 2016
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-	March 2019
Cash	Internally Managed	-	-	-

\* The primary performance objective for Renewable Infrastructure is a net GBP IRR of 8% p.a., whilst for both Wessex Gardens and Affordable Housing it is a net GBP IRR of 7% p.a.

The inflation/cash-plus benchmarks are used by the custodian due to a greater ability to incorporate and the objective has value over the relative short-term, however, over time, comparison against the IRR objective will become more relevant.

# Market Background Indices

Asset Class	Index
UK Equity	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equity	FTSE World ex-UK
US Equity	FTSE USA
Europe (ex-UK) Equity	FTSE World Europe ex-UK
Japanese Equity	FTSE Japan
Asia Pacific (ex-Japan) Equity	FTSE World Asia Pacific ex-Japan
Emerging Markets Equity	FTSE Emerging
Global Small Cap Equity	MSCI World Small Cap
Sustainable Equity	MSCI World Low Carbon Target
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	ICE BofAML Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	MSCI UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	ICE BofAML Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	ICE BofAML Global Broad Market
Global Credit	Bloomberg Capital Global Credit
Eurozone Government Bonds	ICE BofAML EMU Direct Government
Cash	SONIA

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Quarterly  
Engagement  
Report

January-March  
2025



# Energy Suppliers, Housebuilders, Water Stewardship



## ENGAGEMENTS



### CLIMATE

**Objective:** LAPFF remains actively engaged with the UK's largest housebuilders on their climate transition strategies. Currently, the industry's greenhouse gas emissions are divided between emissions from the production and building of houses (including supplier emissions such as diesel-powered vehicles and cement production) and emissions from homes in use. These engagements aim to ensure that companies have clear plans to achieve net-zero homes, adopt Paris-aligned transition strategies and targets, collaborate with suppliers to lower emissions, and prepare for upcoming regulations like the Future Homes Standard.

In Q1, LAPFF engaged with Persimmon and Barratt Developments. Additionally, LAPFF re-engaged with Vistry, this time with a focus on governance. This is reported on in more detail under the Governance section of the report.

#### Achieved:

#### Persimmon

LAPFF engaged with Persimmon to assess its transition plan, focusing on Scope 3 emissions, just transition planning, and value chain decarbonisation. Persimmon is finalising its net-zero transition plan, set for inclusion in the 2025 annual report, and preparing long-term targets aligned with a 90% emissions reduction by 2045. Just transition considerations, including supply chain opportunities and local employment, are being integrated.

Persimmon has been disclosing Scope 3 emissions since 2022, with reductions reported in 2023. A study on embodied carbon in its ten most popular house types is underway, though current reporting relies on spend data, which can be impacted by price fluctuations. A hybrid approach combining spend data and direct embodied carbon measurements is in development. The company is engaged with Future Homes Hub to improve

carbon reporting and acknowledges the challenge of decarbonising materials like cement, though specific supplier commitments remain unclear.

Persimmon is awaiting finalised Future Homes Standard legislation and confirmed it is not lobbying for lower standards. Its innovation centre, featuring a prototype net-zero home, will be open for stakeholder visits in summer 2025. Key areas for further engagement include finalising and improving the transparency of its transition plan, refining Scope 3 reporting, making clearer supply chain commitments, and preparing for regulatory changes. Continued engagement will be crucial to ensuring a credible and ambitious climate strategy.

#### Barratt Redrow

LAPFF engaged Barratt Redrow following its recent 2024 merger (formerly Barratt Developments and Redrow) to assess its decarbonisation strategy and sustainability commitments. Discussion

## ENGAGEMENTS

with the Chair and Group Sustainability Director covered the company's approach to balancing net-zero goals with the need for large-scale housing development. Barratt Redrow reaffirmed its commitment to achieving net-zero homes despite regulatory uncertainties, policy delays, and infrastructure challenges.

The company continues to integrate sustainability within its operations to ensure climate risks, and challenges such as planning and zoning restrictions, and infrastructure readiness, are embedded in business strategy. The company is actively engaging with the supply chain through workshops, conferences, and data-driven insights to align industry expectations, though pricing pressures and shifting regulatory standards remain key concerns. Barratt Redrow is also mindful of workforce transition, recognising the need for upskilling and industry-wide collaboration to support sustainable building practices.

The company highlighted its focus on electrified housing solutions through innovation, partnerships and researched projects. Notably the Zed House and eHome2, developed in collaboration with the University of Salford. The Zed House serves as one of the UK's first zero carbon homes built by a major housebuilder and goes beyond what is anticipated by the Future Homes Standard, while eHome2, created in partnership with materials manufacturer Saint-Gobain, explores real-world applications of low-energy design, smart technology, and reduced grid dependency. Barratt Redrow's CEO, David Thomas, is a member of the UK's Net-Zero Council, which aims to support the construction industry's transition toward decarbonisation in alignment with the upcoming Future Homes Standard

**In Progress:** LAPFF will continue to engage with Persimmon and Barratt Redrow as they progress their climate transition strategies. Persimmon is in the process of finalising its net-zero transition plan, set for inclusion in its 2025 annual report, while also working to improve Scope 3 emissions reporting by developing a hybrid approach that combines spend-based data with direct embodied carbon measurements.

Similarly, Barratt Redrow is navigating complexities associated with its recent merger while maintaining its net-zero ambitions. The company is working

to align sustainability efforts across its newly combined operations and is actively engaging with suppliers to encourage industry wide commitments. However, challenges such as policy uncertainty, infrastructure limitations, and pricing pressures remain barriers to large-scale decarbonisation.

LAPFF will continue monitoring housebuilders in key areas regarding their decarbonisation, particularly in relation to supply chain commitments and preparedness for compliance with the incoming Future Homes Standard.

## ENERGY SUPPLIERS

**Objective:** Decarbonising energy supply is essential for climate change mitigation, as fossil fuel emissions are a major contributor to global warming. LAPFF aims to accelerate the transition to zero-carbon energy by advocating for energy supply companies to shift production and investments away from fossil fuels, scale up renewable energy, and address risks such as stranded assets and disruptive technologies. The focus is on reducing Scope 3 emissions, investing in clean energy infrastructure, and aligning with climate goals for 2030, 2050 and beyond.

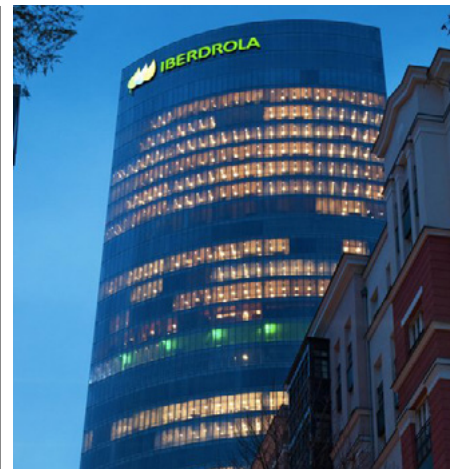
LAPFF will challenge ineffective transition plans, particularly from energy and oil & gas companies, and advocate for increased investment in renewables, energy storage, and grid modernisation to ensure a sustainable and affordable energy future.

**Achieved:**

### Iberdrola

LAPFF engaged with Iberdrola as part of its work on decarbonising energy supply. While Iberdrola has made progress towards its sustainability objectives, room for further progress remains whilst notable challenges persist.

The company is on track to achieve its carbon neutrality goals for Scope 1 and 2 emissions by 2030 and aims for Net Zero by 2040. Meanwhile, reliance on gas in certain regions, especially Spain and the US, continues to be a challenge. Despite significant strides in renewable energy integration, with 81% of its energy



production coming from emission-free sources, Iberdrola's progress could be more consistent across its operations, particularly in the regions where gas distribution remains its primary business.

The company's just transition stakeholder engagement strategies appear robust, addressing the needs of employees, customers, and communities. However, its approach to a just transition remains somewhat cautious, especially in regions with heavy fossil fuel reliance. Additionally, Iberdrola has embraced innovative solutions such as nature-based carbon offset programs. While Iberdrola is confident in the increasing market competitiveness of these solutions, particularly for customers and in commercial sector, the viability in the industrial sectors is still to be seen.

**In Progress:** Both Iberdrola and SSE continue to make progress in their decarbonisation efforts. However, the companies' reliance on gas for energy security and during market fluctuations underscores the complexities of fully transitioning away from fossil fuels. For SSE, leadership changes introduce an element of uncertainty, making it crucial for SSE to reinforce governance structures and maintain strategic momentum.

While SSE is investing in technological carbon capture and storage (CCS), Iberdrola is taking a different approach by focusing on nature-based solutions. LAPFF remains sceptical over the long-term viability and effectiveness of CCS. Further clarity on how these initiatives will translate into tangible cost benefits for consumers is needed to strengthen SSE's credibility and ensure its transition aligns with both sustainability and affordability goals.



# ENGAGEMENTS

## OIL & GAS

**Objective:** Drax's Yorkshire power station is the UK's largest single emitter of carbon dioxide. LAPFF has focused for several years, from its own research as well as public coverage of the company, on Drax's business model which faces considerable challenges. These challenges include the continuation of government subsidy which is in excess of £500m a year and is more than all of the profit. That subsidy runs out in 2027. There is an additional proposal to add carbon capture and storage to Drax for what is called BioEnergy Carbon Capture and Storage (BECCS) which would require further subsidy, locked in for the duration of at least 25 years. This proposal has to this point not been approved by HM Government.

Drax's operation is currently dependent on both contracts for difference (CfDs) – by which Drax receives a fixed price for its power output, and subsidy.

On the environmental side there are significant issues with claims of net zero as well as continuity of supply of imported wood pellets.

**Achieved:** Since meeting with the Senior Non-Executive Director in December 2024, there has been more press coverage that Drax has been cutting down rare forest wood in Canada.

In February 2025, the Government announced that subsidies will continue for another 4 years from 2027, but on a more restrictive basis. The subsidy will be halved, and the output will be more than halved. That is because rather than operating as a baseload plant (operating at any time), Drax will become a dispatchable source of power (i.e. to make up demand when other sources are short).

In revenue terms, the reduced operation may be beneficial as dispatchable power sells at a much higher price. However, the fact Drax will operate as a dispatchable source of power makes any Carbon Capture Storage proposition less viable. That is on cost grounds, as there is less operating time to cover the fixed costs, but also, there is no working model of CCS on dispatchable power as the CCS plant would require power when the generation is off. The capture of carbon is not an instantaneous process, whereas a dispatchable power station coming on

and going offline is.

The Government has attached conditions on supply of pellets, to mitigate the import of wood pellets linked to deforestation, and subsidies can be cancelled or repaid if such problems recur.

**In Progress:** The issues LAPFF has raised are central to the business model.

The argument for the government to continue to support Drax is the claim that "the UK can't be carbon net-zero by 2050 without it" thus Drax with carbon capture and storage would result in "negative emissions". But Drax with a lower output would result in less "negative emissions".

## BP & Shell

**Objective:** Both BP and Shell are retreating from the transition towards renewables.

During continued engagement with Shell and BP, LAPFF's approach has remained to test oil and gas companies beyond claims of decarbonisation based on existing business models to challenge the viability of the current business. This expectation, based on LAPFF policy, is that the demand for hydrocarbons will reduce in aggregate terms; and that demand will be met by lowest cost producers.

Renewable power generation (especially solar) can operate on a decentralised and localised basis, scale is not a necessity. Oil and gas production and distribution in contrast is highly centralised and scale has been a necessity.

With there being no shortage of investment in renewables into, and then from, the power generation sector then the need for capital gathering and investment to be intermediated by the large-scale oil and gas sector is less clear.

As opposed to requiring subsidy, renewable power is now a disruptive transition due to the alternative and innovative technologies. The war in Ukraine has also increased governments' focus on less reliance on fossil fuels on energy security and price volatility grounds.

The incentive to decarbonise sits well with the existing power generation sector which is investing in renewables, to increase electricity output and consumption (such as encouraging heat pumps and EVs) and in the process competing favourably with the fossil fuel sector.

The same cannot be said for the oil

and gas sector, where investment in renewables means competing with itself – the fossil fuel business.

There now seems to be an inevitable shrinkage in the sector, not matched by growth from elsewhere. That supports the argument for rigorous Paris Aligned capital discipline and more cash returns – not buybacks – to shareholders instead. LAPFF would question the benefit of holding a larger proportion (the effect of buybacks) in an ex-growth sector that is in long-term retreat.

**Developments at Shell:** LAPFF has been engaging with the Australian Centre for Corporate Responsibility which, with the support of LAPFF members has tabled a resolution for the 2025 AGM. The resolution focuses on the company's planned expansion of LNG, as the implied demand/supply significantly exceeds International Energy Authority (IEA) projections.

Shell held a "Liquid Natural Gas ('LNG') day in February 2025 at which an LNG Outlook document was produced. That refers to "LSG" – Liquid Synthetic Gas, which is chemically and physically identical to LNG (methane). LSG is produced by "methanation" a reaction which combines hydrogen and carbon dioxide.

The presentation implies that future LSG can use "existing" LSG (existing and proposed) infrastructure. What is also not clear from the presentation is the cost and energy consumption needed to create LSG.

There is a diagram showing that the hydrogen would come from green hydrogen (from electrolysis using renewable power) and carbon dioxide obtained by direct air capture (DAC). DAC and green hydrogen would be very energy intensive and inefficient given the only output of energy is the combustion of methane.

It would appear that LSG is being promoted as a means of prolonging the life of existing and new LNG infrastructure. This in LAPFF's view would be a very risky – and subsidy dependent – way of going about it.

Credibility issues have arisen with Shell before. LAPFF had previously questioned Shell on trees as "nature-based solutions" (i.e. planting trees) as the IPCC regards that as necessary for hard to abate sectors, not fossil fuel companies.

Shell has said that it cannot make the investment case for renewables. That is

## ENGAGEMENTS



Grangemouth Petro Chemical Plant

not in itself unreasonable but does support the argument for more cash returns to shareholders instead.

**Developments at BP:** BP had been regarded as at the better end of the sector in recognising climate change as an issue but faces the same competitive and structural pressures set out above.

In February 2025 BP announced that it was abandoning key parts of its strategy of being an integrated energy company. That means it will cut investment in non-fossil fuel assets and is selling some of the same. It has also announced it will be increasing production in oil and gas to between 2.3 million and 2.5 million barrels of oil equivalent a day by 2030 and raise spending to \$10 billion a year, about 20 per cent higher than previous levels.

That marks a U-turn from a target for a

25 per cent reduction in output to about 2 million barrels a day, compared with 2019 levels.

LAPFF's policy of managed decline is all the more relevant given retrenchment in the sector.

**In Progress Shell:** LAPFF continues to challenge whether Carbon Capture and Storage (CCS) can be made to work as a line of business, given that the costs involved make it a last resort if cheaper substitute energy sources are not possible.

Developments in aviation fuels and biofuels need to be examined in more detail, particularly as the mode of synthetic aviation fuel Shell refers to is to take CO<sub>2</sub> resulting from combustion by carbon capture from elsewhere and converting it – by an energy intensive

process – into a hydrocarbon. LAPFF's view is that is merely using the same emission twice, whilst still resulting in emissions is not a meaningful contribution to net zero.

CCS has been given prominence for, inter alia, gas (methane) for power, hydrogen for home heating, hydrogen for ammonia production and hydrogen for steel making. All of these have non-fossil hydrogen alternatives. It should be noted that CCS for coal was heavily promoted as a way of maintaining coal demand but never materialised with the phase out of coal on economic as well as emissions grounds. There is the same risk with gas.

**In Progress BP:** The position of the whole board, given the major shift in strategy from that previously adopted by the whole board, needs scrutiny.

## ENGAGEMENTS

BP has decided not to put a climate change strategy to the vote at this year's AGM. That is unsatisfactory given that the strategy has now changed.

In previous years the company has questioned the validity of shareholder resolutions requesting enhanced climate disclosure and commitments on the basis that the company has a robust transition strategy. This same argument has lost credibility following the recently announced retrenchment.

With more of the business being in joint ventures with other producers (such as Exxon and Chevron) that progress to net zero is to some extent out of the control of BP itself and would imply that the joint venture partners have the same commitment, or lack of, to net zero for those shared assets.

Particular attention is needed to understand the role of Elliot Advisers, the fund manager which is reported to have pushed BP towards its new position. There is no evidence yet that the objective of increasing BP's share price has been achieved.

**In progress both BP and Shell:** LAPFF's policy has not been that oil and gas companies should all transition towards renewables but that the sector needs to be in managed decline from fossil fuels. The managed decline is all the more relevant now as that it is the only route to Paris Alignment.

## BANKS - FINANCING THE FOSSIL FUEL SECTOR

### NatWest

**Objective:** LAPFF continues to engage with the banking sector, recognising its pivotal role in financing the transition to a decarbonised economy, with a particular focus on energy supply. The objective of LAPFF's engagements in this sector is to accelerate the transition to zero-carbon energy sources, in alignment with global climate change mitigation goals and the COP 2023 focus on phasing out fossil fuels.

LAPFF aims to encourage the diversion of capital away from new fossil fuel

extraction and promote the rapid expansion of clean energy, while addressing strategic risks such as stranded assets and the disruptive impact of emerging technologies. LAPFF's engagement with the banking sector aims to ensure that financiers integrate climate and transition factors into their lending practices, particularly when financing fossil fuel producers and low-carbon alternatives, and in doing so, supporting the broader shift to sustainable energy.

**Achieved:** In Q1, LAPFF engaged with NatWest with a focus on the bank's financing of the fossil fuel industry, particularly its approach to defining "credible transition plans." This issue has been under intense media scrutiny due to NatWest's continued financing of oil and gas giant BP, this despite BP's rollback on climate commitments described earlier in this report and NatWest having a policy in place which supposedly limits the provision of services to companies which do have a credible transition plan in place.

While NatWest reaffirmed its commitment to aligning its financing decisions with climate goals, particularly in the oil and gas sector, the meeting highlighted some potential concerns in its approach. When pressed on the matter, NatWest acknowledged the complexities of defining a 'credible transition plan' and noted the difficulty in determining appropriate plans for companies at different stages of their transition journey, particularly as these plans tend to evolve over time. The bank also emphasised the challenges associated with relying on third-party assessments, such as those from the Transition Pathway Initiative (TPI) and Science-Based Targets initiative (SBTi), both of which have altered or withdrawn guidance within the oil and gas sector. NatWest highlighted issues with these tools when combining scientific data with judgement and highlighted how this can create ambiguity when defining clear and consistent transition pathways.

