

# Avon Pension Fund Committee

**Date: Friday 27th March 2026**

**Time: 10.00am**

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

**Bath and North East Somerset Councillors:** Toby Simon (Chair), George Leach (Vice-Chair), Shaun Stephenson-McGall, 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 March 2026**

**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: 12TH DECEMBER 2025 (Pages 7 - 28)

8. DRAFT PENSION BOARD MINUTES: 11TH MARCH 2026 (TO FOLLOW)

9. INVESTMENT STRATEGY STATEMENT (Pages 29 - 52)

10. 2025 VALUATION OUTCOME & UPDATED FUNDING STRATEGY STATEMENT (Pages 53 - 166)
11. BUDGET, SERVICE PLAN & ADMINISTRATION UPDATE (Pages 167 - 210)
12. TREASURY MANAGEMENT POLICY (Pages 211 - 218)
13. SF3 BENCHMARKING DATA (Pages 219 - 234)
14. LEGISLATION UPDATE (Pages 235 - 240)
15. GOVERNANCE UPDATE (Pages 241 - 302)
16. POOLING CHANGES (Pages 303 - 310)
17. INVESTMENT STRATEGY REVIEW PROGRESS UPDATE (Pages 311 - 334)
18. INVESTMENT GOVERNANCE REVIEW - VERBAL UPDATE

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

**BATH AND NORTH EAST SOMERSET**

**AVON PENSION FUND COMMITTEE**

Friday 12th December 2025

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

**Co-opted Voting Members:** Councillor Robert Payne (North Somerset Council), Councillor Fi Hance (Bristol City Council), William Liew (HFE Employers), 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)

**Advisor:** Steve Turner (Mercer)

**Also in attendance:** Nick Dixon (Head of Pensions), Nathan Rollinson (Investments Manager), Carolyn Morgan (Governance and Risk Advisor), Nicky Russell (Technical & Compliance Advisor) and Claire Newbery (Pensions Operations Manager)

**30 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer announced the emergency evacuation procedure.

**31 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Councillor Chris Dando, Councillor Mike Drew, Wendy Weston and Charles Gerrish had sent their apologies to the Committee.

Councillor John Leach was present for the duration of the meeting as a substitute for Councillor Chris Dando.

**32 DECLARATIONS OF INTEREST**

The Chair explained to the public the difference between DPI's (Disclosable Pecuniary Interests), which require recusal, and 'other interests'. Members are expected to declare relevant 'other interests' but only need to withdraw if they consider their judgement is clouded by considerations relating to the bodies for which they declare such an interest.

William Liew declared an 'other interest' with regard to agenda item 9 (Investments in Aerospace & Defence) as in his role on the Committee he represents all Further and Higher Education employers which have engagement with these industries. He stated he had no personal interest to declare.

John Finch declared an 'other interest' with regard to agenda item 10 (Investments Pooling) as he is employed as an independent advisor to the Cornwall Pension Fund.

Edmund Cannon declared an 'other interest' with regard to agenda item 9 (Investments in Aerospace & Defence) as he is an employee of the University of Bristol.

### **33 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

Youssef Ibrahim addressed the Committee on behalf of Helen Wheeler, a summary of the statement is set out below.

He said the survey results show that only 47% of those who responded want to remain invested in Aerospace & Defence which was not a clear majority. He wanted to draw the Committee's attention to the fact that many young people and women had shown that they were against the continued investment position.

He said that the political position of the Committee had been known since March.

He said that the decision the Committee was likely to make, might well be legal, but in his view, it was not ethical. He added that so many people have been killed in the conflict in Gaza including relatives of his and many more Muslims.

He stated that it was his view that genocide remained ongoing in Gaza.

Benazir Jatoi addressed the Committee, a summary of the statement is set out below.

She said that the results of the survey show that the Fund membership is split on this issue and that the 42% that wish to divest from Aerospace & Defence were mainly women and young people.

She stated that she believed that the survey included non-relevant information. She added that she felt that most Fund members would expect investment in assets that would cause no harm to human life.

She called for a further expert analysis of the survey results to be carried out.

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

He said it was clear that the Committee intends to vote today to continue investing members' pay in arms companies complicit in genocide and that this was the outcome it always wanted from the member survey.

He stated that the Committee had expressed clear political support for arms investments, that its members' have known links to the arms industry and were undeclared, and that these members did not recuse themselves from previous meetings.

He said that in his view the Committee have provided no meaningful opportunities for members or their representatives to comment on the plans and that Trade Union reps were consulted very late and on a confidential basis only.

He added that the survey design was highly contentious with numerous concerns raised by invited stakeholders about biased questions and misleading information. He highlighted that only 1 in 5 members were surveyed and that no explanation had been provided as to why you did not contact a wider pool of members via APF employers on an opt-in basis.

He stated that the results provide no evidence of widespread support for continued arms investments amongst members, with only a minority of members (47%) supporting the APF Committee's position. He added that there is no mandate from members for your controversial and divisive policy.

He said that the perception that this decision is guided by the personal priorities and interests of APF Committee - and not by pension fund members' best interests - will be damaging to the Fund.

He stated that the APF is a public body for which BANES Council is legally responsible - it must ensure that APF Committee is properly managed according to democratic principles.

Roger Thomas addressed the Committee on behalf of Ahmed Hamoud, a summary of the statement is set out below.

He said that the survey contained weighted questions and that despite that only 47% of respondents want a continuation in these types of investments. He called on the Committee to vote with their consciences.

He said that the images seen from Gaza were horrific and that humanity must form part of the Committee's consideration. He added that the death and mutilation of many people, including so many children cannot be defended.

He asked for members to vote against any decision to remain invested in Aerospace & Defence companies.

Beth Cleeter addressed the Committee, a summary of the statement is set out below.

She said that as a child she could recall not being able to comprehend the holocaust and that to now see genocide in Israel was appalling.

She said that she felt that some members of the Committee were employed by bodies that have an interest in this decision and were therefore biased.

She stated that claims about job risks contained in the survey, and mentioned previously, were not true.

She said that people should be free to speak on this matter despite non-violent action groups being jailed for their protests.

The Chair thanked the members of the public for their statements. He noted that questions had been received from Ahmed Hamoud. Responses to those questions had been prepared and circulated which will also be appended to these minutes online.

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

There were none.

### **36 MINUTES: 26TH SEPTEMBER 2025**

The Committee **RESOLVED** that the minutes of the meeting on 26th September 2025 be confirmed as a correct record and signed by the Chair.

### **37 DRAFT PENSION BOARD MINUTES: 3RD DECEMBER 2025**

The Committee **RESOLVED** to note the draft minutes of the Board meeting held on 3<sup>rd</sup> December 2025.

### **38 INVESTMENTS IN AEROSPACE & DEFENCE**

The Head of Pensions introduced the report to the Committee and highlighted the following points.

- The Committee are being asked to confirm or reconsider its previous decision in-principle to remain invested in Aerospace & Defence (A&D) companies.
- Since the in-principle decision made in March 2025 there have been three developments which now inform the Committee's final decision on A&D investments:
  - The Fund has undertaken a representative survey of its members' views, led by an independent research provider.
  - The Fund has received expert legal opinion.
  - The UK government has published its Fit for the Future proposals, which shift key investment accountabilities from LGPS funds to their pools.

Brent Wright, Osborne Clarke, addressed the Committee to outline the legal advice provided.

- Legal advice has been taken from external solicitors and counsel (Nigel Giffin KC), to ensure that whatever decisions are taken by the Pension Committee are in accordance with its legal obligations and duties towards the Fund and its employers and members.
- The Pension Committee is considering a proposal to exclude from the Fund's investments all aerospace and defence companies, on grounds which are social or ethical rather than financial.
- The legal position is that the Authority (i.e, Bath & North East Somerset Council acting as the administering authority of the Fund, and here acting through its pension fund committee) may only base investment decisions upon non-financial factors if two conditions are satisfied:
  - That to do so would not involve significant risk of financial detriment to the Fund ("the financial condition"); and
  - There is good reason to think that scheme members would support the decision ("the member support condition").
- Both these conditions must be individually satisfied. If either condition is not met, it would be unlawful to proceed on these non-financial grounds.
- In relation to the financial criterion, the essential point is that the Authority, acting as a prudent custodian of the Fund, ought not to pursue a policy which, for non-financial reasons, creates a realistic possibility of the Fund suffering financial detriment which is material in the context of the Fund's size and nature. This requires consideration both of the likelihood of financial detriment arising, and the anticipated or potential scale of such detriment if it did arise.
- In relation to the member support criterion, this probably requires something effectively equivalent to consent given by the body of members as a whole. That is likely to mean both that a high proportion of those members with a view would support the proposed policy (not necessarily near-unanimous, but not just a bare majority either), and that there is substantial positive support for that policy (as opposed e.g. to an overwhelming indifference amongst the membership).
- There may be a variety of ways, formal or informal, in which the Authority could legitimately assess the extent of member support for a particular policy, but some rational positive basis is required for determining that the member support criterion is met. Where, as here, an organised survey of member opinion has been carried out, that is likely to represent the best evidence of member views, and some specific reason would be required for departing from what the survey shows.

Jackie Peel asked if, when the advice was sought, they were given any indication of a desired outcome.

Brent Wright replied that there was not and said that the legal advice was provided in an open manner.

Jackie Peel asked if there were any legal concerns as a result of the evidence gathered from the member survey.

Brent Wright replied that there were no concerns.

Councillor Fi Hance asked for confirmation that a clear majority of responses must be seen from the member survey to enable any potential change in investment decisions.

Brent Wright replied that this was correct.

Edmund Cannon commented that the Fund should not incur a financial detriment as a result of this decision and said that in times of warfare the profits of weapons companies were likely to increase.

The Head of Pensions said that with regard to future returns they would not be able to say whether there would be a financial benefit or detriment to the Fund should a decision to divest be made. He emphasised that Future returns from A&D companies could be higher or lower than the equity market overall.

Shona Jemphrey asked for clarification of any potential legal consequence should the Committee make a decision to divest from investments in A&D.

Brent Wright replied that any such decision could result in a Judicial Review being raised as the survey results show that a status quo is the preferred option from the majority of members.

Councillor Joanna Wright asked, given the close figures from the survey response (42% of members support A&D divestment, while 47% prefer continued A&D investment), what the legal opinion was for a decision the Committee could take.

Brent Wright replied that a clear majority would be required to enable the Committee to make a decision to divest. He added that the current figures do not reach the member support condition to enable change.

Trevor Wilkinson, Prevision addressed the Committee to explain the process and results of the member survey.

### Survey process

- Prevision set up an online survey - The survey was designed and tested in the summer of 2025
- Of the Fund's 100,000 unique members, 31,000 had previously given permission for APF to approach via email
- APF emailed a link to the survey to a sample of members (26,360)
- The survey was live 4<sup>th</sup> – 22<sup>nd</sup> September
- Prevision received 2,500 anonymous responses

- A sample of 2,500 yields findings with a margin of error of +/- 1.5%.

Jackie Peel asked why all 31,000 members with an email address were not sent the survey.

Trevor Wilkinson replied that the 26,360 sample of members represented the whole Fund membership and that increasing the sample size yields diminishing returns in terms of a smaller margin of error.

Councillor Fi Hance asked if permission could have been sought by other employers to contact members on behalf of the Fund so that they could receive the survey.

Trevor Wilkinson replied that if other bodies had become involved in the survey it would add complexity and lessen the confidence in the results.

Councillor John Leach asked if any attempt to contact members outside of the online survey had been made.

Trevor Wilkinson replied that a postal survey had been considered but said that they were satisfied that the profile of those emailed represented the whole of the Fund membership.

#### Benefits and features of an online survey

Benefits:

- **Tried and tested methodology:** the default method for consumer surveys
- **Representative:** there is a close match between the profile of those members for whom APF holds email addresses and the profile of the total membership
- **Appropriate:** 90% of UK adults have internet access (source: Office for National Statistics).

Features:

- **Transparent objectives:** explained to respondents in the covering email and within the questionnaire.
- **Clear and unambiguous:** clear terminology, questions not leading, response scales balanced.
- **Easy to complete and short:** no more than five minutes.

Jackie Peel asked who produced the initial draft of questions and then what the process was once the Committee members had given their feedback on them.

Trevor Wilkinson replied that an initial discussion had been held with APF officers and that Prevision then drafted a set of questions for internal comment before being shared with Committee members. He added that following their feedback some amendments were made before the survey was distributed. He stated that at no time had there been any pressure to generate a specific result and that to do so would be contrary to the research industry code of conduct.

## Sample

A survey of a sample of members yields findings that are statistically robust and representative of the membership.

Increasing the sample size yields diminishing returns in terms of a smaller margin of error, in addition to increasing the cost of conducting the survey.

## Weighting

Prevision weighted the findings to ensure that the demographic profile of responses matches the overall member profile. All figures given in the findings section are weighted.

## Summary of research findings

- How much do members agree with statements relating to Avon Pension Fund investing in the Aerospace & Defence sector?
  - I am concerned that products made by A&D companies may be used to harm civilians: 52% agree strongly, 22% agree somewhat
  - I am concerned that A&D companies can harm the environment: 37% agree strongly, 32% agree somewhat
  - For me, an important consideration is that A&D companies play a key role in the defence of the UK and its allies: 40% agree strongly, 29% agree somewhat
  - For me, an important consideration is that A&D companies employ many people across the Bristol and Bath region: 28% agree strongly, 37% agree somewhat
  - For me, an important consideration is the financial returns from investing in the A&D sector: 28% agree strongly, 26% agree somewhat, 26% disagree strongly
- Overall, should investment in A&D sector continue or cease?
  - Continue: 47.1% / Cease: 42.3%

## Demographic analysis of whether investment in A&D sector should continue or cease

- Percentage agreeing that the Fund should continue investing in A&D sector was 47% including a high proportion of males and members over the age of 55.
- Percentage agreeing that the Fund should cease investing in A&D sector: 42% including a high proportion of females and members under the age of 45.

## Summary

- Members expressed concern about the harm caused to civilians and the environmental impact of the Aerospace & Defence sector.
- At the same time, members acknowledged that the sector contributes to UK defence and local employment.
- Members also took into account the financial returns of investment in the sector.
- Weighing up these issues, members expressed a preference for the Fund continuing to invest in the A&D sector, although 42% preferred that the Fund ceased investing in the sector.

The Head of Pensions drew the attention of the Committee to the following regulatory points.

- The Committee should note the UK government's Fit for the Future proposals for the LGPS. Under the proposals, individual LGPS funds will retain the right to set their investment strategy, with asset allocation limited to choices across 9 asset classes which the investment pool decides how to implement.
- Beyond the 9 asset classes, Fit for the Future proposals allow Avon Pension Fund to define 'investment preferences' – e.g. responsible investment aims, exclusions including A&D. However, the decision on whether and how to implement such preferences will rest with the pool.
- Specifically, the proposals state that “to enable the pool to invest at scale, it is important that pools are not expected to create bespoke arrangements for each Administering Authority (AA) .... The government does not intend to prescribe a single solution but does not expect to see bespoke arrangements for each AA.”
- Therefore, the Committee should be aware that any decision to exclude A&D companies may not be implemented in practice, e.g. if LPPI decides that such exclusions are incompatible with wider UK government policy or lack sufficient demand across its whole body of 9 LGPS funds.

Councillor John Leach asked why moral issues were not included in the survey.

The Chair replied that the survey did contain a number of explanatory paragraphs.

Councillor Fi Hance commented that she was disappointed by the survey results and personally did not support investment in Aerospace & Defence. However, she could not set aside the legal parameters for which the Committee could make a decision and would therefore be voting for the status quo to remain invested.

Shona Jemphrey said that she felt that more influence should have been given to the views of younger respondents as they will have longer to live with the possible consequences of the decision made.

Councillor Robert Payne said that no clear desire to divest has been shown despite 74% of respondents being concerned that products made by A&D companies may be used to harm civilians. He added that these views should be shared with the new pool.

Councillor Joanna Wright suggested whether a further recommendation could be considered which would address future pool investment.

Councillor John Leach stated that he had no confidence in the results of the survey and would vote against any proposal to confirm the decision made by the Committee in March.

Pauline Gordon said that the views of younger people were clear, she would likely support a further recommendation and that the matter should be looked at again in future years.

The Chair proposed the following wording for an additional recommendation.  
*The Committee notes the strength of the views expressed and agrees to communicate them to the new LPPI pool to inform their investment policies.*

Councillor Joanna Wright seconded the recommendation proposed by the Chair.

The Head of Pensions commented that he would expect to poll Fund members on topics of concern at least every two or three years, to inform the Fund's investment strategies.

Jackie Peel stated that she had confidence in the integrity of the Committee, the process and results of the survey and the legal advice received. She said she would support confirmation of the previous decision and the additional recommendation proposed by the Chair.

The Chair proposed that the Committee:

- i) Note the expert legal opinion, projected financial costs, survey results, and upcoming regulatory changes.
- ii) Having regard to the above factors and other relevant information, confirm its previous decision, in principle, to remain invested in A&D companies and to continue to apply the Fund's policies on responsible investment and exclusions.
- iii) Notes the strength of the views expressed and agrees to communicate them to the new LPPI pool to inform their investment policies.

Councillor Wright seconded the motion.

The Committee voted: 8 for the recommendations proposed, 2 against, 0 abstentions.

## 39 INVESTMENTS POOLING

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.

## 40 REVIEW OF INVESTMENT STRATEGY & PERFORMANCE

The Investments Manager introduced the report to the Committee and highlighted the following areas.

- The Fund's assets stood at £6,184m on 30 September 2025, delivering a net return of 3.0% over the quarter. This was 1.0% behind the return for the strategic benchmark.
- The Fund has a 5% strategic allocation to local impact investments across 3 core themes: renewable infrastructure, affordable housing and SME funding. At 30 September 2025 3% (£180m) had been committed to underlying managers and c. £63m deployed. As the portfolio is still in its build up phase performance is not yet meaningful, however pace of capital deployment and the developing pipeline of opportunities is meeting expectations.

Steve Turner, Mercer addressed the Committee and highlighted the following points from Appendix 1.

- In the third quarter, financial markets were driven by the resilience of economic growth with equities continuing to rally and bond returns mixed.
- While some developed market central banks continued cutting rates, policymakers warned that the outlook warranted a cautious approach on the back of potential risks emerging from tariffs and trade. In the third quarter, the US Federal Reserve reduced its policy rate by 0.25%, amid tensions between President Donald Trump and members of the central bank.
- The Global Sustainable Equity portfolio delivered a return of 5.7% over the quarter, which was behind the 9.7% return for the MSCI ACWI benchmark index. Half of the relative underperformance was attributable to the funds underweight to large IT names such as NVIDIA and Apple.
- The Fund is in a relatively strong position to navigate a potential downturn in equity markets given its equity protection strategy.
- The Investment Strategy Statement is undergoing a review to ensure alignment with Fit for the Future proposals and transition to LPPI. He added that investment advice would be provided by the new pool going forward.

The Chair said that he expected the Investment Strategy Statement to be debated by the Committee at their meeting in March 2026.

Councillor Joanna Wright asked if the Committee should continue to receive regular updates on climate risk and associated modelling.

Steve Turner replied that it remains an important issue to consider and that the Actuary would offer advice as part of any review.

Councillor Wright asked about the Fund's investment exposure to AI (Artificial Intelligence).

Steve Turner replied that most investments will have some degree of exposure to AI, particularly those within the Magnificent 7. He added that these currently retain their healthy levels of earnings, but the Fund should consider that against the overall risk / exposure level.

The Committee **RESOLVED** to note the information set out in the report and appendices.

#### **41 PENSION FUND ADMINISTRATION - PERFORMANCE REPORT**

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

##### Pensions Dashboard

- Connected to Dashboard ecosystem from 31<sup>st</sup> October 2025
- During 2026
  - Finalise and implement new BAU & Annual processes (inc. AVCs)
  - Continue Status 2 reduction
  - Embed ongoing compliance monitoring & review frequency
  - Assess workload & resourcing in advance of going live
- Potential live date early in 2027

##### My Pension Online

- What it is?
  - Provides secure, 24/7 access to pension information
  - Enable lifestyle-based retirement planning
  - Support digital-first member engagement
- Benefits
  - SMS two-factor authentication for enhanced security
  - Accessible, user-friendly design with clear retirement planning tools
  - Fast, easy access to pension details

- 13,000 members have registered to use it.

#### Oasis direction order

- The order approves the consolidation of 53 academies and associated admitted bodies to LPFA. The APF have 10 academies and 1 admitted body covering approximately 1500 member including active, deferred and pensioner members. This change will create significant additional workload and expense for the Fund for which we will seek recovery from Oasis and have this agreed in the final direction order.

Jackie Peel referred to the Service Performance Plan and asked what the feeling was regarding the current trajectory entering Q4.

The Pensions Operations Manager replied that there were a number of key projects planned for 2026, but said she was confident that the current progress level would be maintained.

The Chair, on behalf of the Committee, wished to offer thanks to all members of the team for their continued hard work.

The Committee **RESOLVED** to note the service performance to the period ending 31st October 2025.

## 42 **LEGISLATION UPDATE**

The Technical and Compliance Manager introduced the report to the Committee and highlighted the following areas to them.