Despite these challenges, NatWest emphasised its commitment to responsible financing and sustainability, particularly in ending harmful activities, fostering strong partnerships, and improving internal operations. The bank has exceeded its 2025 carbon reduction target ahead of schedule and has set an ambitious new goal of achieving a 70%

reduction in emissions by 2030. NatWest also reaffirmed its commitment to supporting small and medium-sized enterprises (SMEs) in their transition efforts, recognising that these businesses often require more tailored support, which the bank is committed to providing.

Overall, while NatWest has limited its oil and gas exposure to less than 1% of its portfolio, it continues to maintain relationships with existing fossil fuel clients. This reflects the complex and nuanced nature of defining and assessing "credible" transition plans. A challenge which the bank is currently in the process of reassessing. NatWest welcomed further engagement and dialogue with LAPFF as it works to address these challenges and refine its approach.

**In Progress:** NatWest's emphasis on transparency and open dialogue with LAPFF is welcomed, but its overall strategy remains under scrutiny. LAPFF will continue to monitor the bank's progress to ensure that its actions align with its stated climate goals and hold the bank accountable for its financing decisions, particularly regarding its ongoing support for fossil fuel industries. LAPFF also raised the bank's reported plans to significantly increase the quantum available under its executive compensation package. The company agreed to raise this concern internally.

## ENVIRONMENTAL

### Water Stewardship

**Objective:** Water is a vital natural resource crucial to communities, ecosystems, and industries. However, the United Nations warns of a 40% global water shortfall by 2030 if current consumption trends continue. With freshwater consumption outpacing replenishment rates, it is becoming increasingly difficult to meet water needs and achieve the United Nations' Sustainable Development Goal for Water (SDG 6).

LAPFF engages with investee companies, including those in the mining sector, to address critical water-related risks. As the threat of water scarcity increases, LAPFF advocates for



## ENGAGEMENTS

companies to develop holistic water stewardship strategies. These strategies should ensure responsible water use, protect ecosystems, and address the environmental risks posed by water shortages.

LAPFF also encourages companies to enhance transparency in water usage and reporting, encouraging businesses to integrate water management into their long-term sustainability goals. In doing so, companies will ultimately reduce operational disruptions, regulatory risks, and reputational damage tied to water-related issues. By fostering accountability and guiding companies towards sustainable water practices, LAPFF seeks to drive positive environmental outcomes, safeguard communities, and mitigate long-term risks to investors.

### Achieved:

#### Fortescue Metals Group

LAPFF held its first meeting with Australian mining company Fortescue Metals Group in Q1, focusing on water management. The meeting provided a valuable opportunity to establish dialogue with the company and gain insight into its approach to water stewardship.

Fortescue Metals outlined ongoing internal water assessments at its Pilbara mining sites in Western Australia, including the Western, Chichester, and Solomon hubs. The company reported that its water targets for these sites are either met or in progress, with full achievement expected by 2025. LAPFF will continue to monitor these targets and seek access to relevant data and methodologies used in the assessments going forward.

The discussion also addressed challenges at Fortescue's Iron Bridge magnetite mining site, where leaking pipes have resulted in loss of water resource and delayed production progress. The company have not indicated there has been any significant environmental damage from the reported leaks, however, due to the operational setbacks, Fortescue recently revised its production target for Iron Bridge, significantly reducing them for the 2024/25 financial year. The company indicated that pipe issues are being resolved, through water flow adaptations rather than pipe replacement, allowing production to ramp up. Water targets for Iron Bridge are expected to be set in FY25.



Graphite mine near the Andasibe-Mantadia National Park, Madagascar

#### Rio Tinto

Rio Tinto met with LAPFF in Q1 as part of a wider investor meeting focused on water management. LAPFF originally wrote to Rio Tinto to engage on the topic of its water management strategy, requesting a meeting to learn about development of efforts to conduct independent water assessments at its mine sites globally, including QIT Madagascar Minerals (QMM) and Oyu Tolgoi.

In the investor meeting, Rio Tinto's Head of Health, Safety, Environment & Security and Group Head of Environment and Nature reiterated the company's commitment to water stewardship, transparency, and incorporating both Indigenous and Western scientific perspectives in decision-making. LAPFF reiterated its ongoing concerns, including unresolved community grievances and the lack of meaningful progress at critical sites such as QMM.

While Rio Tinto outlined initiatives to address water-related risks, significant

## ENGAGEMENTS

gaps remain, particularly in implementation, scale, and communication. The company acknowledged its sustainability goals are being hindered by slow progress and cited a cautious approach in setting targets, to avoid overly ambitious targets without clear execution plans. The investor meeting also highlighted issues such as limited communication and a lack of concrete data demonstrating measurable improvements.

Most recently, in April 2024, a group of villagers in Madagascar wrote to the company and filed a legal claim against Rio Tinto, alleging pollution linked to the QMM mine. The claim references blood test results showing high lead levels, some exceeding World Health Organization (WHO) safety thresholds, including in children requiring medical treatment. Additionally, the letter addressed concerns regarding uranium exposure, particularly as local communities rely on nearby water sources for drinking, washing, and fishing. In its 2024 annual reporting, Rio Tinto noted it is taking the letter and legal filing seriously, however, it does not support the allegations raised in the letter.

### Valuing Water Finance Initiative (VWFI)

LAPFF has joined the 2025 Valuing Water Finance Initiative's (VWFI) annual investor letter to focus list companies. As a signatory, LAPFF signed onto 56 letters which were sent to targeted companies in January, including: Alphabet Inc., Microsoft Corporation, Amazon.Com, Diageo, LVMH Moët Hennessy Louis Vuitton, Unilever PLC, and Nestle S.A. The letters emphasise the importance of addressing water-related risks and the growing need for companies to tackle supply chain vulnerabilities.

In February, Amazon.com replied to the VWFI letter outlining its approach to water stewardship, highlighting progress toward AWS's goal of becoming water positive by 2030; this includes efforts to improve water efficiency, expand the use of sustainable water sources, and support replenishment projects globally. Amazon also noted recent water commitments in India, as well as newly launched projects in Brazil, Chile, China, and the US. Additionally, the company referenced a global water risk assessment used to prioritise water stewardship

interventions, while noting that some details remain confidential due to competitive sensitivity.

**In Progress:** The Forum continues to push for meaningful action across high-impact sectors, with initial dialogue established with Fortescue Metals Group and growing investor pressure heightening its long-standing engagement with Rio Tinto.

LAPFF's engagements continue to highlight significant and persistent gaps within mining companies, particularly regarding implementation, transparency, and responsiveness to community concerns. The recent April 2024 legal claim related to Rio Tinto and QMM, alongside repeated concerns and sustained investor pressure, underscores the need for these companies to proactively address water-related risks and community impacts.

Through continued engagement and dialogue with companies, participation in initiatives such as the VWFI, and ongoing monitoring of corporate progress, LAPFF will continue to press for more robust, measurable, and equitable water management practices across high-impact sectors.

## NATURE

### Procter & Gamble – NA100

**Objective:** Since Nature Action 100 (NA100) published its benchmark in October 2024, LAPFF has worked within investor groups to refine the asks of companies. This follows a series of calls with companies in 2024 that largely set out the expectations of investors working within NA100 and to gain a better understanding as to how companies were approaching nature risk.

The investor group that LAPFF works within for Procter & Gamble (P&G) had met with the company once, before the NA100 benchmark was published, and sought a subsequent meeting with the company this quarter, choosing to focus on the 'Assessment', 'Target Setting' and 'Governance' pillars.

**Achieved:** There were positive updates from P&G noting its progress with the TNFD process, including working through the framework and refining its

biodiversity disclosures. The company acknowledged transparency gaps in disclosures around biodiversity impact assessments but highlighted positive steps, including commitments to align with TNFD by 2026 and ongoing work on water stress assessments. On deforestation, P&G outlined its approach, which includes third-party certification, satellite monitoring covering 98% of its palm oil supply, and a grievance mechanism for non-compliance. It discussed preparedness for the EUDR (EU deforestation regulation), stating that its suppliers are responsible for compliance and that the additional delay will help smaller suppliers meet geolocation requirements. Finally, it touched on executive remuneration, indicating that ESG factors are integrated into compensation structures but without full disclosure of specific weighting or targets.

**In Progress:** LAPFF will continue to join engagements as a part of the NA100 initiative and intends to progress engagements past the initial round of engagements which were designed to understand how companies were approaching nature risk.

### Nestlé Chair's Roundtable

LAPFF attended a roundtable in London with Nestlé Chair Paul Bulcke. LAPFF attends this meeting each year, providing an opportunity to ask questions directly to the chair of the world's largest food and beverage company.

The company provided a high-level overview of its corporate strategy for the coming year, including how it continues to incorporate a variety of ESG factors into this strategy. LAPFF joined 10–15 other investors in a round of questioning, which largely focused on the succession of the company's CEO in August 2024. In this transition, Mark Schneider, who had been CEO for seven years, was replaced by Laurent Freixe, an executive who has been with the company since 1986.

There were questions on the lessons learned from failures under Schneider and how Freixe is operationalising core parts of Nestlé's strategy. Given the significant role that regenerative agriculture is set to play in Nestlé's net zero strategy, LAPFF asked questions on this topic, focusing on efficiencies and the positive impact the company can have on nature.



## ENGAGEMENT



Laurent Freixe, CEO of Nestlé

Nestlé has surpassed its 2025 target for regenerative agriculture, with 21.3% (target of 20%) of key ingredients now sourced from farmers adopting these practices and appears to remain on track to reach 50% by 2030. The company's efforts focus on improving soil health, reducing reliance on synthetic inputs, and supporting farmers in adopting techniques such as cover cropping and precision farming. Through its Nestlé Agriculture Framework, the company continues to provide long-term support, training, and incentives to accelerate the transition to sustainable food systems

## SOCIAL FACTORS

### Conflict-Affected and High-Risk Areas

**Objective:** LAPFF maintains a continued focus on engaging companies with business activities in or linked to conflict-affected and high-risk areas. LAPFF's expectations of companies are guided by the UN Guiding Principles on Business and Human Rights (UNGPs), which call for human rights due diligence in all operating contexts. Further guidance is provided for CAHRAs through the UNGPs and guidance released by the UN Development Programme in cooperation with the UN Working Group on Business and Human Rights, which advises undertaking a more comprehensive process known as heightened human rights due diligence (hHRDD).

Standard human rights due diligence focuses on identifying, preventing,

mitigating, and accounting for human rights impacts. hHRDD extends this approach by requiring companies not only to examine their impacts on people, but also on the dynamics of the conflict itself. This includes recognising early warning "red flags" that might signal escalating violence or instability. Such red flags could be the presence of private security contractors, pervasive hate speech, severe restrictions on media, or forced displacement of people. LAPFF therefore expects companies operating in or linked to CAHRAs to implement the following core asks:

Adopt and publicly disclose policies on hHRDD, including criteria for entering, remaining in, or exiting a CAHRA.

Conduct robust conflict and human rights impact assessments, integrating findings into their corporate strategy.

Strengthen supply chain oversight, ensuring that contracts and business relationships do not contribute to abuses.

Engage openly with stakeholders and provide transparent reporting on progress, challenges, and any remedial actions taken.

#### Achieved:

### Occupied Palestinian Territories (Bank Leumi & Bezeq)

LAPFF has engaged companies that were included on the UN OHCHR's list of companies considered active in the Occupied Palestinian Territories since its inception in 2020 and met with Israeli-based companies Bank Leumi and Bezeq this quarter.

Since LAPFF last met with Bank Leumi in May 2023, the company has issued a public human rights policy. LAPFF also noted some improvements in due diligence processes in investment considerations. However, there was no evidence the company was undertaking hHRDD for its operations within CAHRAs.

Bezeq detailed how it operates in Israel and Palestine, stating that its infrastructure provides services to the Palestinian people. LAPFF pressed the company for enhanced human rights disclosures including a commitment to adhere to the UNGPs, although it is not clear the company is undertaking hHRDD at this point.

### FTSE100 Letter

In December 2024, LAPFF wrote to all FTSE100 companies (excluding investments trusts) on behalf of LAPFF. These letters aimed to deepen the Forum's understanding of how companies approach risk mitigation in relation to CAHRAs, and signal increasing investor interest and concern on the risks associated with business in CAHRAs.

LAPFF received 28 responses from companies and met NEXT and Aviva in Q1 2025 to discuss this.

LAPFF has previously engaged NEXT Plc in relation to labour rights issues in Myanmar. The most recent meeting this quarter sought to expand prior conversations to include the undertaking of heightened human rights due diligence. NEXT appears to be taking a thorough approach to its business activities in Myanmar, although does not currently have a policy for operations in CAHRAs more widely.

During Q1 LAPFF also held a call with Aviva. The company emphasised it was enhancing its internal human rights policies and conducts a human rights saliency assessment to identify risks to people, rather than just to business, across its insurance and investment portfolios. This includes mapping risks such as modern slavery, indigenous rights, and data privacy. It also focuses on sector-specific risks, particularly where conflict could be exacerbated and is considering how its underwriting and stewardship activities might be better aligned to support CAHRA risks. Although the company's disclosures on CAHRA specific risks were limited, representatives explained that it was an issue of increasing focus.

LAPFF is currently liaising on getting meeting dates with Phoenix Group, BAE Systems, and EasyJet, who have all offered calls in response to the letter.

### 2024 CAHRA Related Shareholder Resolutions

As geopolitical tensions have risen alongside increased conflict, so have shareholder resolutions relating to CAHRAs. LAPFF analysed a series of companies who had received such shareholder resolutions in 2024 and subsequently wrote to Mondelez, JPMorgan Chase & Co, Texas Instruments, Eli Lilly, Lockheed Martin, and RTX

## ENGAGEMENT

Corporation, seeking engagement on both the resolutions specifically, and company approaches to CAHRAs.

In March, LAPFF met JPMorgan Chase & Co. The company outlined that it did not undertake any specific or heightened due diligence relating to CAHRAs beyond the process it applies for all business transactions, but that this would incorporate geopolitical and reputational risk. LAPFF asked if the company would consider disclosing examples in which a transaction had been impacted as a result of geopolitical or reputational risk to demonstrate that its existing approach would capture concerns relating to CAHRAs. The company said it would consider this request.

In a meeting with Texas Instruments (TI), the company outlined its values-driven approach to business, including efforts to prevent product diversion to sanctioned countries, enhanced due diligence processes, and a preference for actions beyond just compliance. While LAPFF welcomed TI's transparency and commitment to screening and manual checks, it raised concerns regarding the lack of public reporting on human rights due diligence and CAHRAs.

LAPFF received a response to a letter sent to RTX Corporation on this topic. RTX stated that it was unable to discuss its approach to human rights risk management due to legal, contractual, customer, and policy considerations. It instead directed LAPFF to its human rights policy, which did not answer LAPFF's queries on heightened human rights due diligence. The company's human rights policy states that the assessment of specific business opportunities can present heightened human rights risks but does not discuss potential monitoring of end user product use and how this might be further mitigated.

Mondelez, Eli Lilly and Lockheed Martin have yet to respond

### Electric Vehicle Manufacturers

LAPFF has held engagements with global auto manufacturers on their electric vehicle (EV) battery supply chains since 2021, seeing positive outcomes at Mercedes, BMW, Ford, General Motors, and Renault. Whilst these companies are making notable progress, there are still a number of manufacturers that

are performing poorly in the context of managing human rights risks present in the critical mineral supply chain. In this quarter, LAPFF wrote to BYD, Toyota, Kia, Honda, Nissan, and Hyundai, seeking engagement on human rights considerations in the transition to electric vehicles. LAPFF has not yet received responses from these manufacturers and is in the process of considering escalation at the respective AGMs.

### Response from Home Depot re Uyghur forced labour – Investor Alliance for Human Rights

Alongside other investors from the Investor Alliance for Human Rights' Uyghur Working Group, LAPFF has met with Home Depot twice to discuss the company's approach to alleged Uyghur forced labour in its luxury vinyl tile flooring. LAPFF wrote to Home Depot again this quarter seeking further engagement on the issue and received a written response.

Home Depot was able to provide positive developments in the efficacy of its traceability initiatives, detailing information on programmes that had been discussed in past engagements, further enhancements in the company's auditing practices and verification process, and a continuation of how it was monitoring evolving regulatory standards.

**In Progress:** LAPFF will continue to focus attention on CAHRAs and engage sectors that operate in them. LAPFF will also monitor best practice across industries and consider escalation through AGM attendance and voting alerts to members as the year progresses.

### Luxury Goods

**Objective:** In 2024, the Local Authority Pension Fund Forum (LAPFF) expressed concerns that the luxury goods sector was being overlooked in comparison to high street apparel regarding human rights and supply chain management. There is a common misconception that higher prices for luxury goods directly translate into better working conditions and wages for workers. Following engagements with the sector in 2024, LAPFF has sought further meetings to discuss risk management and proactive action.

LAPFF wrote to companies before the European Commission's proposed Omnibus Package was announced on 26 February 2025, which aims to simplify sustainability reporting and due diligence requirements for businesses. Alongside existing asks, LAPFF is committed to ensuring that these regulatory changes do not lead to diminished oversight of human rights practices within the luxury goods sector. The Forum aims to engage with luxury brands to assess how they plan to adapt to the revised regulations and to encourage the maintenance or enhancement of robust human rights and supply chain management practices despite the potential easing of compliance obligations.

**Achieved:** LAPFF met with Burberry and Kering on these issues for the second time. The meeting with Burberry covered the company's double materiality assessment, due diligence processes, and supply chain transparency efforts in the context of evolving regulatory requirements such as CSRD and CSDDD. Burberry provided updates on its worker engagement initiatives, ethical trading compliance measures, and partnerships with NGOs and the International Organization for Migration (IOM) to support oversight. Despite regulatory uncertainty with the EU Omnibus Plan, Burberry appeared committed to progressing compliance efforts, refining governance structures, and taking what it described as "no regrets actions" to enhance data robustness and due diligence.