#### Access and Fairness Consultation

- A response to the consultation that closed on 7 August 2025 is still awaited. Once a response to the consultation is received from Government, the final outcomes will need to be considered further by the technical team, in particular around rectification of survivor benefits. The timescales for implementation and the availability of central support and guidance will be critical.

#### Access and Protection Consultation

- On 13 October 2025, MHCLG published a new consultation titled “Scheme improvement (access and protections)”. The four main areas covered in the consultation are summarised as follows.
  - Normal Minimum Pension Age
  - Access for councillors and mayors
  - Academies
  - New Fair Deal
- The Consultation closes on 22 December 2025.

She said that there are concerns as to the cost and amount of work involved in implementing a new Councillor & Mayors Scheme with an effective date of April 2026. It was doubtful due to the short timescales whether there would be any guidance or calculations available.

The Chair asked if Heywood would be able to deliver a software solution.

The Technical and Compliance Manager replied that the next software release had already been planned for February. It was unlikely that a further one could be scheduled before the regulation became effective. Heywood confirmed that as a minimum, LGPS funds could record new membership, but no other functionality would be ready.

Shona Jemphrey asked what impact these changes were likely to have on staff and their workload.

The Pensions Operation Manager replied that with regard to the Access and Fairness Consultation the work involving Survivor Benefits and Death Grants would need to be carried out the most experienced members of staff, so a drain on resource. She added that the Oasis Direction will instigate a data transfer which will be a substantial process to manage.

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

#### **43 RISK MANAGEMENT REVIEW**

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

- The quarterly review of the risk register has taken place and one change has been made to scores for this quarter. Some amendments have also been made to current impacting factors.
- NR04 – Governance and internal controls – the likelihood has been increased from possible to likely to reflect the fact that the Fund has not received full audit scrutiny. Internal Audit are behind with the audit plan for 2025/26 due to resource issues within the department. This is intended to be completed by March 2026.
- NR06 – Loss of IT including cyber attack – the Fund has successfully connected to the Pensions Dashboard. While the Fund has carried out a Data Protection Impact Assessment (DPIA) and the Pensions Dashboard Programme has designed and implemented a robust security framework, the launch of Pensions Dashboard could present a fresh opportunity for scammers to target pension scheme members. Additional communications to members planned.

Jackie Peel asked if the Committee should meet for specific session on potential cyber issues.

The Chair proposed that a Teams briefing be arranged for the Committee and Pension Board members to discuss the matter in more detail.

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

#### 44 GOVERNANCE UPDATE

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

A summary of regulatory and data breaches recorded for the period October 2024 to October 2025 can be found in Appendix 5. There were no material breaches reported during the period.

##### Regulatory Breaches October 2024 to October 2025

Employer late payers – 14 incidents over the year. The report states that 2 are outstanding, one of these have now been resolved.

Employer Year End Data – 6 incidents - Late or incorrect data submitted - All employers issued fines for late/missing data submissions in October 2025.

##### Data Breaches October 2024 to October 2025

Reported to Information Governance: 7 (1 x incorrect link sharing, 3 x postal breach (wrong address), 2 x postal breach (enveloping), 1 x email breach). Training and support to team members provided, including refresher training and bespoke training sessions. Internal process reviews being carried out to ensure compliance and necessity. Procedure notes are being reviewed to ensure all consistency across teams. Regular data protection reminders issued to staff.

The Governance & Risk Advisor stated that the Breaches Policy had been reviewed and updated to reflect TPR's General Code of Practice (GCOP). TPR's expectations have not changed but the policy has now been written more in line with the code of practice and in particular sets out more detail about the legal duty to report and assessing material breaches.

##### Board Workplan

- Benchmarking – Use SF3 data and this has been provided late. Report to March 2026 meeting.

##### Training

- A reminder to all members to complete this round of training by March 2026.

##### The Pension Regulator's General Code of Practice – Action Plan

- The Action Plan is set out at appendix 3.

- It has been reviewed and updated to show progress and where appropriate completion of tasks. We will be holding a further review meeting in February 2026 to ensure we are on track to complete the action plan by March 26, although there may be a few tasks that require a further extension.

Board recruitment

- Interviews were held on 3<sup>rd</sup> December. The two remaining Employer Representative vacancies have now been filled.

Good Governance Regulations

- These have been published and will come into effect from April 2026.

Future Meeting Dates

- It was noted that some dates for the Committee had been amended since the publication of the report. The dates for 2026 are as follows:
  - 27 Mar 2026
  - 26 Jun 2026
  - 18 Sep 2026
  - 11 Dec 2026

The Committee **RESOLVED** to:

- i) Approve the breaches policy
- ii) Note the Committee workplan & training programme
- iii) Note the service plan monitoring
- iv) Note the TPR’s General Code of Practice action plan
- v) Note the breaches log

The meeting ended at 12.36 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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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 March 2026</b>
TITLE:	<b>INVESTMENT STRATGEY STATEMENT 2026</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p>List of attachments to this report:  Appendix 1 – Draft Investment Strategy Statement 2026</p>	

## 1 THE ISSUE

- 1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), state that the Investment Strategy Statement (ISS) must be kept under review and revised from time to time particularly when there is a material change in risk and reviewed at least every three years. The ISS was last revised in March 2024. The Fund undertook a strategy review in 2025, recommending changes to the strategic asset allocation (SAA) and climate monitoring points, hence a revised ISS has now been drafted for Committee approval.
- 1.2 This ISS has been produced in line with the current 2016 regulations and will be updated to ensure compliance with the new 2026 pooling regulations when they are passed into law (expected 1<sup>st</sup> April 2026). For this reason, elements of the ISS still reflect legacy pooling arrangements.
- 1.3 The 2026 draft regulations stipulate that the new ISS should be published by 1<sup>st</sup> October 2026 and subject to consultation with scheme employers, members (unions) and other interested parties e.g. Mayoral Combined Authorities. The Fund's new Pool, LPPI, is currently undertaking a phased review of the investment strategy which will inform the ISS consultation and production schedule.
- 1.4 This current ISS is subject to the existing consultation process where Pension Board review the document for compliance with the 2016 regulations, providing feedback and guidance to the Committee before approval. The Pension Board reviewed the draft ISS on 11 March 2026 identifying no issues.

## 2 RECOMMENDATIONS

### The Committee:

- 2.1 Approves the draft 2026 Investment Strategy Statement.
- 2.2 Notes that the 2026 ISS will be published on the Fund's website and will be updated to reflect the latest regulations and any further strategy changes arising from the LPPI review before 1<sup>st</sup> October 2026.

## 3 FINANCIAL IMPLICATIONS

- 3.1 The costs of the investment strategy are provided for in the annual budgets (investment manager fees and advisory costs).

## 4 DRAFT ISS

- 4.1 The changes to the ISS (as highlighted in the document) reflect the recommendations agreed by Committee at its 2025 investment strategy review workshop(s), namely:

- a) Section 6 – SAA:
  - Formal 2% allocation to Natural Capital (within the current 32.5% allocation to illiquids)
  - Increase in Local Impact from 3% to 5% (within the current 32.5% allocation to illiquids)
  - Removal of the 6% allocation to Diversified Return Funds
  - Increase in the allocation to Index-linked Gilts from 12% to 14%
  - Increase in the allocation to Multi Asset Credit from 6% to 10%

With the exception of Natural Capital and Local Impact (strategies that will be developed under LPPI) all of the above strategy changes have been executed.

- b) Section 4 – 'Investment Beliefs' are consistent with the SAA and reflect the latest position in respect of Local investments. Section 4 sets out further detail related to the Fund's allocation to Local investments including target risk/return, geographic coverage and impact objectives.
- c) Section 9 – Responsible Investment has been updated to reflect decisions agreed by the Committee, namely:
  - Adoption of a 2035 decarbonisation monitoring target for listed equities and corporate bonds
  - The use of limited activity-based exclusions across tar sands, coal, tobacco and controversial weapons
  - Net zero alignment and divestment of a limited subset of high emitting companies by 2030

## **5 RISK MANAGEMENT**

5.1 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.

## **6 EQUALITIES STATEMENT**

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

## **7 CLIMATE CHANGE**

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint 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.

## **8 OTHER OPTIONS CONSIDERED**

8.1 None.

## **9 CONSULTATION**

9.1 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>	None
<b>Please contact the report author if you need to access this report in an alternative format.</b>	

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**Avon  
Pension  
Fund**



Your pension, your future

# **Investment Strategy Statement 2026**

Avon Pension Fund

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# 1. Introduction

1.1 This Investment Strategy Statement ('ISS') has been prepared in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. To the extent possible this ISS refers to future pooling arrangements under LPPI; however elements necessarily relate to the Fund's historical approach to pooling under Brunel. It reflects strategy changes agreed by the Committee in 2025

1.2 The ISS will be updated by 1<sup>st</sup> October 2026 in line with the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 once they pass into law (expected 1<sup>st</sup> April 2026). It will then incorporate any changes to the strategy arising from the review LPPI are currently undertaking on behalf of Avon Pension Fund ('APF').

1.3 The purpose of the ISS is to set out:

- The governance arrangements for investments
- APF's investment beliefs
- APF's investment objectives and preferences including its approach to Local Investment
- How APF will manage investment related risks
- How APF incorporates responsible investment
- The strategic asset allocation benchmark and ranges to provide flexibility

1.4 The ISS is consistent with the Funding Strategy Statement (FSS). An integrated approach ensures the investment strategy supports APF in meeting its regulatory requirements.

1.5 Ongoing quarterly and annual monitoring of the strategy enables the APF Committee (the Committee) to take advice as to whether a review is needed at any time.

1.6 In preparing the ISS, the Committee has taken advice from Fund Officers and APF's appointed investment consultant. APF's Local Pension Board (Board) reviews the ISS for compliance with the regulations.

## Investment Governance Framework

- 1.7 APF is administered by Bath & North East Somerset Council, which is legally responsible for APF. The Council delegates its administration responsibility to the **Avon Pension Fund Committee**, which is its formal decision-making body. Members of the Committee represent a cross section of APF's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.
- 1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of APF in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.
- 1.9 The **Funding & Risk Management Group** (FRMG) provides a robust and efficient governance framework for the Risk Management Strategies. This Group comprises Fund Officers, Investment and Risk advisors. FRMG has delegated authority for:
- (i) agreeing the operational structures required to meet the strategic objectives determined by the Committee; and
  - (ii) implementation of the Risk Management Strategies.
- The FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.
- 1.10 In addition, the **Board** has an oversight and scrutiny role to ensure good governance through monitoring of APF's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of APF is effective and efficient.
- 1.11 Both the Committee and the Board have members and other stakeholder representatives who actively engage with stakeholders to ensure APF is aware of, and can respond effectively to, stakeholder concerns.
- 1.12 APF actively engages with its stakeholders about the investment strategy, providing the opportunity for a wider range of stakeholders to give input as the Committee assesses key strategic considerations.