In a meeting with Kering, LAPFF discussed the company's first Corporate Sustainability Reporting Directive (CSRD) compliant annual report. Kering outlined its first CSRD disclosures, identifying 79 material areas and highlighting robust supplier auditing, with 4,500 audits conducted—52% of which were unannounced—and the termination of 89 supplier relationships. LAPFF found that the depth of reporting had not improved greatly since it met the company in 2024, although there appeared to be work in progress on transparency and targets that may be reflected in the company's 2026 reporting. LAPFF encouraged clearer examples of remediation and deeper insight into sub-tier supply chains and whistleblowing effectiveness. Kering acknowledged areas for improvement

## ENGAGEMENT

and noted plans to enhance transparency, audit consistency, and stakeholder communication

**In Progress:** LAPFF has a call scheduled with LVMH Moët Hennessy Louis Vuitton in April. LAPFF has not received a response from Moncler or Richemont at this time but will follow up with further requests to attempt to meet in Q2. The Forum has not had a response from Hermès International on request for engagement to date and is considering next steps.

## GOVERNANCE

### Vistry

**Objective:** LAPFF believes UK board structures should align with the principles of the UK Corporate Governance Code. This includes ensuring a balanced mix of executive and non-executive directors with diverse experience who can act independently and hold management accountable. A careful balance in the composition of the board is crucial, as boards with an overrepresentation of executives may dilute the influence of independent directors. LAPFF also supports the separation of chair and chief executive. LAPFF considers the roles distinct role and if combined can lead to concentration of power within the board. LAPFF emphasises the importance of succession planning and developing a diverse executive pipeline to maintain an effective and accountable board composition.

**Achieved:** LAPFF held a follow-up meeting with Vistry Group to revisit governance concerns initially raised during a September 2024 discussion on decarbonisation and the ongoing CMA investigation. This meeting primarily focused on the company's dual CEO and Chair role, held by Greg Fitzgerald since 2024.

LAPFF met with Rob Woodward, Senior Independent Director, to better understand the rationale behind the leadership model and its impact on independent oversight. While Vistry defended the structure, pointing to shareholder

support and internal governance processes, LAPFF expressed concerns about power concentration, the independence of non-executive directors, and long-term governance stability. Currently, Vistry has no set timeline for any changes to the dual role. The discussion also addressed cultural and leadership challenges following recent restructuring. LAPFF acknowledged that a significant portion of Vistry's shareholders are based in the US, where the dual CEO and Chair role is more common. However, the Forum emphasised that this structure does not align with best practices in the UK, where Vistry is headquartered.

**In Progress:** Although Vistry asserts that its governance model is functioning, LAPFF will continue to monitor and raise concerns about potential long-term risks. LAPFF is committed to maintaining an ongoing dialogue with the company, and Vistry has welcomed further discussion as the governance structure evolves to ensure a balanced and accountable leadership framework.

### London Stock Exchange Group

**Objective:** As has been noted in previous quarterly reports, LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, Aston Martin Lagonda, NMC Health, Finabl and Quindell, the former of which has lost >90% of its value since listing, the other three being 100% losses.

As noted before, the LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry Taskforce, which is just that, it is a coalition of "fee earning" interests rather than shareholder interests, including issues of investor protection. It is chaired by the CEO of the London Stock Exchange.

**Achieved:** A meeting with the Senior Executive Director of the LSEG, Cressida Hogg was held in January. An outcome has been that a meeting is being arranged with the CMIT Chair and members of the CMIT.

One positive outcome from correspondence with the CMIT chair is that

there is a shared understanding regarding the fundamental challenge facing the London Stock Exchange. Some work has already been done on that by the LAPFF Executive Working Group.

**In Progress:** A meeting with the CMIT is pending.

## COLLABORATIVE ENGAGEMENTS

### Rathbones 'Votes Against Slavery'

LAPFF signed onto Rathbones led initiative "Votes Against Slavery", a collaborative investor-led initiative launched in 2020. The campaign aims to combat modern slavery by ensuring companies comply with Section 54 of the UK Modern Slavery Act 2015. This legislation requires businesses above a certain size operating in the UK to report on the steps they are taking to ensure modern slavery and human trafficking are not occurring within their operations or supply chains. LAPFF signed onto a selection of companies in the FTSE 350 index. The Forum has noted good progress by the initiative over the past few years and will monitor it as the year goes on, joining engagement calls as appropriate.

### Nike Inc

LAPFF signed onto a collaborative investor letter raising concerns regarding human rights risks in Nike's supply chain, outlining expectations on heightened human rights due diligence, the effectiveness of binding agreements, especially in high-risk contexts, and worker concerns around wage theft. LAPFF has previously attempted to engage Nike on its approach to human rights, looking at labour rights issues in both Myanmar and the Xinjiang Uyghur Autonomous Region (XUAR) but has not received a response from the company. LAPFF also recommended members support two shareholder resolutions at the company AGM last September relating to supply chain management and social responsibility.

ENGAGEMENT

PRI Vale and Anglo American

**Objective:** LAPFF continues to lead and participate in the PRI Advance human rights collaborative investor group initiatives; leading the Vale investor group and participating in the Anglo American group.

**Achieved:** In Q1, LAPFF participated in the first quarterly PRI Advance investor group meeting of 2025, for both Vale and Anglo American initiatives.

Vale

LAPFF led the first quarterly PRI Advance Vale investor group catch-up of 2025, co-leading the initiative alongside Regia (which formed from a merger including JPG Asset Management who LAPFF has worked with previously). The meeting focused on developing the engagement

strategy for the year, continuing to emphasise employee and community feedback, grievance mechanisms, and governance, particularly around human rights. With Vale’s second Customer Perceptions Survey due to be published in Q1, the investor group plans to request access to the survey results and schedule a related meeting with the company.

Anglo American

Anglo American is implementing a business ‘simplification’ strategy, following its 2023 asset review. This strategy includes significant corporate restructuring, such as demergers and divestments. A key concern raised by the PRI investor group was the human rights due diligence associated with this simplification. The group requested a meeting with the company, but Anglo American has opted to respond only in

writing. The PRI group has submitted their questions and is awaiting the company’s response to determine next steps.

The broader engagement with Anglo American focuses on enhancing human rights governance, due diligence, community engagement, grievance mechanisms, employee health and safety, and environmental management.

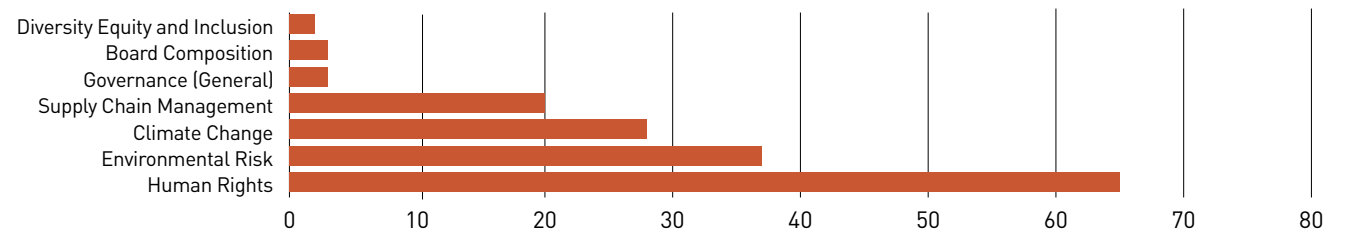
**In Progress:** LAPFF remains actively involved in the PRI Advance initiatives, with a continued focus on human rights issues within the mining sector. In 2025, the PRI Advance groups are aiming to facilitate engagement meetings with the companies, Vale and Anglo American. Additionally, LAPFF will maintain its independent engagement with these companies to strengthen relationships and foster ongoing dialogue on human rights and sustainability concerns within their operations.

COMPANY ENGAGEMENT TABLE

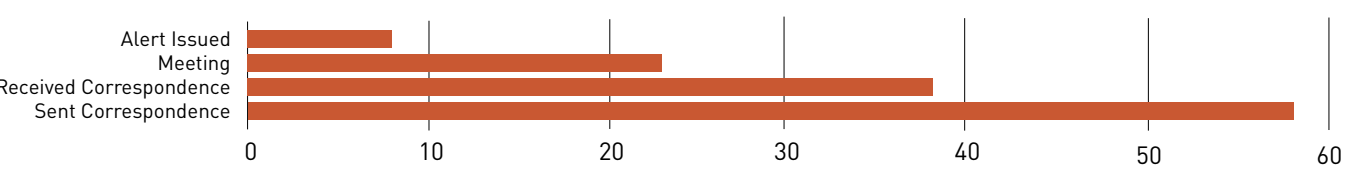
Company/Index	Activity	Topic	Outcome
FORTESCUE METALS GROUP	Meeting	Environmental Risk	Dialogue
BARRATT REDROW PLC	Meeting	Environmental Risk	Dialogue
PERSIMMON PLC	Meeting	Environmental Risk	Satisfactory Response
RIO TINTO GROUP (AUS)	Meeting	Climate Change	No Improvement
NESTLE SA	Meeting	Board Composition	Moderate Improvement
IBERDROLA SA	Meeting	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Dialogue
NEXT PLC	Meeting	Supply Chain Management	Small Improvement
TEXAS INSTRUMENTS INCORPORATED	Meeting	Human Rights	Dialogue
LONDON STOCK EXCHANGE GROUP PLC	Meeting	Governance (General)	Dialogue
BURBERRY GROUP PLC	Meeting	Human Rights	Moderate Improvement
KERING SA	Meeting	Human Rights	Small Improvement
THE PROCTER & GAMBLE COMPANY	Meeting	Environmental Risk	Small Improvement
AVIVA PLC	Meeting	Human Rights	Change in Process
CURRYS PLC	Meeting	Employment Standards	Small Improvement
NATWEST GROUP PLC	Meeting	Climate Change	Dialogue
VISTRY GROUP PLC	Meeting	Board Composition	No Improvement
SSP GROUP PLC	Meeting	Diversity Equity and Inclusion	Small Improvement
J SAINSBURY PLC	Meeting	Employment Standards	Dialogue
LEGAL & GENERAL GROUP PLC	Meeting	Diversity Equity and Inclusion	Dialogue
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Meeting	Human Rights	Dialogue
BANK LEUMI LE-ISRAEL BM	Meeting	Human Rights	No Improvement
JPMORGAN CHASE & CO.	Meeting	Human Rights	No Improvement

# ENGAGEMENT DATA

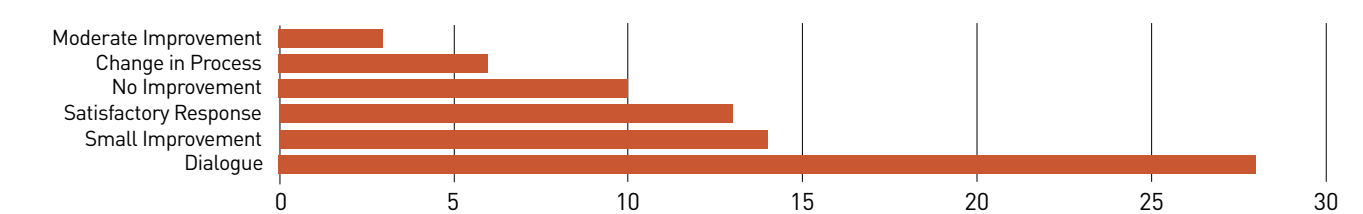
## ENGAGEMENT TOPICS



## ACTIVITY

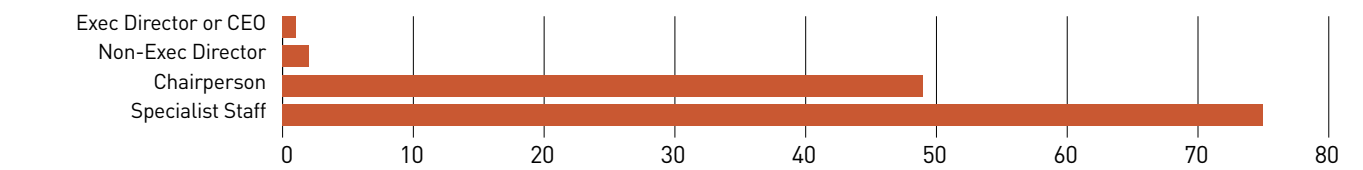


## MEETING ENGAGEMENT OUTCOMES\*

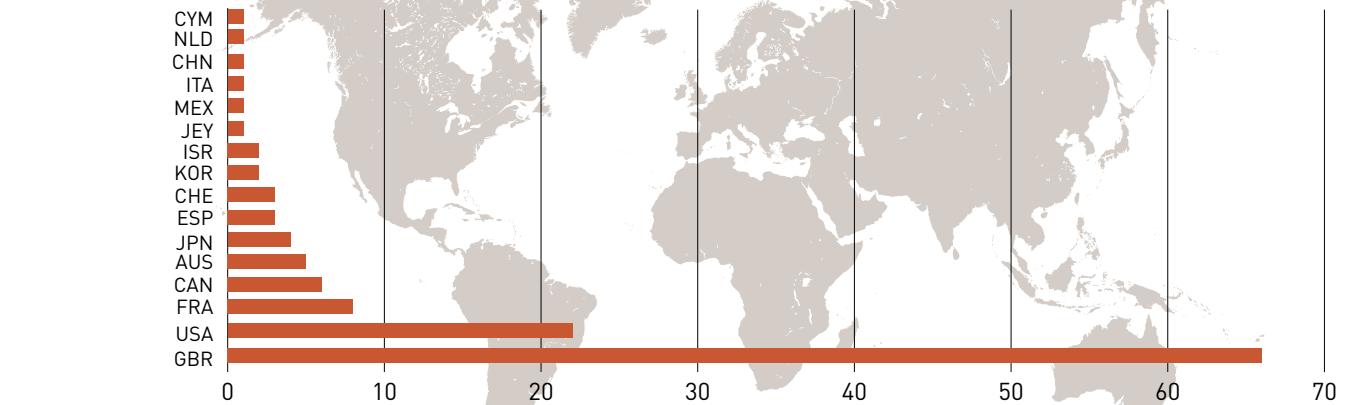


\*Outcomes data is taken from 'Meetings', 'AGMs' and 'Received Correspondence' only

## POSITION ENGAGED

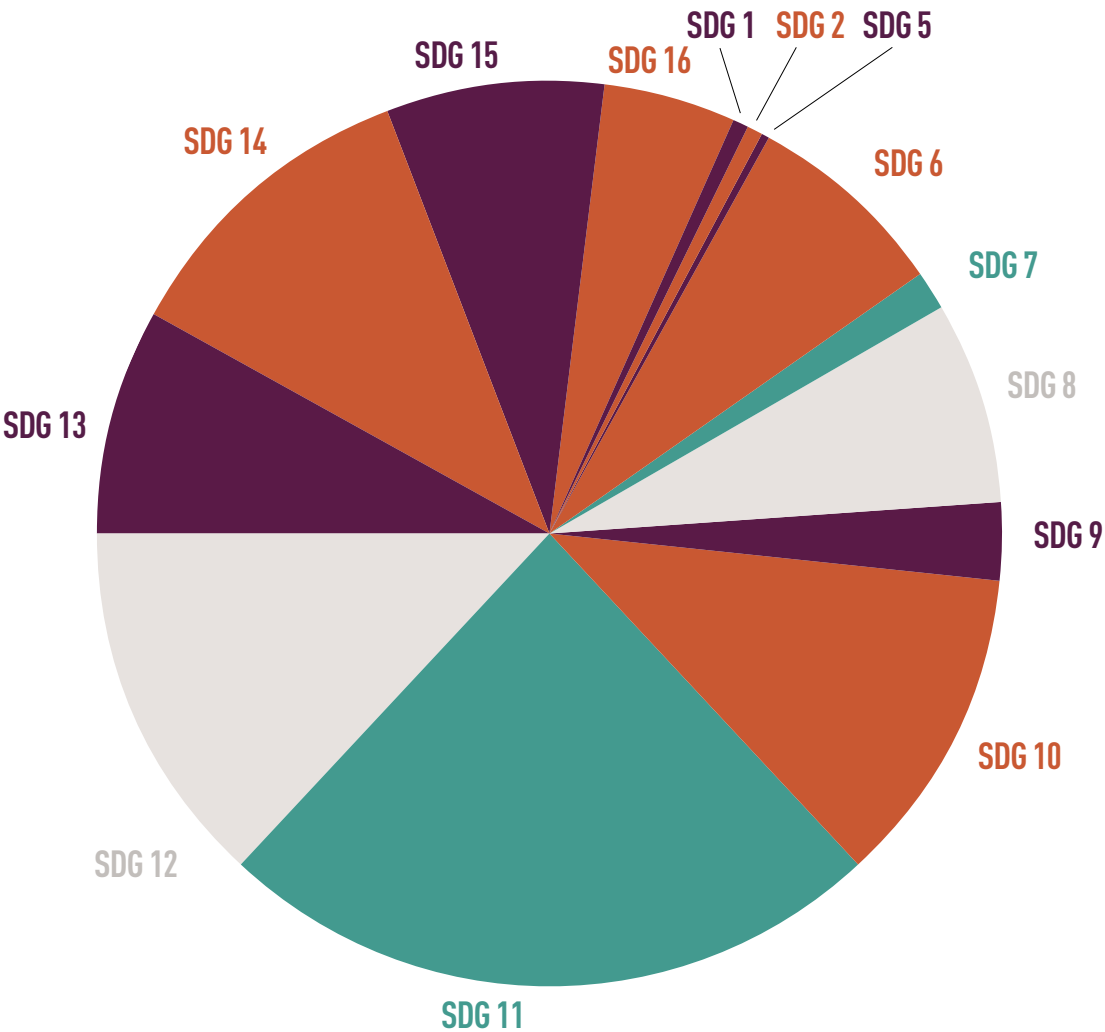


## COMPANY DOMICILES





ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	0
SDG 4: Quality Education	0
SDG 5: Gender Equality	1
SDG 6: Clean Water and Sanitation	19
SDG 7: Affordable and Clean Energy	3
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	7
SDG 10: Reduced Inequalities	30
SDG 11: Sustainable Cities and Communities	62
SDG 12: Responsible Production and Consumption	34
SDG 13: Climate Action	21
SDG 14: Life Below Water	29
SDG 15: Life on Land	20
SDG 16: Peace, Justice, and Strong Institutions	12
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

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Avon Pension Fund	Hackney Pension Fund	Shropshire Pension Fund
Barking and Dagenham Pension Fund	Hammersmith and Fulham Pension Fund	Somerset Pension Fund
Barnet Pension Fund	Haringey Pension Fund	South Yorkshire Pension Authority
Bedfordshire Pension Fund	Harrow Pension Fund	Southwark Pension Fund
Berkshire Pension Fund	Havering Pension Fund	Staffordshire Pension Fund
Bexley (London Borough of)	Hertfordshire Pension Fund	Strathclyde Pension Fund
Brent (London Borough of)	Hillingdon Pension Fund	Suffolk Pension Fund
Cambridgeshire Pension Fund	Hounslow Pension Fund	Surrey Pension Fund
Camden Pension Fund	Isle of Wight Pension Fund	Sutton Pension Fund
Cardiff & Glamorgan Pension Fund	Islington Pension Fund	Swansea Pension Fund
Cheshire Pension Fund	Kensington and Chelsea (Royal Borough of)	Teesside Pension Fund
City of London Corporation Pension Fund	Kent Pension Fund	Tower Hamlets Pension Fund
Clwyd Pension Fund (Flintshire CC)	Kingston upon Thames Pension Fund	Tyne and Wear Pension Fund
Cornwall Pension Fund	Lambeth Pension Fund	Waltham Forest Pension Fund
Croydon Pension Fund	Lancashire County Pension Fund	Wandsworth Borough Council Pension Fund
Cumbria Pension Fund	Leicestershire Pension Fund	Warwickshire Pension Fund
Derbyshire Pension Fund	Lewisham Pension Fund	West Midlands Pension Fund
Devon Pension Fund	Lincolnshire Pension Fund	West Yorkshire Pension Fund
Dorset Pension Fund	London Pension Fund Authority	Westminster Pension Fund
Durham Pension Fund	Lothian Pension Fund	Wiltshire Pension Fund
Dyfed Pension Fund	Merseyside Pension Fund	Worcestershire Pension Fund
Ealing Pension Fund	Merton Pension Fund	
East Riding Pension Fund	Newham Pension Fund	<b>Pool Company Members</b>
East Sussex Pension Fund	Norfolk Pension Fund	ACCESS Pool
Enfield Pension Fund	North East Scotland Pension Fund	Border to Coast Pensions Partnership
Environment Agency Pension Fund	North Yorkshire Pension Fund	LGPS Central
Essex Pension Fund	Northamptonshire Pension Fund	Local Pensions Partnership
Falkirk Pension Fund	Nottinghamshire Pension Fund	London CIV
Gloucestershire Pension Fund	Oxfordshire Pension Fund	Northern LGPS
Greater Gwent Pension Fund	Powys Pension Fund	Wales Pension Partnership
Greater Manchester Pension Fund	Redbridge Pension Fund	
Greenwich Pension Fund	Rhondda Cynon Taf Pension Fund	
Gwynedd Pension Fund	Scottish Borders Pension Fund	

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Bath & North East Somerset Council	
MEETING:	Avon Pension Fund Committee Meeting
MEETING DATE:	27 <sup>th</sup> June 2025 <span style="border: 1px solid black; padding: 2px;">Item 12</span>
TITLE:	<b>PENSION FUND ADMINISTRATION Overview &amp; Summary Performance Report</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: Appendix 1 – KPI performance report	

## 1 THE ISSUE

The purpose of this report is to present the Fund's administration performance for the period up to and including 30<sup>th</sup> April 2025 vs key performance indicators (KPI's).

## 2 RECOMMENDATION

### The Committee:

Notes the service performance for the period ending 30<sup>th</sup> April 2025.

## 3 PERFORMANCE

Appendix 1 summarises service performance vs SLAs<sup>1</sup> to 30<sup>th</sup> April 2025.

## 4 Recruitment

The fund has successfully recruited 11 new officers joining the Operations and Business Change teams in the last month, 10 of which were in Administration. This leaves a further 4.5 vacant posts including 1 within Business Change team, recruitment is ongoing.

## 5 McCloud

Whilst there is still a lot of work to do for McCloud, the team are on track to complete the known McCloud cases before the 31<sup>st</sup> August. We have remediated more than 2/3<sup>rd</sup>s of the 360 pensioner cases identified and have also completed

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<sup>1</sup> service level agreements

the death cases, trivial commutations and certain types of transfers out (Non club and interfund's).

There are still some complex cases to work through including club transfers and divorce cases.

We still need to review and link members with multiple records to ensure that all potential qualifying records are considered for McCloud. This piece of work has been delayed due to problems with the Heywood solution, for which a potential fix was in the recent May 2025 release. A project will also need to be undertaken to confirm dates of LGPS membership from other Funds to ensure we are compliant with statutory guidance in identifying all qualifying McCloud service. This work will identify more members with an underpin that will then need to be worked through, but based on numbers to date, it is not believed that these will be of significance.

## **6 GMP**

The reconciliation project identified 4,740 specific cases where the scheme member was under state pension age (SPA) and where HMRC had identified a GMP figure, but APF member record indicated zero amount. Further data interrogation identified 1,329 members with more than one employment and where the GMP figure was already present on another record. These cases have been excluded from the exercise.

Of the remaining 3,411 cases; 1,262 relate to pension members in payment and 2,149 relate to current active or deferred members.

Officers are currently working to upload the data following completion of the annual year end pensions increase and CARE revaluation exercise.

The next stage of the project will focus on a review of members where a potential underpayment of pension has occurred due to an incorrect GMP figure being held on record. This stage is currently in the planning stage with other APF priority projects.

## **7 Pensions Administration System (PAS) & Pensions Dashboard including Integrated Service Provider (ISP)**

With the procurement now complete, APF have begun planning:

- The move to a hosted environment with their PAS provider in July.
- The implementation and connection to the dashboard by October. This includes access to data reports and setting of matching criteria for ISP. Engagement with AVC providers to ensure alignment to APF matching rules is underway.

## **8 Data Improvement plan**

A member tracing project to trace c6000 “gone away” members is underway prior to connection to the Pension Dashboard. Early results indicate a 50% hit

for new member addresses; these members will be written to for confirmation of new address.

## 9 BUDGET MONITORING

The budget outturn for the 2024-25 year was an underspend of £1.178m.

Service Plan Category	Status	Comment if significant under/over
Administration		Lower salary spend re. delayed restructure vs budget in Pension Ops (£0.67m). Also underspend on information systems vs budget for software budgeted for but not taken up (£0.28m).
Governance & Compliance		Not significantly under or over.
Pensions Board		Not significantly under or over.
<b>Total</b>		

Key:

	Significant underspend
	On budget (not significantly under or over)
	Significant overspend

## 10 RISK MANAGEMENT

The Avon Pension Fund Committee is the formal decision-making body for the Fund, including responsibility for adequate risk management. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place which is regularly monitored. It also monitors benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

## 11 EQUALITIES STATEMENT

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

## 12 CLIMATE

The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset

allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

### **13 OTHER OPTIONS CONSIDERED**

None.

### **14 CONSULTATION**

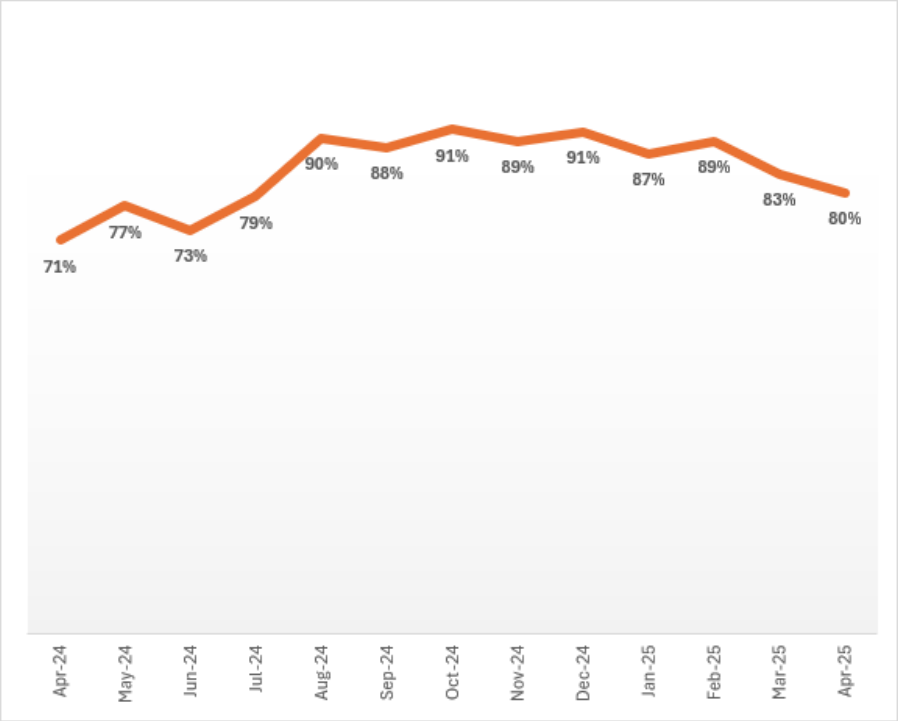
The report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Services, Assurance & Pensions, representing the administering authority.

<b>Contact person</b>	Claire Newbery Pensions Operations Manager 01225 395247
<b>Background papers</b>	Various statistical documents
<b>Please contact the report author if you need to access this report in an alternative format.</b>	

# SLA monthly performance average April 2024 to April 2025

Average SLA Performance

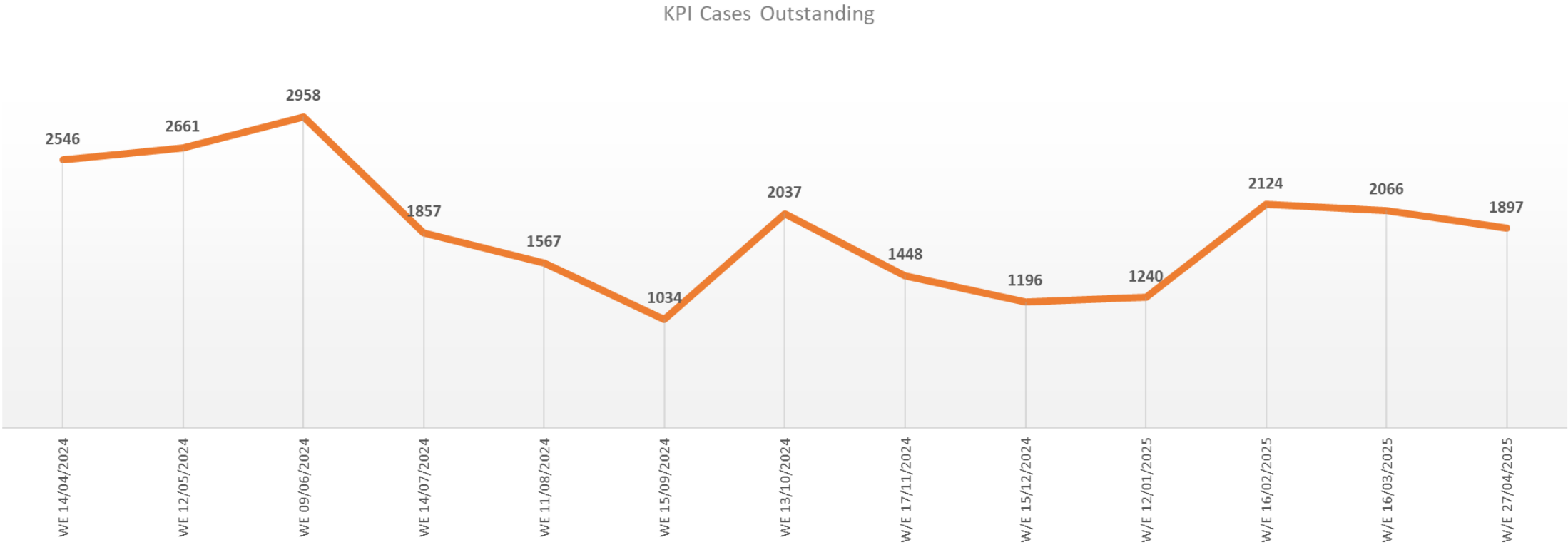
\*Based on weekly KPI data



KPI Category	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Death Notification	46%	31%	65%	65%	84%	79%	94%	94%	88%	100%	94%	64%	71%
Death - Act/Def/Pen - Payment	100%	69%	88%	93%	100%	73%	68%	94%	68%	82%	65%	60%	49%
Retirement (Active) - Quote	31%	30%	35%	52%	81%	85%	84%	60%	86%	46%	84%	78%	80%
Retirement (Active) - Actual	95%	77%	47%	78%	91%	94%	99%	97%	97%	94%	90%	83%	69%
Retirement (Deferred) - Quote	36%	57%	60%	91%	83%	89%	88%	98%	96%	74%	71%	57%	25%
Retirement (Deferred) - Actual	75%	66%	40%	68%	98%	96%	91%	99%	99%	99%	99%	77%	85%
Divorce - Quote	59%	66%	66%	83%	100%	100%	92%	100%	100%	100%	100%	100%	86%
Divorce - Actual	N/A	N/A	N/A	100%	100%	100%	100%	33%	0%	N/A	N/A	N/A	N/A
Refund - Quotes	22%	77%	69%	34%	88%	88%	75%	88%	66%	73%	93%	73%	53%
Refund - Actual	84%	85%	65%	78%	88%	91%	95%	85%	82%	67%	69%	61%	78%
Deferred Benefits	62%	67%	62%	80%	79%	61%	96%	77%	95%	93%	88%	86%	84%
Transfer In (Active) - Quote	3%	6%	13%	17%	74%	85%	92%	59%	57%	97%	94%	77%	60%
Transfer In (Active) - Actual	100%	33%	56%	27%	56%	67%	48%	51%	79%	0%	56%	50%	100%
Transfer Out (Active/Deferred) - Quote	16%	14%	4%	30%	26%	17%	42%	12%	47%	36%	3%	10%	30%
Transfer Out (Active/Deferred) - Actual	73%	100%	100%	94%	100%	100%	100%	100%	100%	100%	83%	100%	33%
Employer Estimate - Quote	65%	100%	36%	94%	78%	95%	94%	92%	81%	95%	100%	98%	92%
Member Estimate - Quote	66%	94%	50%	85%	93%	90%	87%	99%	100%	92%	98%	94%	96%
Joiner	100%	100%	100%	99%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Weighted Average	71%	77%	73%	79%	90%	88%	91%	89%	91%	87%	89%	83%	80%

# Total KPI's outstanding – Apr 2024 to Apr 2025

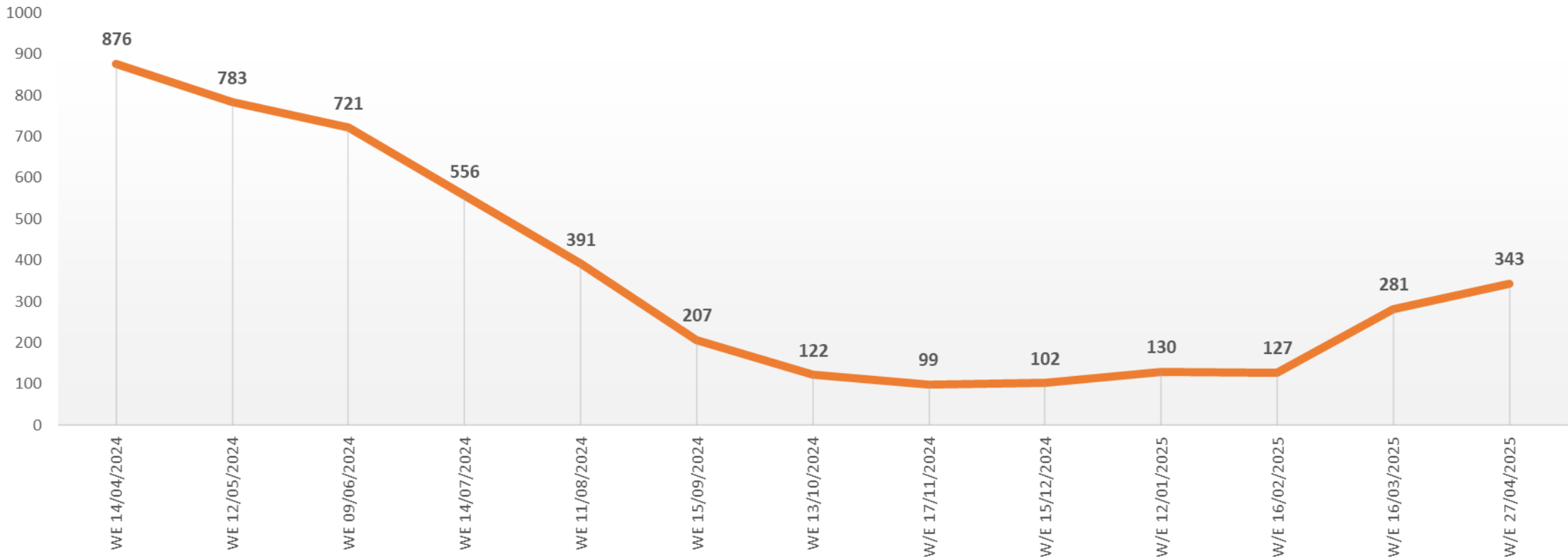
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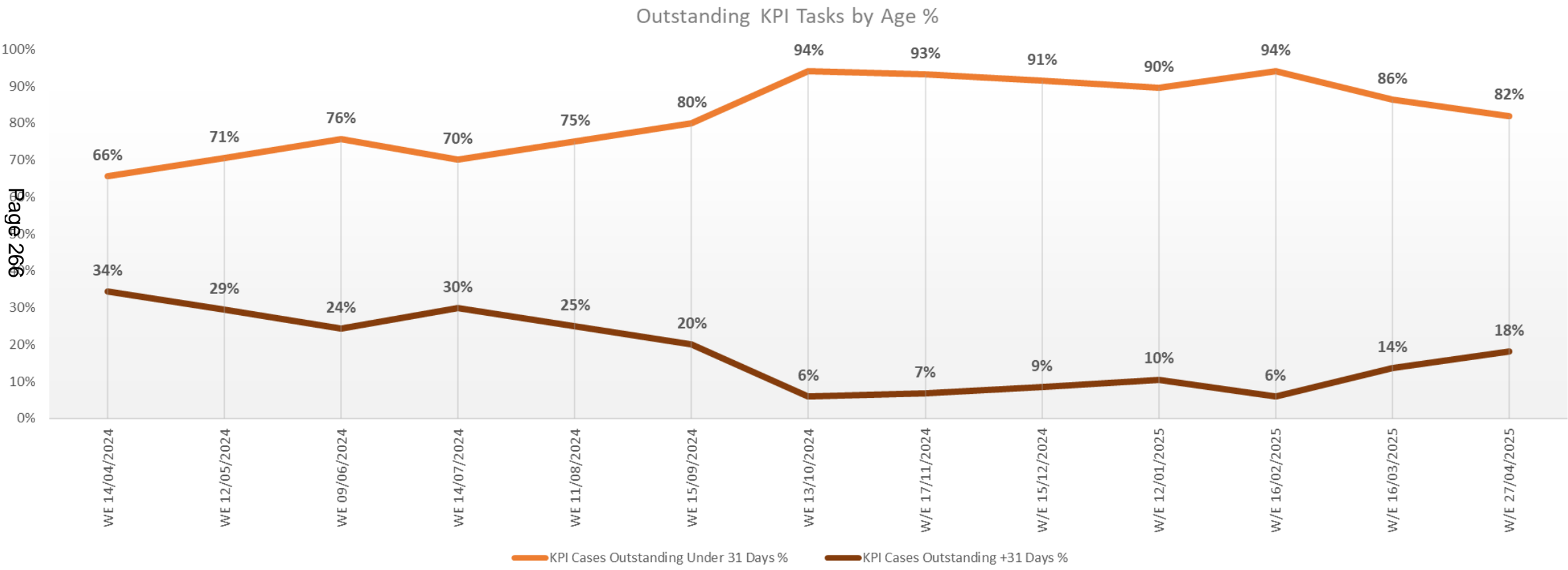
# KPI's outstanding over 31 days – Apr 2024 to Apr 2025