## 2. Historical Approach to Pooling (Brunel Pension Partnership)

- 2.1 Historically, APF pooled its investment assets with nine other administering authorities through the Brunel Pension Partnership. Brunel Pension Partnership Limited (Brunel) is authorised by the Financial Conduct Authority to manage the assets within the pool and is owned equally by the ten administering authorities

that participate in the pool. Under new pooling regulations Brunel will wind down and all APF assets will be transitioned to LPPI.

- 2.2 Per the current Regulations, APF sets its strategic asset allocation, allocating assets to defined outcome focused investment portfolios provided by Brunel. Brunel has overall responsibility for external manager selection and monitoring and creates collective investment vehicles for liquid assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.
- 2.3 The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of APF as a client. It includes a duty of care of to act in its clients' interests.
- 2.4 Brunel's established governance arrangements includes an Oversight Board comprising representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. Shareholder rights are set out in the Shareholders Agreement and other constitutional documents.
- 2.5 Brunel Oversight Board is supported by the Client Group which comprises investment officers from each of the clients but also draws on finance and legal officers as required. It has the primary role in managing the relationship with Brunel, providing practical support to the Brunel Oversight Board and monitoring performance and service delivery. The APF Committee and Investment Panel receive regular reports covering investment performance and the Brunel's service delivery.
- 2.6 Brunel currently manages all APF's listed assets, pooled funds and UK property funds as well as private market allocations. There are legacy commitments to illiquid private market portfolios which will be transitioned or liquidated as appropriate, with proceeds reinvested in the Pool. The formulation, implementation and ongoing monitoring of APF's risk management strategies (e.g. Liability Driven Investing, Currency Hedging and Equity Protection) remain the responsibility of APF and its specialist advisors. Brunel appointed the Risk Management manager, under a broad commercial agreement covering the manager's key terms.

### **3. Future Approach to Pooling (LPPI)**

- 3.1 In 2025, the Government instructed Brunel Pensions Partnership to wind down and for existing clients to identify a new Pool to partner with. APF is currently in the process of transitioning its assets to Local Pensions Partnership Investments (LPPI) by the deadline of 1<sup>st</sup> April 2026. Incoming regulations grant Pools a wider remit. LPPI will become APFs primary source of independent investment advice and will be responsible for full delegated implementation of its investment strategy.

## 4. Investment Beliefs

4.1 APF has the following investment beliefs which underpin the investment strategy and guide decision making around investment of APF's assets.

- We believe in both a long-term investment horizon and a short-term approach to risk management. This enables a strategic approach to investment risk and capital allocation which will ultimately drive attractive investment returns, whilst ensuring contribution sustainability for employers by managing short-term risk.
- We believe that diversification enables a broad spectrum of investments with different risk profiles to help manage risk. We also acknowledge that hedging can be a useful tool to manage specific key risks.
- We believe investing responsibly to make a positive contribution in the real economy will promote sustainable returns. We invest with a 2045 net zero objective and work with like-minded investors to engage and encourage positive change.
- We believe in value for money, ensuring the fees that are paid for investments are reasonable in the context of expected performance, management of risks and local investment. We accept that where hedging is used to manage risk, that there is an associated cost to provide additional contribution stability for employers.
- We believe that there is a role for both active and passive management in the management of our equity assets, however we recognise the challenges of adding value on a consistent basis over time.
- We recognise the potential benefits of local investments in supporting regional economic development and addressing social and environmental challenges and in supporting the Fund's investment return objectives. We believe that local investment can therefore support its RI principles and provide societal benefits to the areas directly and indirectly impacted by such investments.

## 5. Investment Objectives and Preferences

5.1 APF's overriding objective is to ensure affordable and stable contributions. It has specified the following return objectives and risk tolerances to guide decision making on the investment strategy and its implementation:

Return Objectives and Risk Tolerances	Metric
Probability of being 100% funded in 20 years	> 95%
Probability of investment returns exceeding the past service discount rate over 20 years	> 75%

Average likelihood of no increase in employer contribution rate (over next 9 years)	> 67%
Likelihood of a 5% increase in employer contribution rate (over next 3 years)	< 25%
Value-at-risk (3 year 95th percentile)	< 25% of total Fund asset value
Liquidity requirement reflecting excess of benefits over contributions received	From c. £25m to £75m p.a.

5.2 Consistent with our belief that there is a role for both active and passive management, while recognising the challenges of adding value on a consistent basis over time, APF prefers that underperformance (relative to benchmark) within the aggregate listed equity portfolio be limited to 2% p.a. in any given 3-year period.

5.3 Further preferences relating to APF’s risk management strategies are set out in Section 8.

5.4 APF has specified the following approach to **Local Investments**:

Local investments	Metric
Target allocation	5% to be invested or committed by 2027/8
Target area	South West region, with a preference for the Avon area
Risk/Return	APF is prepared to accept lower expected returns or higher risk for local investments providing (i) the overall portfolio delivers a return of 6-8% p.a. over a 5-year period (ii) measurable impact is achieved (see below)
Impact	The Local Impact allocation should increase the supply of quality affordable housing stock, invest to support Net Zero and contribute to local economic activity e.g. job creation. The Fund will work collectively with the Pool and the Strategic Authority to deliver impact in the region, drawing on the Local Growth Plan <sup>1</sup> where appropriate.

<sup>1</sup> <https://www.westofengland-ca.gov.uk/wp-content/uploads/2025/09/Growth-Strategy-Web.pdf>

## 6. Strategic Asset Allocation

6.1 The strategic asset allocation was reviewed in 2025 to ensure it is still meeting the Fund's investment objectives and risk tolerances. The strategic asset allocation is as follows:

<b>Asset Class</b>	<b>Allocation</b>	<b>Tolerance Range</b>
<b>Listed Equity</b>	<b>41.5%</b>	<b>31.5% - 51.5%</b>
<i>Paris Aligned Equity</i>	<i>Underlying targets are guided by the investment preference outlined in section 4.2</i>	-
<i>Sustainable Equity</i>		
<i>Global Equity</i>		
<b>Private Credit</b>	<b>3.5%</b>	-
<b>Private Equity</b>	-	-
<b>Property</b>	<b>13.0%</b>	-
<i>UK Property</i>	4.0%	-
<i>Secured Income</i>	9.0%	-
<b>Infrastructure</b>	<b>9.0%</b>	-
<i>Renewable Infrastructure</i>	5.0%	-
<i>Core Infrastructure</i>	4.0%	-
<b>Other Alternatives</b>	<b>7.0%</b>	-
<i>Local Impact</i>	5.0%	-
<i>Natural Capital</i>	2.0%	-
<b>Credit</b>	<b>12.0%</b>	<b>7.0% - 17.0%</b>
<i>Corporate Bonds</i>	2.0%	-
<i>Multi-Asset Credit</i>	10.0%	5.0 – 15.0%

<b>UK Government Bonds</b>	<b>14.0%</b>	-
Cash	0.0%	0.0 – 5.0%

*\*Asset classes highlighted in **bold** are consistent with the Governments '9 buckets' as set out in the Fit for the Future consultation*

- 6.2 The strategic allocation between the asset classes outlined achieves the appropriate balance of risk and return to provide stability of contributions.
- 6.3 The allocations to less liquid assets amount to 32.5%. A higher allocation does not improve the risk and return profile sufficiently to offset the illiquidity risk.
- 6.4 Hedging is an integral part of the investment strategy to mitigate unrewarded risks (such as foreign exchange hedging) and to increase liability cash flow matching (interest rate and inflation hedging).

## 7. Suitability of Investments

- 7.1 Private markets allocations capture alternative sources of return and generate income to improve cash flow, to provide greater stability in contribution rates. Some of these assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.
- 7.2 Climate change scenario modelling indicates that allocations to sustainable and transitioned aligned equities are expected to experience less severe negative impacts from climate risks (both transition and physical risks) across time periods under various climate change scenarios.
- 7.3 APF believes that investing in low carbon and transition aligned strategies that significantly reduce financial exposure to transition risk across all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting APF's climate objectives as well as maximising real world impact. These views underpin APF's approach to responsible investment.
- 7.4 **Currently, the majority of assets are invested, by external managers under the oversight of Brunel Pension Partnership and governed by Pool legal agreements. Under future pooling arrangements APFs investment assets will be managed by LPPI who use both in-house and external investment management to ensure portfolios are diversified and structured to efficiently manage stock specific risk, investment styles and other financial risks.**
- 7.5 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager's/pool approach is consistent with APF's Responsible Investment principles including an assessment of the Environmental, Social

and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

## **8. Risk Measurement and Management**

- 8.1 The primary risk to APF is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates and affordability.
- 8.2 APF's three-year Value-at-Risk (VaR) was estimated at c. £1,023m based on the funding position and the new strategic asset allocation, as at 31 March 2025 conditions. This quantifies how much the funding position could negatively change over a three-year period with a 1-in-20 probability.
- 8.3 The Listed Equities portfolio is the largest contributor to risk. This is partly mitigated by the equity protection strategy (discussed later in this section).
- 8.4 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting APF and the actions to mitigate those risks are set out in Appendix 1.

## **Risk Management Framework**

- 8.5 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and assets held for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects APF from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk APF by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.
- 8.6 The strategies are reviewed at least annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing collateral requirements. Operational aspects as they relate to the RMF (e.g., routine monitoring of collateral, performance and counterparties and implementation of any strategic changes) are delegated to the Funding and Risk Management Group. The Investment Panel receives a quarterly status update on the RMF where any concerns are flagged. Strategic changes to the RMF are required to be approved by Committee.

<b>Risk Management Preferences</b>	<b>Metric</b>
Index-linked gilt exposure	50% of interest rate sensitivity versus total liabilities
Equity downside protection	50% coverage of total equity exposure providing at least a 20% reduction in volatility for the protected equities relative to unprotected
Currency hedging policy	Listed equities: 50% (developed markets) Public bonds: 100% (developed markets) Core infrastructure: 100% Renewable infrastructure: unhedged Overseas property: 100% Private debt: 100%

## **Liability Driven Investment Strategy (LDI)**

- 8.7 APF is not in a position to reduce its strategic asset allocation to higher return growth assets (e.g. equities) and allocate more to lower return, 'liability matching' assets (e.g. UK Government Bonds), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy, therefore, allows APF to retain its allocation to growth assets while maintaining a strategic hedge position of 50% of interest rate sensitivity versus total liabilities, employing leverage to do so.
- 8.8 Liabilities relating to the Lower Risk Investment Strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

## **Equity Protection Strategy (EPS)**

- 8.9 The EPS is underpinned by the funding level and protects against significant falls in developed equity markets. The EPS is structured to evolve with market conditions over time which serves to dampen volatility to an acceptable level. In order to finance the downside protection, APF participates in equity market gains up to a predetermined level or 'cap', beyond which gains are foregone. The 'cap' is set at a level that optimises the risk/return pay-off of the strategy and in a way that does not compromise the assumed investment return in the funding strategy.
- 8.10 The Equity Protection hedge ratio is 50% (of developed market equities), which helps mitigate the drag on equity returns, reduce costs, improve the collateral position overall and retains sufficient downside protection.

## Role of Collateral in Risk Management Framework

- 8.11 The risk management strategies are held in a Qualified Alternative Investor Fund (QAIF), bespoke to APF, enabling collateral management to be delegated to the investment manager. Leverage requires collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.
- 8.12 Collateral adequacy is managed in line with guidance from The Pensions Regulator and the Central Bank of Ireland, the regulator of the QAIF vehicle in which the risk management strategies reside. Predetermined notification points allow the Fund time to source collateral from elsewhere in the investments portfolio should the need arise.

## Risk Management Strategy under Pooling

- 8.13 APF retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its investment advisors on the suitability of the risk management strategies. The pooling arrangement allows APF to determine a bespoke strategy for LDI, EPS and the low-risk investment portfolio to meet its risk management objectives.
- 8.14 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables access to information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.
- 8.15 Given the evolution of APFs funding level over the past 10 years, the RMF will be the initial focus of LPPIs review of the APF investment strategy once assets have been transitioned.

## 9. Responsible Investment (RI)

### RI Principles

- 9.1 APF integrates Environmental, Social and Corporate Governance (ESG) issues into investment processes and ownership practices, in the belief this can positively impact financial performance.
- 9.2 APF is a responsible steward of its assets and aims to be transparent and accountable. Our approach to Responsible investing is based on the following beliefs:
- Management of ESG risks is consistent with APF's fiduciary duty to members

- Climate change poses an existential threat to long-term investments as well as to the planet
- We believe in investing responsibly to make a real world impact
- There is increasing convergence between financial returns and climate aware investments
- Working with like-minded investors to collectively engage companies and policymakers can drive positive change

9.4 APF expects its Pool to engage with company management on ESG issues they have identified as being a risk to the investment case. Managers report to APF on their engagement activities and other ESG initiatives regularly. While we believe engagement and responsible stewardship will influence corporate behaviour more effectively than divestment, APF does employ limited use of activity-based exclusions on the grounds of financial risk. The exclusionary criteria are set out in the table below.

Responsible Investment	Metric
Exclusions	Maintain no investments exposure to issuers: <ul style="list-style-type: none"> <li>• with Thermal Coal Extraction revenues equal or greater than 50%</li> <li>• with Oil Sands Extraction revenues equal or greater than 25%</li> <li>• with Tobacco Production revenues equal or greater than 25%</li> <li>• who manufacture Controversial Weapons and have been deemed to have failed to comply with UN Global Compact Principles (which cover human rights, labour standards, the environment and anticorruption)</li> </ul>

9.5 APF will consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to APF and where it can reasonably conclude that members would support the decision.

## Climate Change

9.6 APF recognises that climate change presents a systemic and material financial risk to APF, as well as society more broadly. It is a strategic investment priority for APF. We aim to be net zero across all of our assets by 2045 and have adopted a number of interim targets in partnership with Brunel to underpin this long-term objective (see below table).

Net Zero Objectives	Metric
---------------------	--------

Net zero – whole Fund	Net zero on financed emissions by 2045
Climate solutions	Maintain at least 12% of the strategic asset allocation in climate solutions <sup>2</sup>
Decarbonisation – listed equities	<ul style="list-style-type: none"> <li>• Primary target: reduce carbon intensity by 84% by 2035 (vs. 2020 baseline)</li> <li>• Secondary target: reduce carbon intensity by 69% by 2030 (vs. 2020 baseline)</li> </ul>
Decarbonisation – corporate bonds	<ul style="list-style-type: none"> <li>• Primary target: reduce carbon intensity by 79% by 2035 (vs. 2020 baseline)</li> <li>• Secondary target: reduce carbon intensity by 60% by 2030 (vs. 2020 baseline)</li> </ul>
Divestment	By 2030, divest from all developed market equity holdings in high impact sectors <sup>3</sup> that are not achieving net zero or aligning to achieve net zero by 2050
Stewardship / engagement	For listed equities, ensure 90% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement by the end of 2027.

- 9.7 APF endorses and supports collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies to drive positive change including investor led initiatives such as ClimateAction100+ and the Institutional Investors Group on Climate Change (IIGCC) to increase pressure on companies and governments to align with the goals of the Paris Agreement.
- 9.8 APF monitors and discloses its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

## RI and Pooling

<sup>2</sup> Climate solutions investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and/or adaptation, in alignment with existing climate related-sustainability taxonomies and other generally acknowledged climate related frameworks source: Net-Zero Asset Owner Alliance (NZAOA). The stated objective allows for a “look through” of the Fund’s portfolios.

<sup>3</sup> Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with the Transition pathway Initiative sectors; alignment assessment based on the Institutional Investors Group on Climate Change (IIGCC)’s Net Zero Investment Framework (NZIF).

- 9.9 The scale and resources arising from pooling enables improved implementation of responsible investment and stewardship across all APF's assets. The Pool's Investment Principles clearly articulate its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.
- 9.10 The Pool is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate APF's wider RI objectives and long-term asset allocation decisions. Proprietary Pool policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately met in respect of RI. APF monitors the portfolios managed by its Pool to ensure they continue to deliver against strategy.

### **Policy of the exercise of rights (including voting rights)**

- 9.11 Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries
- 9.12 APF believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to the Pool and its agents. APF monitors how the Pool undertakes voting and engagement activities in comparison to relevant codes of practice. Where practicable, they are required to vote in all markets and vote at all company meetings on behalf of APF.
- 9.13 The Pool has a single voting policy for all assets under its management held in segregated accounts. In addition, the Pool will actively attend and vote at company meetings (AGM/ EGMs).
- 9.14 A third party voting and engagement service provider, Federated Hermes EOS, enables APF to gain access to specialist expertise and participate in a broad range of engagement themes.
- 9.15 APF recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, APF is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.
- 9.16 APF publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity across the portfolios.

**Avon Pension Fund**

**March 2026**

## Appendix 1 – Key Risks and Mitigating Factors

Financial Risks	Management / Control
<p><b>Investment Risk -</b> Assets do not deliver the return required to meet the cost of benefits payable by APF; potential drivers:</p> <ul style="list-style-type: none"> <li>• Investment market performance/volatility</li> <li>• Manager underperformance</li> <li>• The actual return generated fails to meet APF's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected</li> </ul>	<p>Diversification - A diverse range of asset classes and approaches to investing designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, APF expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.</p> <p>Regular monitoring of manager performance - Each manager is monitored against medium- and long-term performance targets designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions (where relevant).</p> <p>Inflation risk is mitigated by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and monitoring. Value-at-Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework.</p>
<p><b>Asset Risk -</b></p> <p><b>Liquidity risk:</b> The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash.</p> <p><b>Exchange Rate risk:</b> Foreign currency exposure is expected to be an unrewarded risk over the longer term.</p> <p><b>Collateral management risk:</b> Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default.</p>	<p>Investing across a range of liquid assets recognises the need for access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate APF's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so.</p> <p>Liquidity budgeting informs how much APF can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements.</p> <p>Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. In periods of sterling weakness, the investment return will be lower than if the assets were unhedged.</p> <p>A robust and proactive collateral monitoring process with prescribed minimum thresholds protect APF from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call.</p>
<p><b>Responsible</b></p>	<p>Actively addresses ESG risks throughout its investment strategy.</p>

<p><b>Investment:</b></p> <p><b>Environmental, Social &amp; Governance (ESG)</b> issues may have a material financial impact if not given due consideration.</p> <p><b>Climate change risk</b></p>	<p>Considers ESG risks as part of Strategic Investment Reviews.</p> <p>Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly.</p>
<p><b>Longevity Risk</b> - the risk Members of APF live longer than assumed in the actuarial valuation model.</p>	<p>Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term.</p>
<p><b>Employer Covenant Risk</b> - Employers within APF lack the financial capacity to make good their outstanding liabilities.</p>	<p>Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in APF and the analysis is considered when setting the Funding Strategy.</p> <p>A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities.</p>
<p><b>Investment Pooling</b> - Pooling provider does not deliver APF's investment objectives.</p>	<p>The Service Agreement sets out the duties and responsibilities of the Pool and the rights of APF as a client.</p> <p>A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met.</p> <p>Ongoing monitoring of performance, service delivery, costs and savings arising from pooling.</p> <p>Details of APF's pooling arrangement are set out in Section 2 of this document.</p>

<p><b>Regulatory and Political Risk</b> - The potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty.</p>	<p>Ongoing horizon scanning and consideration on APF Risk Register.</p> <p>Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy.</p> <p>Ongoing review of the investment strategy and specific investment portfolios.</p>
<p><b>Governance Risk</b> - Committee Members do not have sufficient expertise to evaluate and challenge the advice they receive. Committee Members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty.</p>	<p>Periodic Member self-assessment.</p> <p>Training policy in place based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds.</p> <p>Expert advice commissioned to support strategic and implementation decisions.</p>
<p><b>Cash Flow Risk</b> - Payments to pensioner members exceed contributions.</p>	<p>Liquidity requirement specified within the investment objectives to help manage needs.</p> <p>Investment strategy has been structured such that the generation of investment income to achieve this liquidity requirement is feasible.</p> <p>Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.</p>
<p><b>Custody risk</b> - The risk of losing economic rights to Fund assets, when held in custody or when being traded.</p>	<p>Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records.</p>
<p><b>Counterparty risk</b> - The possibility of default of a counterparty in meeting its obligations.</p>	<p>Counterparty exposure restrictions as relating to the risk management framework and treasury management policy.</p> <p>Internal controls reporting and compliance monitoring.</p>



<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 March 2026</b>	<b>AGENDA 10 ITEM NUMBER</b>
TITLE:	<b>ACTUARIAL VALUATION 2025 &amp; UPDATED FUNDING STRATEGY STATEMENT</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report:  Appendix 1 – 2025 Funding Strategy Statement		

## **1 THE ISSUE**

- 1.1 The Local Government Pension Scheme (LGPS) Regulations require LGPS funds to have an actuarial valuation every three years. The 2025 valuation has a base date of 31 March 2025 with new employer contribution requirements becoming effective from 1 April 2026.
- 1.2 In calculating the contribution rates, surpluses and deficit recovery payments for the period from 1 April 2026, the Actuary has taken the Funding Strategy Statement (FSS) into account.
- 1.3 The Actuary will finalise the actuarial valuation report before 31 March 2026 which will be circulated to all employing bodies. In the meantime, the employing bodies have been notified of their revised contribution requirements for the period 1 April 2026 to 31 March 2029.
- 1.4 This report examines the final outcome of the valuation process for the whole fund and highlights the principal changes which have occurred since the 2022 valuation.
- 1.5 The latest version of the Funding Strategy Statement is included for information only. This will be included on the Fund website and considered for accessibility requirements in due course.