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KPI Cases Outstanding 31+ Days

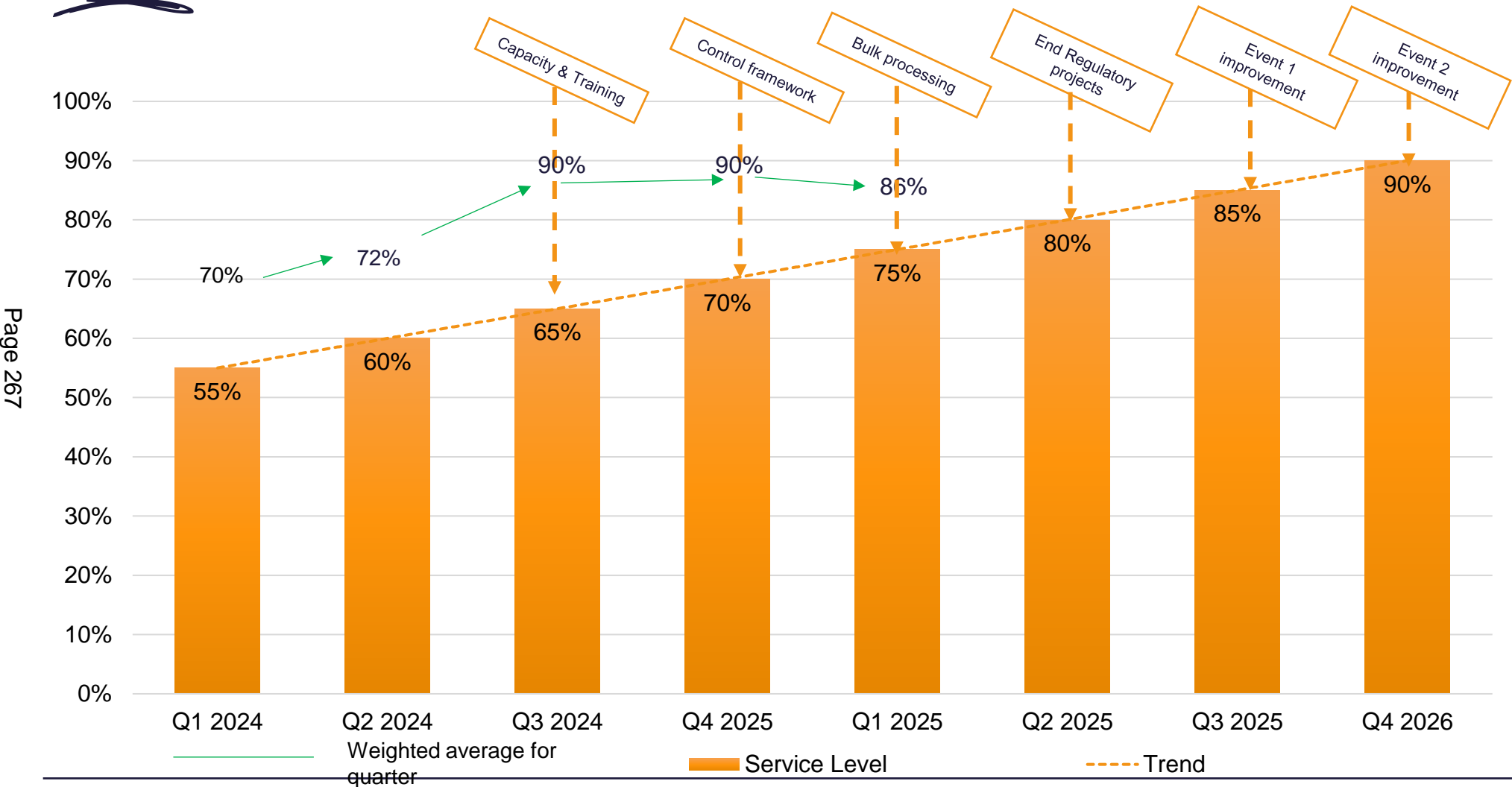


# KPI's case by age % - Apr 2024 to Apr 2025





# Service performance – plan v's actual – March 2025



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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 June 2025</b>
TITLE:	<b>Risk Management Process &amp; Risk Register</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b> <b>Appendix 1 – Risk Register</b> <b>Appendix 2 – Risk Framework &amp; High Level Summary</b> <b>Appendix 3 – Risk Management Policy</b>	

## **1. THE ISSUE**

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

## **2. RECOMMENDATION**

- 2.1. That the Committee notes the report.

## **3. FINANCIAL IMPLICATIONS**

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

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

- 4.1. The Fund has in place a documented risk management policy setting out the Fund's approach to risk, process for review and update of the risk register. It also sets out the roles and responsibilities of all those involved in the management of risk within the Fund including the role of the Pension Board and Pension Committee.
- 4.2. The policy has been reviewed and although no changes have been made it has been updated to reflect our current branding and accessibility template.
- 4.3. The risk framework introduced to assist risk owners to assess the risk and score is attached as appendix 2.
- 4.4. A high level matrix showing the distribution of risks by score is attached as appendix 2.
- 4.5. The complete risk register is attached as appendix 1.

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

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

## 5. QUARTERLY REVIEW OF RISK REGISTER

- 5.1. The quarterly review of the risk register has taken place and a couple of changes have been made to scores for this quarter. Some amendments have also been made to current impacting factors.
- 5.2. Risk NR19 concerning the structural reform to LGPS / Pooling has been amended to 'Move to new asset pool'. The score has been updated to reflect the likelihood increasing from likely to almost certain.
- 5.3. The outcome for the Fund is currently uncertain as negotiations continue. The preference is to move as a pool/sub group of pool to minimise costs and cause less disruption to BAU /Brunel. As a single Fund there will be more risk transition, more costly and less leverage.
- 5.4. The Government have set out a challenging timeline with a decision required by September 2025. This will cause significant increase in workload for officers involved in the project
- 5.5. Risk NR07 – Employer Responsibilities. Following the successful roll out of IConnect to all employers and more employer training taking place the likelihood has been reduced from likely to possible.
- 5.6. Our top 3 risks have been updated to reflect the change of score to the pooling risk:
  - NR06 – the loss of IT including cyber attack and loss of power. The fund is planning to move its admin system to a Heywood hosted solution and appropriate data protection and cyber assessments are being carried out.
  - NR01 – Poor service levels below agreed standards. The current factors impacting this risk are set out in the Pension Fund Administration report. As part of the Business Continuity Plan review a service level plan and crisis communication plan have also been agreed.

- NR19 – Move to new asset pool. Work and discussions are ongoing with pool and advisors. See full report in item 10 – Update on Pooling.

## **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 Pensions Committee.

## **8. OTHER OPTIONS CONSIDERED**

- 8.1. None

## **9. CONSULTATION**

- 9.1. The Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

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

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Number	Function	Risk	Impact	Pre Mitigants			Mitigating Actions / Control Framework	Current Impacting Factors	Post Mitigants			
				Impact	Likelihood	Score			Impact	Likelihood	Score	Trend
NR06	Governance	Loss of IT, including cyber attack & loss of power	Fund is unable to operate Members do not receive pension payment on time	Critical	Almost Certain	25	<ul style="list-style-type: none"> <li>- Business continuity plan reviewed and tested</li> <li>- B&amp;NES cyber security policy and system defence</li> <li>- Implementation of internal cyber audit findings</li> <li>- Heywood Business Continuity plan reviewed</li> </ul>	Move to hosted server with Heywood Implementation of General Code of Practice Requirements	Critical	Likely	20	→
NR01	Admin	Poor service levels below agreed standards	Service standards not met Poor member outcomes Breach of regulations	Critical	Almost Certain	25	<ul style="list-style-type: none"> <li>- KPIs and complaints monitored and acted on</li> <li>- Plan to digitise will improve self-serve and operations efficiency</li> <li>- Actions to improve staff recruitment and retention</li> <li>- Process improvements being identified and implemented</li> <li>- Review of Top 10 Process Controls</li> <li>- Plan to minimise effects of key people/resources</li> <li>- Business Continuity and Crisis Communications Plan in place</li> </ul>	Digital transformation project Recruitment, skills and experience of staff Current backlogs of work New legislation (McCloud) Implementation of controls following review Pensions Dashboard	High	Likely	16	→
NR19	Investments	Move to new asset pool	Uncertain outcome Challenging timeline Significant increase in workload Risk to staff retention in pool Potential impact to investment strategy Government driven change removes control for the Fund Increased costs due to transition of assets plus possible wind down of Brunel Ltd	High	Almost Certain	20	<ul style="list-style-type: none"> <li>- Work with pool to assess options to move as pool/sub group of pool</li> <li>- Advisors to assess options as pool and for APF individually so have analysis for decision</li> <li>- Prioritise work until Sept, when initial decision should be made by APF</li> <li>- Disruption within pool minimised as external managers in each portfolio manage the assets</li> </ul>	Full Government response not received so other requirements are unclear Project team set up in Brunel to lead strategy/discussions on pool basis Seeking strategic and legal advice regarding implications of dismantling Brunel pool	Medium	Almost certain	15	↓
NR05	Governance	Failure to manage personal data per regulations	Personal data corrupted or illegally shared Member detriment Fines and reputational damage	Critical	Almost Certain	25	<ul style="list-style-type: none"> <li>- One West is Data Protection Officer for Fund and advises on data protection matters</li> <li>- Record of processing and privacy notice set out how data is managed</li> <li>- Processes reviewed and updated following minor breaches</li> <li>- Regular officer training</li> <li>- Data sharing/transfer agreements and DPIAs implemented for all relevant projects</li> </ul>	Skills and experience of staff Electronically submitted data Process review & bulk processing New telephone System	High	Possible	12	→
NR12	Investments	Failure to achieve decarbonisation targets	Government climate policies not moving fast enough or sufficiently enforced Significant reputational and financial risks to value of investments	Critical	Almost Certain	25	<ul style="list-style-type: none"> <li>- Climate exposure assessed annually</li> <li>- climate risk analysis embedded into strategic decisions</li> <li>- Net Zero target of 2045</li> <li>- by 2030 will divest from high emission companies that are not aligning to NZ</li> <li>- targets to reduce emissions by 2025 and 2030</li> <li>- programme to engage with companies and policymakers</li> </ul>	Limited ability to control systemic risk Public policy is not driving agenda	Medium	Likely	12	→
NR10	Investments	Failure to earn investment returns as per Funding Strategy	Employer contributions need to rise	Critical	Likely	20	<ul style="list-style-type: none"> <li>- Diversified asset allocation</li> <li>- Professional and independent investment advice</li> <li>- Risk management strategy supports funding strategy</li> <li>- FRMG &amp; Investment Panel monitor performance and risk</li> <li>- Periodic strategic investment review</li> </ul>	Heightened geo political risk Lower global growth and higher inflation/interest rates	High	Possible	12	→
NR11	Investments	Brunel fails to deliver client objectives regarding service delivery	Affects Fund's ability to achieve investment objectives	Critical	Possible	15	<ul style="list-style-type: none"> <li>- Brunel governance framework for strategic and operational decision making</li> <li>- Robust performance reporting</li> <li>- Avon-Brunel working group (internal)</li> </ul>	Future of pooling is strategic challenge for pool as views differ	High	Possible	12	→
NR07	Employers Data	Employers do not comply with regulatory responsibilities, LGPS regulations or the Funding Strategy Statement	Poor member data Fines and greater scrutiny by TPR Employer liabilities incorrect if data is incorrect Non-compliance with the FSS and funding policies Reputational risk of litigation	Critical	Likely	20	<ul style="list-style-type: none"> <li>- Management of employers set out in admin strategy/MOU</li> <li>- Employer KPIs recorded and monitored vs TPR standards</li> <li>- Employer training</li> <li>- Reconciliation of Iconnect and Accounts in regards to contributions and data provided</li> <li>- Specialist legal and actuarial advice needed to resolve employer issues</li> <li>- Clear policies in FSS set out process and employer obligations</li> </ul>	TPR General Code of Practice Currently drafting new administration strategy and data improvement plan	Medium	Possible	9	↑
NR04	Governance	Governance of Fund not in accordance with APF policies Controls not adequate	Member detriment Additional costs for Fund Fines for non-compliance Disciplinary issues and reputational risk	High	Almost Certain	20	<ul style="list-style-type: none"> <li>- Internal Audit plan in place</li> <li>- Fund policies regularly reviewed</li> <li>- Media enquiries dealt with per B&amp;NES policy</li> <li>- Contracts in place with legal advisors and PR professionals</li> <li>- Media monitoring undertaken</li> <li>- Review of TPR GCOP and SAB Good Governance requirements</li> </ul>	SAB Good Governance Review TPR General Code of Practice Review of internal controls	Medium	Possible	9	→

NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers	High	Likely	16	<ul style="list-style-type: none"> <li>- Regulatory changes monitored via LGA and professional advisors</li> <li>- Officers attend SWAPOG/Tech Group</li> <li>- Regulatory projects included in service plans</li> <li>- Officers respond to consultations</li> <li>- Software providers are more responsive to regulatory change</li> </ul>	McCloud judgement Pensions Dashboard Exit payment cap Access and fairness consultation Future of pooling consultation	Medium	Possible	9	→
NR08	Employers Funding	Employers unable to meet financial obligations to Fund	Financial cost to other employers in the Fund	High	Likely	16	<ul style="list-style-type: none"> <li>- Policies on employer financial stability set out in FSS and ISS</li> <li>- Strong covenant management and information gathering processes</li> <li>- Quarterly review and mitigating action</li> </ul>	Challenging economic circumstances Valuation in progress	Medium	Possible	9	→
NR09	Investments	Operational risks of investment managers, custodian and other investment suppliers	Loss of assets Inability to trade is assets inaccessible	High	Possible	12	<ul style="list-style-type: none"> <li>- Due diligence and audits of service providers, managers</li> <li>- Controls embedded in investment management agreements</li> <li>- Diversification across different asset managers</li> <li>- Quarterly service &amp; risk review with Brunel and suppliers</li> </ul>	Data management and cyber risk	Medium	Possible	9	→
NR16	Finance	Cashflow profile is maturing	Not enough cash in bank to meet pension payments	Critical	Almost Certain	25	<ul style="list-style-type: none"> <li>- Monthly monitoring &amp; forecast of cashflow</li> <li>- Prudent cash buffer</li> <li>- Tradeable assets can be swiftly sold</li> </ul>	Increased the cash balance that can be held in money market funds	High	Unlikely	8	→
NR14	Investments	An increase in leverage materially reduces capital value leading to an unplanned and significant deviation in strategic asset allocation	LDI strategy may have to be unwound if insufficient collateral Inability to raise hedge ratio	High	Likely	16	<ul style="list-style-type: none"> <li>- Maintain collateral at prudent level with materia buffer vs risks</li> <li>- Set hedge ratio at level that can be adequately collateralised</li> <li>- Auto pause when LDI hedge ratio hits 40%</li> <li>- Offsetting nature of synthetic equity and equity protection strategies dampens leverage requirements</li> </ul>	UK gilt market environment. Currently have high collateral buffer	High	Unlikely	8	→
NR03	Governance	Pension Committee cannot operate effectively	Delays in decision making for the Fund Failure to meet MIFID & TPR regulations	Medium	Almost Certain	15	<ul style="list-style-type: none"> <li>- Representation of PC set out in Fund's representation policy</li> <li>- Knowledge requirements in Training policy</li> <li>- Compliance vs regulations defined in Compliance Statement</li> <li>- Decisions responsibilities set out in decision matrix</li> </ul>	Low engagement with training modules	Medium	Unlikely	6	→
NR13	Investments	Treasury investments	Loss of capital or income on cash Delayed return of principle or investment income	Medium	Possible	9	<ul style="list-style-type: none"> <li>- Adopt B&amp;NES Treasury management policy</li> <li>- Due diligence on banks</li> <li>- Diversification across multiple suppliers</li> <li>- Consultation with treasury management advisors</li> </ul>	Increased number of money market funds to invest in	Medium	Unlikely	6	→
NR17	Finance	Late / incorrect contributions from employers	Cashflow shortfalls Employer funding Deficits / Default TPR breach	Medium	Possible	9	<ul style="list-style-type: none"> <li>- Monthly reconciliations of contributions</li> <li>- Management reviews and action</li> <li>- Mercer funding monitor tool</li> <li>- Larger employers pre pay contributions</li> </ul>	Employer budgets stretched by insufficient funding	Low	Possible	6	→



## CURRENT RISKS - SUMMARY

		LIKELIHOOD				
		Rare	Unlikely	Possible	Likely	Almost Certain
IMPACT	Critical	0	0	0	1	0
	High	0	2	3	1	0
	Medium	0	2	5	1	1
	Low	0	0	1	0	0
	Negligible	0	0	0	0	0

## RISK FRAMEWORK

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

## ASSESSMENT OF LIKELIHOOD

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

## ASSESSMENT OF IMPACT

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

## **Avon Pension Fund**

### **Risk Management Policy**

The Avon Pension Fund (APF) Committee must ensure robust risk management is in place to enable compliance with regulations and manage risks. The Investment Panel strengthens risk management regarding investment issues.

The APF has a fiduciary duty to manage risk, to protect its employees, members and assets. The APF acknowledges that risk is inherent in pension management, and that robust risk control involves management of complex trade-offs. Seeking to eliminate risk typically causes indirect problems such as cost escalation or the emergence of new risks.

The APF will adopt best practice risk management to support a structured approach to managing risks, embedded in operational management and governance. The over-arching objective is to embed risk management into the processes and culture of the APF to help it achieve its objectives and enhance service quality.

### **Objectives**

- Integrate risk management into day-to-day activities, for all employees and partners.
- Encourage a culture of openness which surfaces risks so that they can be managed.
- Maintain a robust framework for identification, assessment and management of risk, and its reporting and recording.
- Ensure consistent application of APF's risk management framework across all activities, including projects and partnerships.

### **Key mechanisms for delivery**

The APF has identified key mechanisms through which risk management will be delivered:

- Maintain clear roles and responsibilities in the APF.
- Create a culture of cross-team working to openly communicate and share.

- Ensure risk management is explicitly considered in all policy decisions, strategies, and projects, e.g. committee reports, strategy documents, delegated decisions.
- Maintain a single APF risk register assessing each risk for likelihood and impact with mitigating controls.
- Review each risk at least quarterly.
- Ensure there is appropriate leadership and risk monitoring of key projects.

The risk register reflects where the relevant risk is addressed and how it is reported to the Pension Committee and Pension Board.

## Process

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

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

## **Roles and responsibilities**

### **Officers**

- Risk owners are responsible for day-to-day management of risks in their areas, ensuring the agreed control framework is in place and operating effectively.
- Each risk is reviewed quarterly or when facts change the impact/probability of the risk. Any changes should be agreed through the quarterly Managers' Meeting.
- The Head of Pensions is responsible for overseeing the work of risk owners and ultimately agreeing any changes to the risk register.
- The detailed work, e.g. development of the risk framework, ensuring team leaders identify and manage risks, is delegated to the Governance and Risk Advisor.
- The Governance and Risk Advisor also ensures the risk register is accurately updated, with reports prepared for Pensions Committee and Pension Board.

### **Committees and Pension Board**

- The Pension Committee is responsible for ensuring risks are effectively managed. It reviews the risk register at each quarterly meeting.
- The Investment Panel focuses on investment risks and makes recommendations to the Pension Committee and risk owners.
- The Pension Board has an independent oversight role, to ensure the overall risk framework is robust and compliant with regulations.

Last reviewed June 2025

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Bath & North East Somerset Council	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 June 2025</b>
TITLE:	<b>GOVERNANCE UPDATE</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p>List of attachments to this report:</p> <p>Appendix 1 – TPR General Code of Practice (GCOP) Assessment Summary</p> <p>Appendix 1a &amp; b – TPR GCOP APF Action Plan</p> <p>Appendix 2 – Committee Workplan</p> <p>Appendix 3 – Training Programme</p> <p>Appendix 4 – Service Plan Monitoring</p>	

## 1 THE ISSUE

- 1.1 Attached to this report is:
- 1.2 The workplan for the Committee is attached as Appendix 2 and the provisional training programme for 2025 is included as Appendix 3.
- 1.3 The quarterly monitoring report for the Fund's service plan is attached as Appendix 4.
- 1.4 A summary of the Fund's view of compliance with The Pension Regulator's (TPR) General Code of Practice and action plan to reach full compliance is attached as appendix 1, 1a & 1b.

## 2 RECOMMENDATION

- 2.1 That the committee:
  - 2.1.1 Notes TPR GCOP action plan
  - 2.1.2 Notes the Committee workplan & training programme
  - 2.1.3 Notes the service plan monitoring report

## 3 FINANCIAL IMPLICATIONS

- 3.1 There are no financial considerations to consider.

## **4 THE REPORT**

### **4.1 Committee Workplan**

- a) The workplan for the Committee for the year ahead is attached as Appendix 2. The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

### **4.2 Training Programme**

The provisional training programme for 2025 is also included as Appendix 1, so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

- 4.2.1 The schedule for completion of the Hymans Learning Academy modules is contained within the training programme (Appendix 3). Please note the schedule has now been refreshed and members will be contacted if they are due to complete the modules again.

### **4.3 Hymans LGPS Online Learning Academy (LOLA)**

- 4.3.1 In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review & The Pension Regulator's General Code of Practice the Fund has introduced Hymans LGPS Online Learning Academy (LOLA).
- 4.3.2 Committee members have agreed to complete all training modules within twelve months of becoming a Committee member and repeat the completion of the modules every three years.
- 4.3.3 The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework.
- 4.3.4 The modules are set out below:
  - a. Committee Role & Pensions Legislation
  - b. Pensions Governance
  - c. Pensions Administration
  - d. Pensions Accounting and Audit Standards
  - e. Procurement & relationship Management
  - f. Investment Performance & Risk Management
  - g. Financial Markets & Products
  - h. Actuarial Methods, Standards & Practices
  - i. Current Issues

### **4.4 Service Plan Monitoring**

- 4.4.1 Appendix 4 sets out progress against the Fund's service plan including the administration change programme.



#### 4.5 TPR General Code of Practice (GCOP)

- 4.5.1 In March 2024 The Pensions Regulator (TPR) combined various codes of practice into a single General Code of Practice which is applicable to most public and private occupational pension schemes, including the LGPS.
- 4.5.2 The purpose of this report is to summarise the Fund's view of compliance with the Code. There are a number of criteria which Funds must comply with in order to satisfy the requirements of the various sections of the Code. Appendix 1 sets out the requirements in more detail and records the findings from the assessment by Fund officers across all relevant subject areas.
- 4.5.3 Conducting the assessment against the requirements has allowed the Fund to create an action plan (attached as appendix 1a), detailing owners and timescales with the aim of reaching compliance with the code over the next year.
- 4.5.4 The appendices referred to in the action plan can be found in appendix 1b. This provides further detail of the GCOP requirement. The full GCOP can be found by visiting TPR website <https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice>
- 4.5.5 In summary the Fund was compliant with app 70% of the requirements. The other 30% are partially compliant. Most actions are minor or are areas where significant work is already being undertaken. Eg – implementation of changes to internal controls, review and testing of the Business Continuity Plan. The key areas of the work will be in the following areas:
- Knowledge & Skills of Committee & Pension Board members
  - Internal Controls
  - Communications & disclosure of information to members
  - Review of record keeping and data improvement plan
  - Review of breaches policy
  - Business Continuity Plan
  - Monitoring Advisors & contracts
- 4.5.6 Progress against the action plan will be shared with Committee and Pension Board on a quarterly basis.

#### 5 FUTURE MEETING DATES

- 5.1 Pension Committee meetings as currently scheduled:

2025	2026
28 March	27 March
27 June	26 June
26 September	25 September
12 December	11 December

- 5.2 The provisional dates for the Investment panel meetings are:

2025
26 February
4 June
3 September
26 November

## **6 RISK MANAGEMENT**

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

## **7 EQUALITIES STATEMENT**

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

## **8 CLIMATE CHANGE**

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

## **9 OTHER OPTIONS CONSIDERED**

9.1 None.

## **10 CONSULTATION**

10.1 The Director of Financial Services, Assurance & Pensions has had the opportunity to input to this report and has cleared it for publication.

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

Avon Pension Fund



General Code of Practice -  
Assessment summary

07 May 2024

Introduction

In March 2024 The Pensions Regulator combined various codes of practice into a single General Code of Practice which is applicable to most public and private occupational pension schemes, including the LGPS.

There are elements of the code which do not apply to the LGPS and not all requirements carry the same weight. Administering Authorities of LGPS funds must however comply with the sections relevant to them.

The Code makes reference to, and places significant responsibility on, the "governing body" of a pension scheme. In the words of The Regulator, the governing body is "in a public service pension scheme, the scheme manager".

Furthermore "Each public service pension scheme should determine who fulfils the role of scheme manager according to their regulations and local arrangements." It is our understanding that for the LGPS this refers to the administering authority or any other body or individual carrying out a delegated function on behalf of the administering authority. For most, but not all, LGPS funds this will be a pension committee or sub-committee. A local pension board is not a governing body.

Purpose

The purpose of this report is to summarise the Fund's officers view of compliance with the Code. There are a number of criteria which Funds must comply with in order to satisfy the requirements of the various sections of the Code. This report records the findings from the assessment by Fund officers across all relevant subject areas.

Conducting an assessment against the requirements allows the Fund to create an action plan, targeting the areas considered most risky. It will also help uncover requirements which are partially met within the Code, but where some further action is required to fully meet requirements.

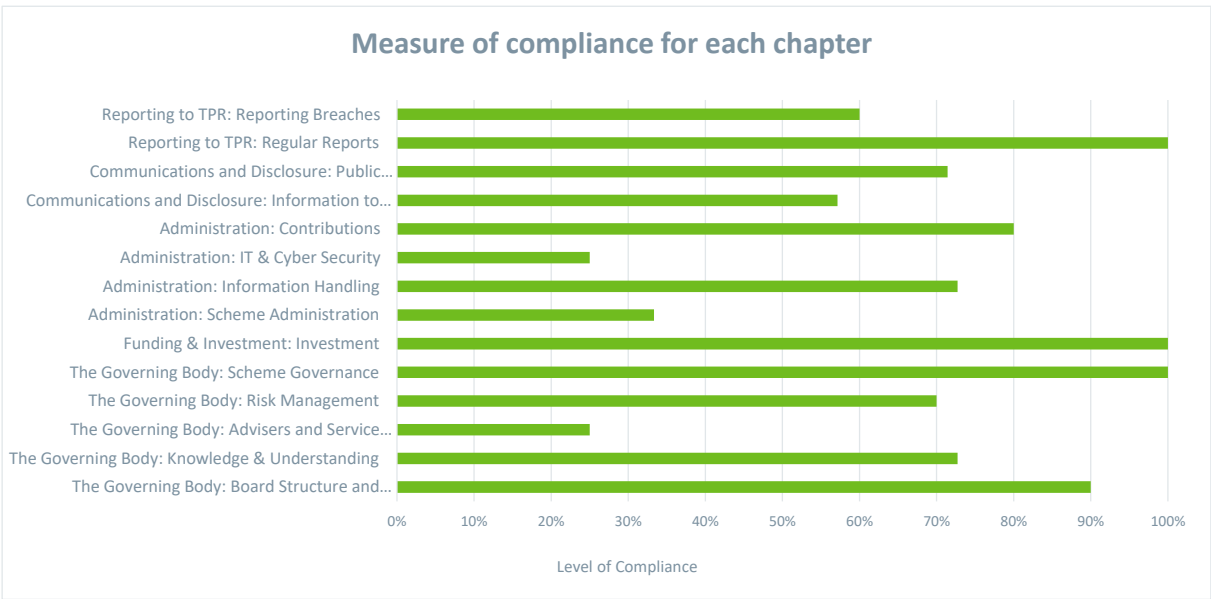
Results

Officers have conducted an assessment of the Fund's current compliance against the Code. For this assessment the Code has been broken down into 15 distinct sub-sets which are referred to as chapters. Note, there are no requirements for LGPS funds in the "Value for Scheme Members" chapter.

Within each of these chapters, there are a number of different modules each with their own set of requirements. Each requirement has been assessed and a corresponding risk rating applied. These requirements fall into one of three categories -

- **Regulatory Requirement;**
- **TPR Expectation;** and
- **Best Practice**

The Chart below summarises the Fund's assessment of current risk rating for each chapter. A score of 100% for a particular chapter indicates that all requirements are fully met. A score of 50% would indicate that half of the requirements in that chapter fully meet requirements within the Code.



Commentary on results

It can be seen from the Chart above that there are 3 areas of the Code where the requirements are fully met. It is important that these areas are monitored to ensure the requirements continue to be fully met.

This means that there are 11 chapters where the requirements of the Code are not fully met. The areas where more actions are required are:

- The Governing Body: Advisers and Service Providers
- Administration: IT & Cyber Security
- Administration: Scheme Administration

Further analysis

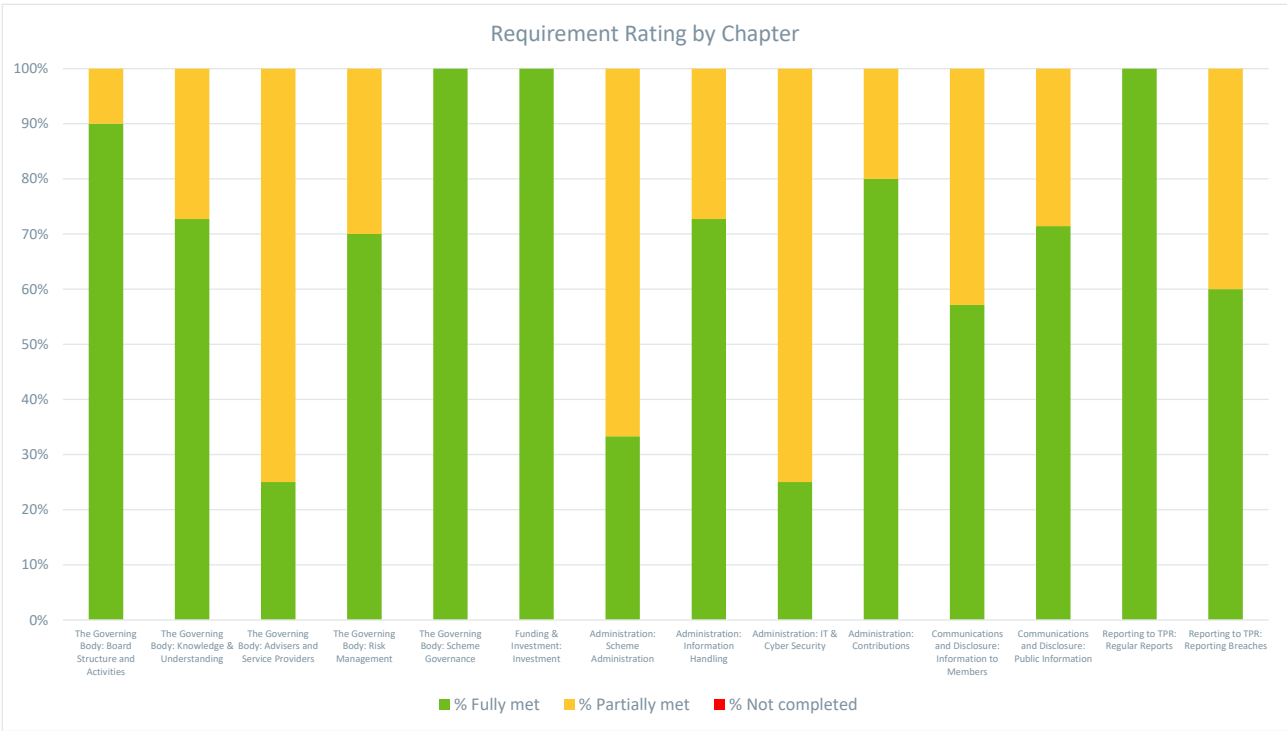
Within each topic the administering authority has assessed a number of strands – noting the following:

- Risk rating for each requirement – fully met, partially met or not completed
- The evidence taken into account when assessing compliance
- The owner of that particular strand
- The steps which need to be taken to ensure compliance or continued compliance
- The suggested immediate actions

The Appendix contains the detail of the current ratings for each of the chapters, as well as the actions required.

It is also beneficial to understand the level of risk. This removes the binary nature of compliance, and builds in allowance for the fact that there may be a number of requirements which are partially met. Understanding this in more detail provides a more detailed overview.

The following chart shows the aggregate position of each chapter, when the individual requirements are assessed as either "Fully met", "Partially met" or "Not completed".



When looking at the results in this way, it is more encouraging as there are 11 chapters of the Code with requirements which are already partially completed and as such, actions could be fully completed relatively easily. The steps required to complete the actions, as proposed by the Fund's officers, are set out in the appendix.

Breakdown of results

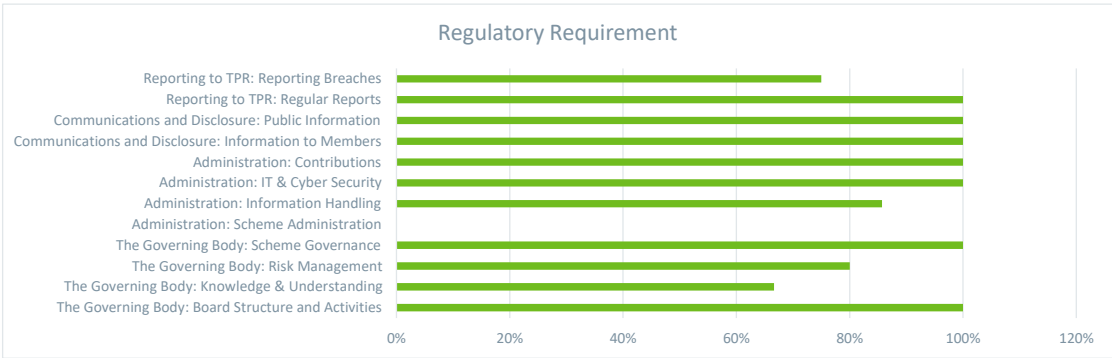
Simply looking at the overall ratings across a full chapter of the Code may not provide the level of detail needed. The requirements from the Code can be split into the following categories:

- Regulatory Requirement** - these align with Legislation or Regulations which LGPS Funds must follow.
- TPR Expectation** - These align with what the Regulator would expect to see from LGPS Funds.
- Best Practice** - These are examples of what the Regulator believes should be in place for well governed Funds.