## **2 RECOMMENDATION**

### **The Committee:**

**2.1 Notes the outcome of the 2025 actuarial valuation exercise.**

**2.2 Delegates the finalisation of the Funding Strategy Statement to Officers.**

### 3 FINANCIAL IMPLICATIONS

- 3.1 The actuarial valuation assesses the funding position of the Fund as a whole. For the individual employers it sets the contribution rates due from all employers for the 3 years commencing 1 April 2026. The costs for completing the valuation are provided for in the 2025/26 budget.

### 4 Background and valuation approach

- 4.1 The long-term funding objective is to achieve a 100% solvency over a reasonable length of time and then maintain that position. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if the assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

As market conditions change between valuations, the assumptions may need to change at subsequent valuations in order to meet this objective; hence contribution rates will vary from one valuation to the next. The Actuary will also incorporate an allowance for long term “tail risks” such as the potential impact of Climate Change on financial markets, life expectancy and contributions affordability.

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

- 4.2 Alongside this overarching objective, employer contributions are set to achieve long-term cost efficiency, meaning the funding plan must provide equity between different generations of taxpayers. Therefore, contributions must not be set at a level that is likely to give rise to additional costs to future taxpayers or that puts too high a burden on current taxpayers. Given the difficult economic and public sector funding environment at the time of the 2025 valuation, significant consideration was given to both the solvency and long-term cost efficiency objectives.
- 4.3 Finally, the 2025 valuation sought to balance the current and future interests of employers in terms of making reductions to contributions now and the likelihood that contributions can remain sustainable over a number of valuation cycles. The financial assumptions have been set taking account of the investment strategy of the Fund and the link between the funding and investment strategies. The FSS, which was approved by the Committee in September 2025, set out the parameters as to how these aims would be met. In particular, the inclusion of the Surplus policy which sets out how any surplus will be utilised to reduce employer rates and the inclusion of a surplus reserve to manage contribution sustainability.
- 4.4 By utilising the flexibility allowed within the FSS, the 2025 funding plans objectively balance affordability for individual employers and solvency of the Fund. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the “real” investment return expected on the Fund assets and the degree of certainty in the assets delivering that real return when setting the real discount rate assumption).
- 4.5 Higher return and lower further inflation expectations at the 2025 valuation, based on long-term financial modelling, has resulted in a more optimistic contribution outlook due to the improved funding levels along with a lower cost of future ongoing benefit cost which has reduced the employers future service rate. The introduction of a surplus reserve has meant for employers, a proportion or all of the surplus is

not being returned to employers via contribution rates as the offsets only relate to surplus in excess of a 105% funding level. However, in a lot of cases there would be reduced or no deficit contributions payable as certified at the previous valuation.

- 4.6 Individual employer results will vary significantly due to other factors such as changes in the membership profile and salary growth (versus assumptions).
- 4.7 Whilst contribution reductions have applied for many employers, employers have been given the option to retain contributions at a higher level or apply a partial reduction (for example to only reduce the primary rate whilst not taking the surplus off-set contribution), allowing them to influence the balance between their short and longer term budgetary risks and some employers have utilised this option to overpay relative to the minimum contribution requirements.
- 4.8 The level of contributions sustainability will be monitored in the inter-valuation period for the total Fund and certain individual employers. This is with a view to inform employers of any emerging trends to consider in terms of their own budget sustainability as well as provide oversight to the Committee in relation to funding risk. This will take into account changes in market and economic outlook as well as any investment strategy changes (where appropriate) emerging from the current strategy review being undertaken by LPPI. The Actuary is not proposing any consideration of any potential investment strategy changes when setting the assumptions at this valuation given the objectives agreed as part of the review being undertaken. The Actuary will note this in his final valuation report.

## **5 ACTUARIAL VALUATION 2025 FINAL OUTCOME**

- 5.1 The current valuation has been taken at 31 March 2025 and a summary of the valuation is in the table below.
- 5.2 The FSS provides a flexible framework to take account of affordability when setting contribution rates and deficit recovery payments as follows:
  - a) Options to overpay the minimum contributions arising from the funding strategy (as noted above)
  - b) Phased in increases in future service rates over a maximum of 3 years (despite increases in return expectations, other factors have led to an increase in future service rates for employers in isolated circumstances)
  - c) Option to pay deficit contributions in advance to benefit from a monetary discount.
  - d) Options to bring forwards surplus off-sets to the beginning of the year, for certain employers, subject to a minimum contribution of zero in any month

## Initial Fund Outcome:

	2022	2025
Surplus (Deficit)	(£238m)	£339m
Funding Level	96%	106%
Value of assets	£5,822m	£5,787m
Value of Liabilities	£6,060m*	£5,447m*
Average employee contribution rate	6.4% of pay	6.4% of pay
Average future service rate (employer)**	18.6% of pay	16.3% of pay
Average Period for deficit/run-off and for surpluses/run-off (years)	12	12

### Notes:

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

\*\* this is the average ongoing open future service rate allowing for each employer's circumstances

5.3 The average run off period for deficit/surplus for the Fund has remained at 12 years for the 2025 valuation, which is the medium-term target for the Fund. However, a large number of employers have now moved into surplus or seen an increase in surplus. The main drivers of the valuation outcome are:

- a. The impact of investment returns. Change in the past service real discount rate (from CPI+1.5% p.a. to CPI + 3.3% p.a.) over the 3-year period to 31 March 2025, has had a combined positive impact of c£869m on the funding position.
- b. The impact of high observed CPI inflation over the 3-year period (and average pension increase of 6.1% p.a.) has reduced the funding position by c£366m.
- c. The increase in return expectations has also affected the Future Service Rate (FSR). The Actuary uses a "smoothed" discount rate to value future accruals, in order to keep the FSR as stable as possible in line with the Regulations. The 2022 real discount rate of CPI + 2.0% was increased to reflect the improved outlook at 31 March 2025 but recognising the requirement for stability in the long-term cost of benefit provision. Therefore, the real discount rate for future service was increased by 0.25% p.a. to CPI + 2.25% p.a. This has reduced the future service rate by 1.4% of pay in isolation.
- d. At each valuation the actuary uses an analysis of the life expectancy experienced by the Fund and other LGPS funds alongside improvement trend models from the Continuous Mortality Investigation (CMI) to assess the adequacy of the longevity assumptions.

The assumption is made up of two elements, the current life expectancy (or baseline assumption) and an assumption of future improvement / deterioration around the baseline assumption. The Actuary has altered the baseline assumption for the 2025 valuation reflecting the updated membership information to include the Fund's experience since 2022. For the long-term life expectancy improvement assumption, the latest 2024 CMI tables have been

used with a long-term rate of improvement of 1.5% p.a. which show a slowing in the rate of improvement evidenced by mortality data and has, as a result, reduced liabilities overall.

The Actuary has considered life expectancy impacts in the climate risk scenario analysis undertaken in line with the principles document published by the Scheme Advisory Board.

The Actuary also considers other demographic assumptions (ill health, normal retirement, commutation rates etc) based on aggregate data along with the Fund data. These assumptions have been updated which had a marginal effect on the overall liabilities and future service rate.

In combination the impact of the change in the demographic assumptions has had a positive impact of c£213m on the funding position. The impact of the change on the future service rate has been a reduction of 0.4% of pay.

- e. There are other factors which have an impact on the valuation outcomes such as pay awards to members, employer contributions paid and change in age/gender profile. These impact on the funding position and future service rate to a different extent and can vary considerably at an individual employer level. We have shown the combined impacts in the reconciliation in paragraph 5.5 below.
- f. Allowance for any known benefit changes (e.g. survivor benefits) has been made to the extent this is built into the assumptions or data used by the Fund Actuary for the valuation calculations. In addition, the Actuary has prepared the Gender Pensions Gap Analysis for the Fund as a whole in line with the instructions from the Government Actuary Department and individual employer statistics have been provided to major employers as part of their valuation results.

5.5 The changes are summarised in the following tables:

#### **Changes to past service position since 2022 valuation**

	£m
<b>Deficit at 31 March 2022</b>	<b>-238</b>
Unwinding of Interest on deficit	-34
Impact of investment returns and change in past service financial assumptions	+869
Observed CPI pension increases/inflation vs 2022 assumption	-366
Change in demographic assumptions	+213
Pay increases, contributions, and other factors	-105
<b>Surplus at 31 March 2025</b>	<b>339</b>

## Changes to future service rate

<b>Average Employer Rate at 31 March 2022</b>	<b>18.6% of pay</b>
Change in membership profile	-0.5% of pay
Change in discount rate	-1.4% of pay
Change in demographic assumptions	-0.4% of pay
<b>Average Employer Rate at 31 March 2025</b>	<b>16.3% of pay</b>

## 6 COMMUNICATION WITH EMPLOYING BODIES

- 6.1 The 2025 actuarial report will be published by 31 March 2026. In the meantime, the employing bodies have been notified of their revised rates and officers have been responding to queries from employers.
- 6.2 A substantive employer communication and engagement programme has been implemented over the course of 2025 and 2026 to support employer understanding and engagement to provide for optimal outcomes for both the Fund (in terms of management of risk) and the employers (in terms of contribution affordability and longer-term sustainability). This included employer meetings tailored for specific groups: Councils, HE/FE and Academy employers, explanatory videos in relation to the process, the FSS and employer results, as well as written Q&A supporting materials.
- 6.3 The Fund has already reported on the outcomes of the FSS employer consultation and will report again following completion of the employer results process. An appropriate communication strategy will be implemented over the inter-valuation period as part of the overall employer risk management strategy taking into account the contribution sustainability monitoring framework.

## 7 FUNDING STRATEGY STATEMENT (FSS)

- 7.1 The 2025 FSS was approved by Committee in September 2025, and finalisation of the FSS was delegated to Fund Officers, with assistance of Fund Actuary.
- 7.2 The version in Appendix 10 has been updated for the actuarial and financial assumptions/data and miscellaneous minor policy clarifications as employer results have been worked through.
- 7.3 In addition, based on the advice from the Actuary when considering the final employer rates, an update has been made to the death in service captive policy in order to allow for the policy to be backdated to cover the full inter-valuation period i.e. commencing with effect from 1 April 2022 as opposed to 1 April 2023, in light of the surplus position in the captive and death strains experience over the period for some smaller employers in the Fund.
- 7.4 The Actuary's review of the termination policy actuarial assumptions, including the approach to setting of the lower risk discount rate has now been completed. The termination policy has been updated to reflect updates to the assumptions for determining the discount rate, life expectancy assumption and an allowance for administration expenses in respect of administering benefits for orphan liabilities after an employer exits the Fund. The updated assumptions have been implemented for calculations for cases with an effective termination date on or after 1 January 2026.