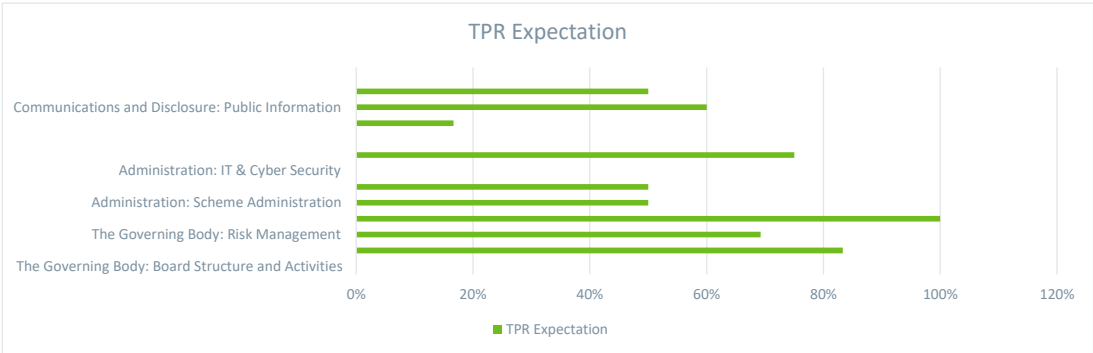
Having an understanding of the current ratings in the parts of the Code where there is a Regulatory requirement can help prioritise the required actions and the focus of efforts in the short term.

The charts below provide a summary of the results in these categories. Please note that each chart only contains the chapters which have requirements in the relevant category. To confirm some chapters from the Code will be missing from the charts below as they won't have requirements.

The chart below summarises the **Regulatory requirements** which have been assessed to be fully met.



The chart below summarises **TPR's expectations**, which have been assessed to be fully met.



The chart below summarises the **best practice** requirements, which have been assessed to be fully met.





## Next Steps

This report summarises the findings of the most recent assessment against the Code. Preparation is the first step in ensuring the Fund is compliant with the requirements of the Code. The Administering Authority should ensure that any changes, updates or additions to the Code are reflected in the Fund's compliance checks in future.

Having assessed the Fund's current position against the Code, and prepared this report, a suggested list of actions is:

1. Circulation of this report and appendix to relevant stakeholders
2. Identify steps required to turn partially compliant requirements into fully compliant, assigning owners to each action
3. Identify the steps required to make non-compliant requirements fully compliant, again assigning owners to each action
4. Create a plan based on steps 2 and 3 above, with key milestones and timescales allocated to each step
5. Decide on any actions to ensure compliant strands remain compliant
6. Decide on the frequency of review of the plan, and update timescales as required
7. Agree when the next full compliance review will take place

A note of the risk rating for each chapter, as well as the required actions and who has responsibility for those actions, is contained within the appendix.

## Reliances and limitations

This report has been produced by Fund officers of the Avon Pension Fund, to help them self-assess the Fund's levels of compliance with the Pension Regulator's General Code of Practice.

This report does not provide legal or regulatory advice, but is designed to provide Fund officers with a tool to self-assess its compliance with The Pensions Regulators General Code of Practice as at March 2024. You should speak to your usual Hymans contact before continuing to use this checker following a legislative update. This report does not consider changes to the Code or LGPS Regulations after March 2024. This report does not cover all statutory obligations and good practice recommendations to which LGPS funds are subject and the fund officers remain responsible for ensuring the Fund's compliance with relevant law and regulation. This report does not attempt to replicate the advice or roles of scheme actuaries, lawyers, investment advisers nor administrators and we recommend that you seek advice from those advisers where relevant or where an officer has a concern about the position of the Fund.

This report should not be shared with anyone outside of the Avon Pension Fund. However, it can be shared with the Pension Committee and Pension Board.

Please contact Hymans Robertson if you wish to share the output report with any other external third parties. We make no representation to any third party as to the accuracy or completeness of the output report. No reliance should be placed on this checker or output reports or appendices by any third party and we accept no responsibility or liability to any third party in respect of it.

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This report has been prepared by the officers at Avon Pension Fund.

07 May 2024



## Appendix 2 - APF Action Plan

### Avon Pension Fund

The following gives an overview of the current compliance position against the General Code of Practice, and a note of the immediate actions.

All requirements on this scorecard are currently rated as 'Partially met'.

Requirements	Curent Status	Actions	Responsibility	Timescale
The Governing Body: Board Structure and Activities				
Members of governing bodies to display the characteristics shown in <b>Appendix 1</b> .	In Progress	Mandatory training required for several members.	Governance and Risk Advisor	Dec-25
The Governing Body: Knowledge and Understanding				
The governing body should regularly carry out an audit of its members' skills and experience to identify gaps and imbalances.	In Progress	Mandatory training required for several members.	Governance and Risk Advisor	Dec-25
Members of the pension board can work towards completing TPR public service toolkit or equivalent learning programmes.				
To enable the pension board to ensure their knowledge and understanding is established and maintained, members of a governing body should comply with the points laid out in <b>Appendix 6</b> .				
The Governing Body: Advisers and Service Providers				
Follow the processes set out for appointing advisers and service providers. (see <b>Appendix 8</b> for more detail)	In Planning	Check SLAs agreed for all new contracts.	Fund officers	Mar-26
Follow the processes set out for managing advisers and service providers. (see <b>Appendix 9</b> for more detail)	In Planning	Review process for monitoring performance of service providers and engaging advisors and service providers, embedded Q2 2026 onwards.		
Follow the processes set out for replacing advisers and service providers. (see <b>Appendix 10</b> for more detail)	In Progress	Internal procurement process to be reviewed to ensure contracts in place for all services via a compliant procurement route.		

The Governing Body: Risk Management				
The scheme manager should have in place internal controls, including; - The arrangements and procedures to be followed in the administration and management of the scheme - The systems and arrangements for monitoring that administration and management, and - Arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.	In Progress	Embed 12 process improvements agreed with Simplify.  Check other key processes and embed new controls if required	Head of Pensions	Mar-26
When designing internal controls governing bodies should consider TPR expectations. (see <b>Appendix 12</b> for more detail)	In Planning	New projects and associated documents to be reviewed to include all TPR expectations.	Business Change Manager	Mar-26
To maintain internal controls governing bodies should consider TPR expectations. (see <b>Appendix 13</b> for more detail)	In Progress	Assurance reports required from Heywood.	Head of Pensions	Oct-25
The governing body should read and understand assurance reports provided by service providers to establish if the controls used by the organisations that they outsource various functions to are adequate. This will also include assurance reports produced by the scheme's investment manager and custodian. They should consider the scope of such reports and the degree to which these are applicable. For example, whether the reports cover the specific team or office providing services to the scheme.				
Governing bodies should consider having a continuity plan that meets the requirements of <b>Appendix 14</b> .	In Progress	New Business Continuity Plan to be completed and tested.	Governance and Risk Advisor	Apr-25
Governing bodies should consider seeking independent legal advice, to help decide whether an actual or potential conflict of interest can be eliminated (and if so, the best way of achieving it).	In Planning	Add requirement to conflicts of interest policy, applied only if a relevant case arises	Governance and Risk Advisor	Jun-25
Administration: Scheme Administration				
Every scheme must operate internal controls which should include administration.	In Progress	Embed 12 process improvements agreed with Simplify.  Check other key processes and embed new controls if required	Pensions Operations Manager	Mar-26
To maintain proper administration, governing bodies should comply with the requirements set out in <b>Appendix 22</b> .	In Progress	Complete new Business Continuity Plan and carry out test. Complete consistency review of procedure notes for all processes.	Pensions Operations Manager	Apr-25

Administration: Information Handling				
The scheme manager is required to establish and operate internal controls, which are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules, and with the requirements of the law. Governing bodies should make sure financial transactions are managed as part of their internal controls.	In Progress	Finish review of Payroll audit actions including Altair admin-payroll reconciliation and Altair admin to Agresso. And embed improvements into live process	Pensions Operations Manager	Oct-25
Governing bodies should meet the record keeping requirements set out in <b>Appendix 26</b> .	In Progress	Review data improvement plan and record of Processing Activities. And embed required improvements.	Pensions Operations Manager	Oct-25
Governing bodies may consider the record keeping requirements set out in <b>Appendix 27</b> as best practice. [can we link to an appendix listing page 106 para 7]				
Governing bodies should retain records for as long as they are needed.	In Planning	Data Retention Policy to be reviewed. Deletion of Altair records to be reviewed. Employer data retention template to be rolled out again to employers.	Governance and Risk Advisor	Dec-25
Governing bodies should have appropriate processes in place for monitoring scheme data. (see <b>Appendix 29</b> for full details)	In Progress	Reporting capabilities are improving and we will therefore review the reporting of scheme specific data.	Pensions Operations Manager	Oct-25
Governing bodies should have appropriate processes in place for reviewing scheme data. (see <b>Appendix 30</b> for full details)				
Administration: IT & Cyber Security				
Governing bodies should take steps to make sure their service providers can prove they meet our expectations for maintaining IT systems as listed in <b>Appendix 32</b> .	In Progress	Finish the review of the business continuity plan and carry out a test. Finalise the reprocurement of the software contract.	Governance and Risk Advisor	Apr-25
When assessing cyber risk governing bodies should follow the procedures set out in <b>Appendix 33</b> .				
When managing cyber risk governing bodies should follow the procedures set out in <b>Appendix 34</b> .				

Administration: Contributions				
Governing bodies should develop and maintain records for monitoring contribution payments to the scheme. This should include: contribution rates, date contributions are due, interest on late payments. (see <b>Appendix 35</b> for full details)	In Progress	Review process for charging and recording interest for late payers.	Group Manager, Funding, Investment & Risk	Oct-25
The governing body should review current processes to detect situations where fraud may be more likely to occur and where additional checks may be needed.	In Progress	Review process of new reconciliation data with iconnect team.	Group Manager, Funding, Investment & Risk	Oct-25
Communications and Disclosure: Information to Members				
The scheme manager should comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.	In Planning	Review the Disclosure of Information Regs to check compliance in all areas.	Technical and Compliance Advisor	Dec-25
The governing body should follow the principles set out in the section entitled "General Principles for Member Communications". TPR expectations are listed in <b>Appendix 37</b>	In Progress	Individual letters to members will be reviewed as part of process reviews, starting with the new member letter.	Pensions Operations Manager	Dec-25
Scheme managers should follow the principles set out in the section entitled "General Principles for Member Communications" when drafting benefit information statements. (see <b>Appendix 38</b> for more detail)	In Progress	Review of statements required to include McCloud data for 2025, plus Business Change Team to look at alternative ways to support members' understanding.	Pensions Operations Manager	Dec-25
The term "reasonable period" in the phrase above should be construed as 3 months from leaving. Governing bodies should advise members where it is likely to take more than 3 months to provide the information.	In Progress	Double check KPIs to ensure all cases actioned within the three month period.	Pensions Operations Manager	Dec-25
The governing body should give members 3 months to confirm if they wish to transfer their cash transfer sum and can extend this deadline at their discretion. If the member does not respond, the governing body may arrange to pay a contribution refund after a further month.	In Progress	Check timescales and automatic refund.	Pensions Operations Manager	Dec-25
Where a member elects for a cash transfer sum the governing body should pay it within 3 months but can extend in exceptional circumstances.	In Progress	Tighter controls to be implemented for the process/potential review of process.	Pensions Operations Manager	Dec-25
Communications and Disclosure: Public Information				
Scheme managers may consider how best to publish information, making use of the principles outlined in General principles for member communications. (See <b>appendix 37</b> )	In Progress	Review to ensure all comms standards are met	Business Change Manager	Dec-25

<p>Scheme managers may also publish:</p> <ul style="list-style-type: none"> <li>- the employment and job title (where relevant) and any other relevant position each board members holds</li> <li>- details of the pension board recruitment process</li> <li>- who each pension board member represents</li> <li>- the full terms of reference for the pension board, including details of how it will operate</li> <li>- any specific roles and responsibilities of individual pension board members</li> </ul>	In Planning	As part of governance review check all correct	Governance and Risk Advisor	Jun-25
<p>Scheme managers should:</p> <ul style="list-style-type: none"> <li>- Have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete</li> <li>- Ensure any out-of-date or incorrect information identified is updated as soon as possible and in any event, within one month</li> </ul>	In Planning	Comms Policy to be reviewed in 2025	Business Change Manager	Dec-25
<p>There are further considerations the governing body should make in relation to the dispute resolution process. (see <b>Appendix 40</b> for further details).</p>	In Planning	Review internal procedures & set out requirements in greater detail. Eg when a review is carried out and when advice is taken.	Technical and Compliance Advisor	Dec-25
<b>Reporting to TPR: Reporting Breaches</b>				
Breaches of the law must be reported as soon as reasonably practicable.	In Planning	Review breaches policy and process and add additional requirements	Governance and Risk Advisor	Jun-25
There are other requirements placed on those running pension schemes to report to other bodies. Where the duty to report to another body coincides with the duty to report to TPR, the report to us should include details of the other bodies the matter has been reported to.				
If a scheme or an individual is at risk, for example where there has been dishonesty, the reporter should not take any actions that may alert those implicated that a report has been made. Similarly, reporters should not delay their report to TPR, to check whether any proposed solutions will be effective.				
Reports of late contribution payments should be made to us within 14 days of the trustees having reasonable cause to believe that a material payment failure exists. Members should be notified within 30 days of the report to TPR. When reporting to members, governing bodies should provide payment information that will enable them to understand what has been paid to the scheme and by whom.				

Regulatory Requirement

TPR Requirement

Best Practice

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Appendix 1
<b>Role of the Governing Body</b>
<b>Expected behaviours and standards:</b>
a. Act honestly and with integrity, competence, and capability.
b. Act with financial probity, including in matters outside their role.
c. Meet their legal obligations and govern their scheme properly and according to scheme rules.
d. Act in the interest of scheme members and beneficiaries.
e. Seek to ensure that all scheme members, whether active, deferred, drawing a pension, or in a decumulation phase, benefit from good governance.
f. Be open and honest in their dealings with us.
g. Have or be able to acquire the appropriate levels of knowledge and understanding and keep these up to date.
h. Identify and, where relevant, challenge others on any potential or actual failure to comply with the scheme rules, regulations, and legislation.

Appendix 6
<b>Governance of Knowledge and Understanding</b>
<b>Members of a governing body should:</b>
<del>a. Be able to demonstrate the basic level of knowledge and understanding needed to run their scheme within six months of their appointment.</del>
b. Start on a programme of learning immediately on appointment, if not before, in conjunction with a scheme-specific induction programme, if one is provided.
c. Undertake advanced scheme-specific learning once a good understanding of the scheme has been obtained
d. consider how they are meeting our expectations of knowledge and understanding.
e. Review their own knowledge and understanding and identify any gaps at least annually, particularly in relation to changes in legislation or their scheme.
f. Keep records of any review of knowledge and understanding and steps taken to address any gaps.
g. Keep records of any alternative or further learning activity (for example, reading, attending conferences, sessions with the scheme advisers).

Appendix 8
<b>The Governing Body: Managing Advisers and Service Providers</b>
<b>When appointing advisers and service providers, governing bodies should:</b>
a. Agree appropriate delegations and procedures for referral.
b. Agree performance indicators on appointment and secure accountability within the service provider.
c. Include a process for managing advisers, recording decisions taken as well as escalation points.
d. Ensure the flow of communication with the service provider or adviser, so all parties have the necessary information to make key decisions and to fulfil their assigned roles.
e. Take steps to identify and manage conflicts of interest. See Conflicts of interest.
f. Understand the implications of data protection legislation for any information that will be shared with or handled by service providers.

Appendix 9
<b>The Governing Body: Managing Advisers and Service Providers</b>
<b>When managing advisers and service providers, governing bodies should:</b>
a. Seek to ensure that advisers make you aware of any relevant obligations, professional conduct rules and whistleblowing requirements that they may be obliged to follow.
b. Ensure service providers are able to demonstrate that they are fulfilling the requirements of any legal obligation that has been delegated to them.
c. Ensure service providers are able to demonstrate that they have adequate internal controls relating to the services they provide. See Internal controls and Assurance reports on internal controls.
d. Regularly assess performance against agreed key performance indicators (KPIs) and service level agreements (SLAs). Record outcomes and ensure all actions are allocated for remedy with progress tracked.
e. Review the performance of advisers and service providers against the objectives set for them, including strategic objectives. See our objective setting guidance.
f. Periodically review the market for relevant service providers and consider if the scheme continues to receive quality service and value for money. This may be part of any value for members assessment run by the scheme.
g. Have enough knowledge and understanding to enable them to fully understand any advice or information they receive.
h. Understand how any advice or information they receive affects decisions or activities that they are legally responsible for.
i. Have a process to ensure that improvements are made where poor service is identified.

Appendix 10
<b>The Governing Body: Managing Advisers and Service Providers</b>
<b>In replacing advisers and service providers, governing bodies should:</b>
a. Consider the interests of the scheme members when replacing the adviser or service provider.
b. Understand the impact of the terms and conditions of contracts, including any fees or penalties, and procedures for releasing relevant information to the governing body and new advisers.
c. Understand the risks associated with transitioning to a new provider and put plans in place to manage them.
d. Plan effectively for the transition to a new adviser or service provider, setting out the key steps, roles, decisions, owners, and timescales, including how costs will be met

Appendix 12
<b>The Governing Body: Risk Management - Internal Controls</b>
<b>When designing internal controls, governing bodies should consider:</b>
a. How the control will be implemented and the skills of the person performing the control.
b. The level of reliance that can be placed on information technology processes (whether fully automated or not) and the testing of such processes.
c. Whether a control can prevent future recurrence or merely detect an event that has already happened.
d. The frequency and timeliness of a control process.
e. How the control will ensure secure data management.
f. processes for identifying errors or control failures
g. what would be appropriate approval and authorisation controls
h. whether professional advice is needed when designing internal controls

Appendix 13
<b>The Governing Body: Risk Management - Internal Controls</b>
<b>To maintain internal controls governing bodies should:</b>
a. Regularly consider the performance of internal controls in mitigating risks, and where appropriate, achieving long-term strategic aims.
b. Consider obtaining independent or third-party assurance about controls. See Assurance reports on internal controls.
c. Obtain assurance that service providers are meeting their own standards for internal controls. See Managing advisers and service providers.