## 8 RISK MANAGEMENT

8.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The Funding Strategy is designed to manage this risk to ensure the Fund achieves and maintains full solvency over an appropriate period. Assessing the strength of an employing body's covenant is also a crucial component in managing the potential risk of default to the Fund and is incorporated in the contribution plans. The Fund officers will undertake a review of this process in the intervaluation period in conjunction with the Actuary.

## 9 EQUALITIES STATEMENT

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

## 10 CLIMATE CHANGE

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

10.2 In terms of the current valuation, an analysis of different climate change scenarios at the Whole Fund level has been undertaken relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under 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. The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change. Further detail is set out in the FSS appended to this report (pages 14 to and 17), and a summary of the results of the analysis will be included in the Actuary's final valuation report. This analysis also considered the impacts on life expectancy under the scenarios and UK GDP to support further consideration of employer covenant as part of the analysis.

## 11 OTHER OPTIONS CONSIDERED

11.1 Report for information only.

## 12 CONSULTATION

12.1 The Council's Director of Assurance, Risk & Pensions has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	Julia Grace, Pensions Valuation Advisor 01225 395392
<b>Background papers</b>	Actuary reports and presentations at previous committee meetings; 2025 draft and final FSS

**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 (“the 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 and contribution rates for the individual employers 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 Pension 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 retain 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. When the Fund is in surplus i.e. over 100% funded the approach to managing the surplus to achieve sustainable contributions (including a surplus reserve) is set out in [Appendix D](#).

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 OBJECTIVE

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 and employers including Mandatory Scheme Employers, Resolution and Admitted Bodies</li> <li>• achieve 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.

<b>FINANCIAL</b>	<b>MITIGATIONS</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Economic outlook moves and invalidates 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 allowed for in relation to termination liabilities where these liabilities are orphaned in the Fund.</p>

<b>DEMOGRAPHIC</b>	<b>MITIGATIONS</b>
<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 (payable when incurred and invoiced by the Fund).</p>

<b>GOVERNANCE AND EMPLOYERS</b>	<b>MITIGATIONS</b>
<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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<b>REGULATORY</b>	<b>MITIGATIONS</b>
<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 four 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 (see [Glossary](#) for definition) and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards.

*Relative to a best estimate projection of the funding level from the valuation date, financial factors could have a detrimental impact on the funding level of around 5% after 5 years following the sudden repricing. However, there is then a period of recovery in the following years, with reduced physical damages in the long term and a positive overall contribution to the funding level of c4% after 20 years and c7% after 40 years. Given the Fund's allocation to sustainable assets, the full impact of the initial shock is mitigated to some extent. This scenario is expected to be positive for life expectancy for older members, adding almost 1.5 years to life expectancy from age 65 and a slightly negative impact for very young members. In combination (but in isolation of other factors) this would increase liabilities c5%.*

- 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 (see [Glossary](#) for definition) and a sentiment shock. Assumed temperature increase of 1.9°C by 2100.

*Relative to a best estimate projection of the funding level from the valuation date, financial factors could have a minimal impact on the funding level after 5 years. However there are greater physical damages in the long term than compared with the rapid transition scenario and as such this has a slightly detrimental impact on the funding level of c2% after 20 years and c5% after 40 years. The Fund's allocation to sustainable assets again mitigates some of the full impact of the initial shock. This scenario is expected to have a similar impact on life expectancy as the rapid transition.*

- 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.

*Relative to a best estimate projection of the funding level from the valuation date, financial factors could have a minimal impact on the funding level after 5 years. However there are much greater physical damages in the long term than compared with the rapid or delayed transition scenarios and this has a material detrimental impact on the funding level of c14% after 20 years and c24% after 40 years, which shows the material consequences of the physical risks from the significant temperature increases as time progresses. This scenario is expected to result in a material reduction in life expectancy for younger members although a slight increase for older members, which in combination (but in isolation of other factors) would increase the liabilities by c2%.*

- 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.

*Relative to a best estimate projection of the funding level from the valuation date, financial factors could have a minimal impact on the funding level after 5 years. However, of the 4 scenarios considered, this scenario assumes the most significant physical damages in the long term. As such this is hugely detrimental for the funding level, with a reduction of c24% after 20 years and c39% after 40 years. This scenario is expected to be detrimental for life expectancy for Fund members with the most material impact for the youngest members of around 5 years reduction in life expectancy from age 65. In isolation, this would reduce liabilities by c2%.*

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. In addition, the impact on UK GDP on the above scenarios has also been considered noting that whilst budgets for taxpayer backed employers will not be directly linked to UK GDP, they will be influenced by it. The Fund will consider whether any additional analysis of employer covenant in terms of resilience to climate transition and physical risk will be required as part of its wider covenant strategy. 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.

FINANCIAL ASSUMPTIONS			
	Lower Risk Strategy	5.40% 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 0.26% 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 and will reflect the duration of an employer's liabilities.  The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
	Lower Risk Strategy	3.10% p.a. (includes an adjustment of 0.20% p.a. for a very mature employer)	
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)		No allowance	The default approach is to make no short-term adjustments to the long-term salary increase assumption above. However, an allowance for short-term salary increases may be considered on an individual employer basis by exception only,

<b>FINANCIAL ASSUMPTIONS</b>	
	<p>based on affordability grounds, at an employer’s request.</p> <p>To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.</p>
<b>Pension Increases and Deferred Revaluation</b>	<p>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.</p>
<b>Indexation of CARE benefits</b>	<p>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).</p>
<b>McCloud</b>	<p>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.</p>

## 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 1.5% 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	22.0	24.4	24.5
<b>Actives aged 45 now</b>	24.1	23.1	26.7	26.0
<b>Deferreds aged 45 now</b>	23.5	22.2	26.2	25.3

For example, a male pensioner, currently aged 65, would be expected to live to age 87.0. Whereas a male active member aged 45 would, at age 65, be expected to live until age 88.1. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

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, at the point the Fund is notified of the status 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 Primary Rates are pooled across a group of employers and all employers pay the same average Primary Rate. 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 maybe restated for changes in data or other policies.

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

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

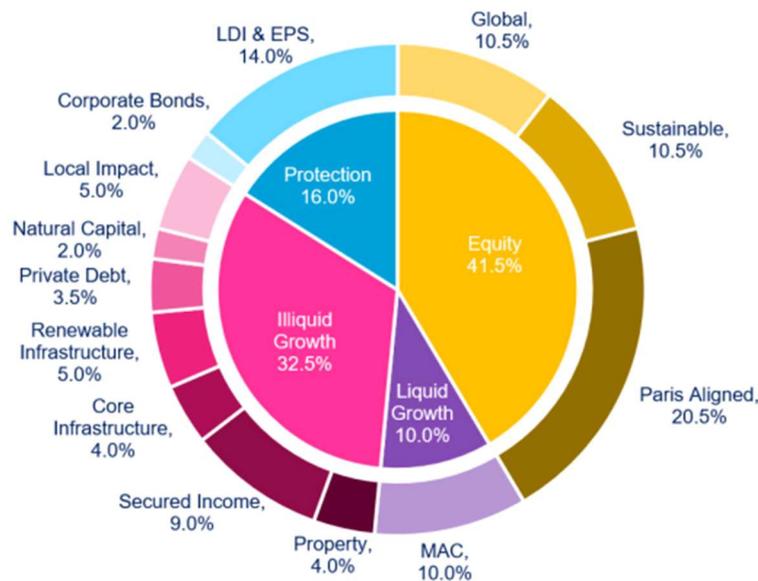
returns required by the funding strategy, as set out in this FSS, must be compatible with the investment policy as set out in the ISS.

The results of the 2025 valuation show the liabilities to be 106% covered by the assets, with the funding surplus of 6%.

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.



A review of the investment strategy is currently being undertaken as part of the transition to the Local Pensions Partnership Investments. Once the outcome of this review is known, the Funding Strategy Statement will be updated. It is not expected that the outcome would materially effect the overall assumptions made at the valuation and any changes would be taken into account at the next valuation. Any change will be incorporated in the inter-valuation monitoring framework for the Fund and employers in terms of contribution sustainability.

## 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 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 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 are 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. Other bodies who do not participate in the Fund may also provide guarantees for some employers, for example the Department for Education provides a guarantee of the exit debt 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 the exit debt' (e.g. for academy trusts and further education bodies) the guarantor may or may not be an employer that participates in the Fund. The guarantor in this situation 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 the exit debt, 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.

Employers have a right to appeal a decision made by the Fund and the Fund has a separate Internal Disputes Resolution Procedure (IDRP), which is available on request from the Fund. In the first instance employers should ensure that they are conversant with the details of the policy before lodging an appeal to the Fund.

### 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 / greater than the value of the liabilities transferring. The method of assessment for this initial deficit / surplus 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. The transferring deficit or surplus is calculated in line with the School/local authority "matching approach" as described in the Scheme Advisory Board (SAB) [guidance](#), to keep the contribution rate before/after conversion the same (other than due to profile differences).

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. The assets allocated to the new academy are then the difference between the liabilities assessed for the academy at conversion and the deficit or surplus allocated to the academy upon conversion. 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 an average primary rate contribution requirement to be certified for all constituent academies. Individual academy secondary rate contributions would still, however, be calculated. It also means that the MAT can opt to have pension fund accounting under FRS101 / FRS102 / IAS19 as a single combined disclosure 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 (less)

additional deficit (surplus off-set) 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 for the purpose of setting primary rate contributions and primary contributions are assessed based on the member profile of the MAT as a whole. However, the individual academy balance sheet is still tracked and deficit contributions/surplus off-sets are calculated based on the individual academy balance sheet position.

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.