Appendix 14
<b>The Governing Body: Risk Management - Scheme Continuity Planning</b>
<b>Governing bodies should:</b>
a. Seek to ensure that the performance of scheme activities are continuous and regular.
b. Have a resilient business continuity plan (BCP) that sets out key actions, in case of a range of events occurring that impact the scheme's operations.
c. Make sure key areas of scheme activities, including member data and general scheme administration, are included in the BCP.
d. Ensure advisers and service providers also have a BCP in place to maintain services to the scheme.
e. Choose how to rely on reports and information about their service providers' BCP arrangements.
f. Set out roles and responsibilities within the plan, and agree these with service providers.
g. Regularly review process documents and maps, particularly after a system or process change and periodically test the BCP arrangements.
h. Prioritise scheme activities in the event of the BCP being triggered, for example: receiving and monitoring contributions, pension payments, retirement processing, bereavement services, and minimising the risk of pension scams.
i. Ensure continued access to resources, services, and communications with key parties.
j. Have an awareness of the timeframes required to bring new resources on board.
k. Understand what contingency is in place to mitigate any under resource due to, for example, increase in work volumes or the loss of staff.

Appendix 22
Administration: Scheme Administration
<b>6. To maintain proper administration, governing bodies should:</b>
a. Receive appropriate information and reports from administrators, and be able to challenge them when needed.
b. Ensure that all tasks delegated to an administrator are being carried out properly, according to the law and scheme governing documents.
c. Regularly monitor the performance of administrators (see Managing advisers and service providers).
d. Constructively manage issues with administrator performance and consider using any contractual terms to drive improvements.
e. Have procedures in place to enable a continuous and consistent service in the event of a change of administrator personnel, or administration provider.
f. Record the procedures to follow when administering the scheme, and how to maintain those procedures.
g. Ensure that administrators have an adequate business continuity plan that is reviewed at least annually and tested as appropriate (see Scheme continuity planning).

Appendix 30
Administration: Information Handling - Data Monitoring and Improvement
<b>6. Governing bodies should have the following processes for reviewing scheme data:</b>
a. Assess the need for a data review exercise at least annually.
b. Decide the frequency and nature of any additional data review, where errors and gaps are identified, or in response to significant scheme events, for example winding up the scheme or changing the administrator.
c. Ensure data reviews include an assessment of the accuracy and completeness of common and scheme specific data.
d. Keep a record of data reviews carried out and the findings.
e. Where errors and gaps are identified, put a data improvement plan in place to address the issues.
f. Ensure the plan includes the actions necessary by the governing body or administrator to correct member data.
g. Maintain agreed, consistent, and fair policies for situations where data cannot be corrected, for example due to age or loss.

Appendix 35
Administration: Contributions - Monitoring Contributions
<b>7. A contributions monitoring record should include the following information in:</b>
a. Contribution rates.
b. The date(s) on or before the employer contributions are due to be paid to the scheme.
c. The date when employee contributions are to be paid to the scheme.
d. Any rate or amount of interest payable where the contributions payment is late.

Appendix 26
Administration: Information Handling - Record-keeping
<b>6. Governing bodies should:</b>
a. Be able to demonstrate to us, where required, that they operate processes to maintain accurate and up-to-date records, enough to run their pension scheme.
b. Keep records of meetings, member data, and transactions made to and from the scheme.
c. Retain records for as long as the information is relevant, and in line with data protection legislation.
d. Ensure that the data they or their administrator holds, enables financial transactions to be processed accurately. See Financial transactions.
e. Rectify any errors identified in scheme records as soon as possible.
f. Review and amend processes as necessary to prevent further errors.
g. Comply with the data protection requirements, including the need to store data securely and for a legitimate purpose under administrative systems.

Appendix 32
Administration: IT - Maintenance of IT Systems
<b>5. Standards for maintaining IT systems:</b>
a. Cyber security measures and procedures should be in place and functioning. See Cyber controls.
b. Record evidence of how changes are planned and executed within the system.
c. Scheme and member data should be backed up regularly.
d. Disaster recovery processes are in place and tested over appropriate periods.
e. Written policies should be in place for maintaining, upgrading, and replacing hardware and software.
f. Request evidence to show there is a schedule for the system to be replaced or updated, to cope with events such as changes to tax thresholds.
g. Be satisfied that adequate and sufficient hardware and personnel resources, with appropriate functionality and/or skills, exist to carry out the work.
h. Secure evidence that the IT system can meet current and anticipated system requirements.
i. Manage planned and potential future upgrades within the administration system.

Appendix 37
Communication and disclosure: General Principles for Member Communications
<b>When preparing communications to members, the administering authority should:</b>
a. Ensure that all communications sent to members are accurate, clear, concise, relevant and in plain English.
b. Regularly review member communications, taking account of member feedback, any changes to scheme design and developments in law and this code of practice.
c. When deciding on the format of communications and information to be published, consider any technology that may be available to them and appropriate for their members.
d. Consider using various communication methods, including accessible online content, audio, Braille, large font, and languages other than English.
e. Consider what additional information or explanation members may need to help them make informed decisions about their benefits. For DC and hybrid schemes, regularly inform members of the impact their contributions will have on their overall benefits.

Appendix 27
Administration: Information handling - Record-keeping
<b>6. Governing bodies may consider as good practice:</b>
a. Holding member and benefit records electronically on a dedicated administration system.
b. Keeping records of scheme governing documentation, including details of any amendments and how they apply to members.
c. Making sure the administrator has basic member information known as common data.
d. Working with the administrator to identify, record, validate, and where necessary, correct the items of scheme specific data.
e. Taking into account developments in technology that may be available to the scheme to improve administration and record-keeping

Appendix 33
Administration: IT - Cyber Controls
<b>8. When assessing cyber risk governing bodies should:</b>
a. Ensure the governing body has knowledge and understanding of cyber risk.
b. Understand the need for confidentiality, integrity, and availability of the systems and services for processing personal data, and the personal data processed within them.
c. Have clearly defined roles and responsibilities to identify cyber risks and breaches, and to respond to cyber incidents.
d. Ensure cyber risk is on the risk register and regularly reviewed. See Internal controls.
e. Assess at appropriate intervals, the vulnerability of the scheme's key functions, systems, assets (including data assets) to a cyber incident, and the vulnerability of service providers involved in the running of the scheme.
f. Consider accessing specialist skills and expertise to understand and manage the risk.
g. Ensure appropriate system controls are in place and are up to date (e.g. firewalls, anti-virus, and anti-malware products).

Appendix 38
Communication and Disclosure: Information to Members
<b>4. For active members of defined benefit schemes, scheme managers must:</b>
a. Include a description of the benefits earned by members during their pensionable service.
b. Issue the annual statement by no later than 31 August of the year following the period to which the statement relates.
c. Comply with any HM Treasury directions, in terms of any other information that must be included and the way it must be provided to members.

Appendix 29
Administration: Information Handling - Data Monitoring and Improvement
<b>5. Governing bodies should have the following processes for monitoring scheme data:</b>
a. Monitor data on an ongoing basis to ensure it is as accurate and complete as possible for all pension scheme members.
b. Ensure the governing body receives information about material errors and gaps in their scheme data, once identified.
c. Ensure any service providers operate their own procedures for identifying, rectifying, and reporting errors to the governing body.
d. Ensure data improvement is prioritised for members close to the point where they start drawing on their benefits.
e. Ensure any plan for improving data can be monitored and has an achievable deadline.
f. Where applicable, ensure member records are reconciled with information held by the employer(s).
g. Ensure regular reconciliation of scheme membership, especially those reaching retirement.
h. Carry out scheduled tracing and existence exercises to validate member data.

Appendix 34
Administration: IT - Cyber Controls
<b>9. When managing cyber risk governing bodies should:</b>
a. Ensure critical systems and data are regularly backed up.
b. Have policies for the use of devices, and for home and mobile working.
c. Have policies and controls on data in line with data protection legislation (including access, protection, use, and transmission).
d. Take action so that policies and controls remain effective.
e. Have policies to assess whether breaches need to be reported to the Information Commissioner ( <a href="https://www.ico.org.uk">https://www.ico.org.uk</a> ).
f. Maintain a cyber incident response plan in order to safely and swiftly resume operations. See Scheme continuity planning.
g. Satisfy themselves with service providers' controls.
h. Receive regular reports from staff and service providers on cyber risks and incidents.

Appendix 40
Dispute Resolution Procedures: Dispute Resolution Process
<b>In relation to dispute resolution processes, the administering authority should</b>
a. Agree on any details of their dispute resolution process that are not set out in law.
b. Provide contact details for matters relating to disputes.
c. Regularly assess the effectiveness of the dispute procedure.
d. Be satisfied that those following the process are complying with the requirements set, which includes effective decision making.
e. Consider the circumstances under which advice may be required to reach a decision on a dispute.
f. Ensure they make the following information available to applicants: <ul style="list-style-type: none"> <li>– the process to apply for a dispute to be resolved</li> <li>– the information that an applicant must include</li> <li>– the process by which any decisions are reached</li> </ul>



**Appendix 2**

<b>Committee Workplan</b>	<b>Mar-25</b>	<b>Jun-25</b>	<b>Sep-25</b>	<b>Dec-25</b>
<b>Governance</b>				
Pension Board minutes				
Governance Update (workplans )				
Review of Risk Register				
Annual review of risk register				
Roles & Responsibilities of the Committee, Governance Compliance Statement				
Internal Audit Plan & Reports				
Approval of Committee's Annual Report to council & PB Annual Report for noting				
Update on Legislation				
Annual audit review				
Review of General Code of Practice Compliance				
<b>Administration &amp; Budget</b>				
Administration – performance indicators				
Budget & Cash flow Monitoring (as needed)				
Budget and Service Plan				
Treasury management Policy				
Review of Admin Strategy				
<b>Investments &amp; Funding</b>				
Strategic Investment review				
Approve Investment Strategy Statement				
Review of Investment Strategy & Performance				
Annual Responsible Investing Report inc progress on climate targets, Stewardship Activities presentation by Brunel				
Fit 4 Future - Pooling update (as required)				
Annual Review of Risk Management Strategies				
Draft and approve Funding Strategy Statement		draft	approve final	
Annual Employer and Covenant update				
Brunel Corporate update by CEO				

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Type of Training	Date	Content	
Workshop	03-Jun-25	Valuation & Funding Strategy	
Workshop	TBC	Cyber Security	
Workshop	TBC	Admin Strategy	
Workshop	TBC	Future of LGPS/Good Governance Review	
Hymans Learning Academy	Title of Module	Date to be completed	Time Commitment
Introduction	• An Introduction to LGPS Online Learning Academy	Sep-25	2 minutes
Module 1 – Committee Role and Pensions Legislation	• An Introduction to Pensions Legislation	Sep-25	27 minutes
	• An introduction to Pensions Legislation - The Role of a Councillor		
Module 2 – Pensions Governance	• LGPS Oversight Bodies – DLUHC & GAD	Dec-25	50 minutes
	• LGPS Oversight Bodies – TPR		
	• Business Planning		
	• LGPS Governance		
Module 3 – Pensions Administration	• Introduction to Administration	Nov-25	51 minutes
	• Additional Voluntary Contributions		
	• Policies and Procedures		
Module 4 – Pensions Accounting and Audit Standards	• Pensions Accounting and Audit Standards	Nov-25	11 minutes
Module 5 – Procurement and Relationship Management	• Public Procurement	Jan-26	11 minutes
Module 6 – Investment Performance and Risk Management	• Introduction to Investment Strategy	Feb-26	48 minutes
	• LGPS Investment Pooling		
	• Performance Monitoring		
	• Responsible Investment		
Module 7 – Financial Markets and Product Knowledge	• Introduction to Financial Markets and Product Knowledge	Mar-26	33 minutes
	• Investment – MiFID II		
Module 8 – Actuarial Methods, Standards and Practices	• Introduction to Funding Strategy	Oct-25	53 minutes
	• LGPS Actuarial Valuations – Process		
	• LGPS Valuation – Technical		
	• Employers		
Current Issues	• Understanding McCloud	Ongoing	
	• Pensions Dashboards		
	• Understanding Goodwin		
	• Introduction to Cyber Risk		
	• GAD Section 13		
	• Climate Change and TCFD		
	• McCloud Consultation		
	• SAB and HM Treasury Cost Cap Mechanisms		
	• Next Steps on Investment (England & Wales) Consultation Overview		
	• Next Steps on Investment (England & Wales) Consultation Response		
	• A Brief Introduction to Taskforce on Nature-related Financial Disclosures		

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#### Appendix 4

Change Programme			
Project Activity	Current Phase of Project / High Level Status	Completion Date of Overall Project	Status
<b>Annual Projects</b>			
Year End	Checking employers' data returns	Jun-25	In Progress
Annual Benefit Statement	Planning phase	Aug-25	In Progress
Pension Savings Statement / Annual Allowance	Planning phase	Oct-25	In Planning
Payroll YE	P60s issued	Apr-25	Complete
HMRC Event Reporting	Annual Event reporting	Dec-25	Not Yet Started
National Fraud Initiative	Planning phase	Dec-25	In Planning
<b>Regulatory/Foundation/Dashboard</b>			
McCloud	ABS planning underway	Aug-25	In Progress
GMP – remedy	Data cleansing and calculations	Jun-26	In Progress
Pensions Dashboard	Preparation of data, comms, governance, DAP Admin	Oct-25	In Progress
Admin Strategy refresh	Content production	Oct-25	In Progress
Data Improvement Plan	Forms part of the Admin Strategy refresh	Oct-25	In Progress
Process control framework	Planning phase & kick-off conversations underway	Dec-26	In Planning
Member tracing	Interim solution in place; planning for integrated solution	Aug-25	In Progress
Unified Comms - Phase 1	Phase 1 delivered	Jun-25	Complete
Unified Comms - Phase 2	Phase 2 improved member experience (Sep-25)	Sep-25	In Progress
<b>Procurement</b>			
Pension Admin System Procurement (inc Hosting)	Contract signed	Sep-25	Complete
Website hosting procurement	Moved to 2026 for joint procurement with BANES IT	Sep-26	Not Yet Started
<b>Transformation</b>			
Engage (My Pension Online – upgrade)	Scope analysis & recommendation	Dec-25	In Planning
Bulk processing, e.g. refunds	Process review - impact and scoping assessment	Sep-26	In Planning
New member onboarding	Improvement recommendations made - to be prioritised	Mar-26	Not Yet Started
Hosting migration	User Acceptance Testing	Sep-25	In Progress

<b>Digital Transformation</b>			
Enhanced Admin to Pay	Decision on implementation timing	Mar-26	Not Yet Started
Pre Joining Enhancements	Engagement with Key Stakeholders	Sep-25	In Progress
Go Digital enhancements	Capture member emails from I-Connect submissions	Jun-25	In Planning
iConnect Multi-factor authentication	Scoping & analysis	May-25	In Progress
iConnect document integration	One-stop portal for employer document submissions	Dec-25	In Progress
Digital mail solution	Utilisation of council's digital mail solution	Dec-25	In Progress
<b>Governance</b>			
Good Governance Review	Review any new requirements from Good Governance review once published eg - Workforce Plan	Dec-25	Not Yet Started
TPR SCOP requirements	Gap analysis & action plan for new requirements	Mar-25	In Progress
	Implementation	Mar-26	In Progress
Annual Report	Produce and publish Fund's annual report	Dec-25	In Progress
	Committee's annual report to Council	Nov-25	Not Yet Started
	Pension Board's annual report	Nov-25	Not Yet Started
Business Continuity Plan	Review and implementation of new plan in progress	Mar-25	Complete
	Cyber Security training officers/PC/PB	Dec-25	In Progress
Pension Committee Governance arrangements	annual review of terms of reference & policies	Jun-25	In Progress
Pension Board governance review	Annual review all items on governance checklist	Sep-25	Not Yet Started
Training Plan for Committee & Board members	Plan annual training programme for members	Mar-25	Complete
Recruitment for Committee & Pension Board	Recruitment & Induction Training - new PC/PB members	Jun-25	In Progress
Contract Retenders	Legal Contract	Dec-25	In Progress
<b>Finance</b>			
Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	May-25	In Progress
Treasury Management Policy	Draft revised policy annually	Mar-25	Complete
<b>Investments</b>			
Local Impact Portfolio	Assess opportunities as they arise, invest/implement	Dec-25	In Progress

Natural Capital Investing	Invest via Brunel portfolio. Work with Brunel and pool.	Dec-25	In Progress
Strategic Investment Review	Review risk and return objectives and asset allocation ahead of Valuation. Review climate targets. Revise ISS	Sep-25	In Progress
Impact Reporting	procure a supplier to provide Impact reporting across our portfolios	Dec-25	In Progress
Pooling: Fit 4 Future	work with Brunel and CG to agree how to merge or join another pool now that government has concluded Brunel pool cannot continue. Assessing options of acting as a pool and as individual funds. Specific to APF: how manage RMF, RI focus, local impact	Mar-26	In Progress
<b>Funding Strategy</b>			
2025 Valuation	Planning, data provision to Actuary, fund & employer meetings and outcomes.	Mar-26	In Progress
2025 Funding Strategy Statement	prepare and publish prior to valuation	Mar-26	In Progress

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### Access to Information Arrangements

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

Information Compliance Ref: LGA- 2425250
Meeting / Decision: Avon Pension Fund Committee
Date: Friday 27 <sup>th</sup> June 2025
Author: Liz Woodyard
<b>Exempt Report Title: Strategic Investment Review</b>  List of attachments to this report: <b>Exempt Appendix 1 – Strategic Review Workshop Report</b>

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

Stating the exemption:

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

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

#### PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the

exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

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

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

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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

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of the Local Government Act 1972.

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### Access to Information Arrangements

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

Information Compliance Ref: LGA- 2413857
Meeting / Decision: Avon Pension Fund Committee
Date: 27 <sup>th</sup> June 2025
Author: Liz Woodyard
<b>Exempt Report Title:</b> LGPS Pooling - UPDATE  <b>Exempt Appendix Title:</b> <b>Exempt Appendix 1</b> – Strategic requirements and options

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

Stating the exemption:

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

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

#### PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of

the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

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

Weighed against this is the fact that the exempt report and exempt appendix contain strategic and financial information about the proposal, which is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

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

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)



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