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 of admission if 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>
<p>4. When will an employer’s asset share be formally reassessed?</p>	<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>
<p>5. What are the key factors that will determine the asset share in between actuarial valuation assessments?</p>	<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>
<p>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>	<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 primary contribution rate payable by the pooled employers, covering all constituents in the pool.</p>
<p>7. How are assets calculated when an employer leaves the Fund and ceases participation?</p>	<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>

	<p>be undertaken if an employer and the Fund enter into a Deferred Debt Agreement and does not cease participation at that point.</p>
<p>8. Can the assets differ for funding and accounting, even though the effective dates are the same?</p>	<p>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).</p>
<p>9. Will the percentage share of assets for an employer relative to the Whole Fund assets be fixed?</p>	<p>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.</p>
<p>10. Are the actuarial valuation assets set based on an “analysis of surplus” or an “asset roll forward” approach?</p>	<p>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.</p>

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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	97% S4PMA CMI 2024 [1.5%] 90% S4PFA_M CMI 2024 [1.5%]
	Dependant	117% S4PMA CMI 2024 [1.5%] 103% S4PFA_M CMI 2024 [1.5%]
	Ill Health	101% S4IMA CMI 2024 [1.5%] 109% S4IFA CMI 2024 [1.5%]
<b>Active</b>	Normal Health	104% S4PMA CMI 2024 [1.5%] 93% S4PFA_M CMI 2024 [1.5%]
	Ill Health	155% S4IMA CMI 2024 [1.5%] 170% S4IFA_M CMI 2024 [1.5%]
<b>Deferred</b>	All	116% S4PMA CMI 2024 [1.5%] 102% S4PFA_M CMI 2024 [1.5%]
<b>Future Dependant (from current non pensioners)</b>	Dependant	132% S4PMA CMI 2024 [1.5%] 138% S4PFA_M CMI 2024 [1.5%]

*\*The life expectancy assumptions use core model parameters.*

OTHER DEMOGRAPHIC ASSUMPTIONS	
Commutation	It has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience with a 90% weighting applied to standard ONS tables

<b>OTHER DEMOGRAPHIC ASSUMPTIONS</b>	
Other Demographics	<p>Following an analysis of Fund experience carried out by the Actuary:</p> <ul style="list-style-type: none"> <li>• The incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation.</li> <li>• For those members who are entitled to receive their accrued benefits (or part of those benefits) prior to age 65, the proportion of active membership assumed to retire in normal health at each age has been updated to reflect the latest analysis.</li> <li>• The proportion of ill health early retirements falling into each tier category has been updated to reflect the latest analysis.</li> <li>• The pre retirement mortality tables have been updated to reflect the Fund’s membership profile.</li> <li>• 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.</li> </ul>
Expenses	<p>General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% 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.</p>
Discretionary Benefits	<p>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.</p>

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 (including Higher Education employers)	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 where an employer is in deficit 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.

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. Deficit contributions will not be requested to fund the surplus reserve.

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 who are on the higher risk strategy, 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 (including designating employers such as town and parish councils)	105% <sup>1</sup>	12 years
Academies and Further Education employers	105% <sup>1</sup>	12 years
Non tax-raising bodies and Employers without a guarantee (including Higher Education employers)	Lower of Termination Reserve <sup>2</sup> and 105%	12 years
Exiting Employer	Termination Reserve <sup>2</sup>	Recovered over remaining period to exit
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>
Employers who are on the lower risk strategy	No surplus reserve unless funding for termination, in which case it will be the termination reserve <sup>2</sup> (see above)	12 years

1. 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

Where an academy is part of a MAT that pools the primary contribution rate for its constituent academies, the surplus reserve for each constituent academy and the resulting off-set contribution will be individually assessed per academy rather than on an aggregate basis.

2. "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. In certain limited circumstances as agreed by the Fund taking into account overall risk, including assessment of affordability and practicality, some employers may be allowed to front-end load surplus off-sets each financial year, but this will be subject to the overall proviso that the contributions in any month will not be negative.
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.
9. Employers can opt to have no surplus off-set contribution certified by the Actuary or the surplus off-set contribution can be certified by the Actuary and employers can opt to over-pay in any financial year.

### **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 an average primary rate contribution requirement 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 and secondary rate contributions will be broken down reflecting individual constituent academy funding positions.

## 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.

Where there are a mixture of funding positions (surpluses and deficits) for the individual constituent academies of a pooled MAT, then the total secondary rate for the MAT will be the sum of the secondary rates for the individual constituent academies. Where an individual academy is in surplus, then the surplus reserve will be applied to the individual academy funding position to determine the secondary contribution off-set (if any).

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 surplus or 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 the exit debt, the guarantor may or may not be a Fund employer and 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 the exit debt</b>	<b>Employers with a guarantor</b>
<b>Financial assumptions</b>	<p>The lower risk funding basis unless the Administering Authority agrees otherwise, based on the advice of the Actuary.</p> <p>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.</p>	<p>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.</p>
<b>Demographic Assumptions</b>	<p>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 2.0% 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.</p>	<p>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.</p>
<b>Ill-health retirements</b>	<p>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.</p>	
<b>McCloud</b>	<p>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.</p>	

	<b>Employers with no guarantor in the Fund/ only a guarantee of the exit debt</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>A reasonable allowance for the capital value of future expenses will also be made in relation administration costs over the average duration of the liabilities (based on the prevailing per member cost assuming these costs increase in line with the inflation assumption) and any other relevant one off expenses (including those incurred by the Fund). This will be allowed for in the final termination assessment.</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).

Employers have a right to appeal a decision made by the Fund and the Fund has a separate Internal Disputes Resolution Procedure (IDRP), which is available on request from the Fund. In the first instance employers should ensure that they are conversant with the details of the policy before lodging an appeal to the Fund.

## REVIEW OF THE TERMINATION POLICY

As set out in the table above, for employers without a guarantor or with a guarantee of the exit debt, 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 annually to ensure it remains appropriate and also 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 the exit debt, then the guarantor may or may not be a Fund employer and 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 notice.

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

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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' covenant 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

The Fund will typically look to hold meetings with some employers in the lead-up to the triennial valuation in order to provide an opportunity to discuss funding and affordability concerns, and help the Fund gain a better understanding of the current operating environment. For employers looking to exit the Fund, or those considered 'higher risk', these meetings are likely to be more frequent.

## 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) typically annually (or if there is a significant change in circumstances as per the Notifiable Events policy) using an online system provided 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.

Employers will be notified if this notifiable events framework applies to them.

## 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 0.4% of pay per annum.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of active members i.e. there is no initial impact on the deficit position for employers within the captive and any subsequent impact should be manageable.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

- 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.

In general, the Fund also retains the absolute discretion over the operation of this captive insurance vehicle including the right to restrict payments to employers in order to manage the overall risks and costs of the arrangement.

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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 in force for a number of years, 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 0.5% 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.
- In general, the Fund also retains the absolute discretion over the operation of this captive insurance vehicle including the right to restrict payments to employers in order to manage the overall risks and costs of the arrangement.

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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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<p><b>The Fund Actuary should:</b></p>	<p><b>A Guarantor should:</b></p>
<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 THE EXIT DEBT:** for the purposes of the FSS, a guarantee of the exit debt 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 or body who may or may not be a Fund employer, such as the Department for Education, 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 surplus / deficits to be passed from one employer to another (e.g. where an academy exits and any assets and liabilities are subsumed into another employer in the MAT) .

**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.

**RESOLUTION BODIES:** Resolution (or Designated) bodies are permitted to join the scheme if they pass a resolution to this effect, subject to meeting the requirements set out in the Local Government Pension Scheme (LGPS) Regulations.

**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. (geometrically, so uses a discount rate of 4.45% and CPI inflation assumption of 2%), 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 Ministry of Housing, Communities & Local Government (MHCLG) 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.

**STRANDED ASSETS:** refers to assets becoming obsolete before the end of their expected useful life, primarily as a result of the transition to a low-carbon economy (for example, due to changes in policy or technology). This risk is most commonly associated with the incumbent fossil fuel industry under scenarios where the transition occurs more rapidly than currently anticipated by the market. In terms of the scenarios modelled in the Climate Change section, as defined, this is most prevalent in the Rapid and Delayed Transition scenarios.

**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.

**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 March 2026</b>
TITLE:	<b>2026 – 2029 Service Plan &amp; Budget, &amp; Administration performance report</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p>List of attachments to this report:</p> <ul style="list-style-type: none"> <li>• Annex 1: 2026-29 Plan &amp; Budget Report</li> <li>• Appendix 1 Scope of the Avon Pension Fund</li> <li>• Appendix 2a Service Plan monitoring 2026</li> <li>• Appendix 2b Service Plan completed projects 2025</li> <li>• Appendix 3 Budget &amp; Cash Flow Forecast</li> <li>• Appendix 4 Administration performance update</li> <li>• Appendix 5 Communication Strategy 2026</li> </ul>	

## 1 THE ISSUE

- 1.1 The purpose of this report is to present the 3-year plan & budget for 2026-29, which is prepared annually on a 3-year rolling basis.
- 1.2 The Plan (Appendix 1) details developments to be undertaken during the next 3 years, to improve service and efficiency and meet legislative obligations.

## 2 RECOMMENDATIONS

### The Committee is asked to;

- 2.1 Approve the 3 Year Plan & Budget 2026-29 for the Avon Pension Fund.
- 2.2 Note the administration performance to the period ending 31st January 2026

## 3 SERVICE PLAN 2026 - 2029

- 3.1 The plan sets out the Fund's objectives for 2026-29. The 3-year budget underpins actions in the plan including the investment strategy, risk management, compliance, and improvements in administration of the Fund.
- 3.2 The Fund aims to achieve the following objectives during 2026-29:

### (i) Service

- Continue to improve service experience for members and employers.
- Raise operational efficiency to enable lower unit costs, by increasingly deploying new software and digital integration.

## (ii) Investments & Funding

- Execute new pooling arrangements, moving assets from Brunel to LPPI.
- Review our investment strategy, seeking to improve the risk / return mix and raise the probability of future contribution reductions for employers.
- Accelerate investment in Local Impact, with such assets rising to £300m.
- Invest in Natural Capital to drive positive environmental impacts.

## (iii) Foundations: we also need to get the basics right:

- Meet all our regulatory obligations.
- Improve skills among both officers and Board / Committee members.
- Identify, measure, and mitigate risks.
- Manage within the budget set by the Pension Committee.
- Support staff wellbeing and access to resource tools and training.

3.3 Full details of the 2025-28 Service Plan are in Annex 1.

3.4 Appendix 2a shows the new medium-term projects for 2026-28 together with completed projects from the 2025-26 plan in Appendix 2b.

## 4 BUDGET FOR 2026-29

4.1 The Service Plan includes the 3-year budget and cash flow forecast from 1 April 2026 (see Appendix-3 for greater detail).

4.2 The aggregate budget for 2026-27 of £35.4m is £0.8m (2%) higher than the £34.6m budget of 2025-26.

<i>£ millions</i>	2025-26	2026-27	Change
Administration & Governance	9.9	9.6	- 0.3
Investment Management Fees	24.7	25.8	+ 1.1
Total	34.6	35.4	+ 0.8

4.3 Administration & governance costs in 2026-27 are £0.3m lower than 2025-26, driven by the triennial valuation of 2025-26 not being repeated, offset by pension administration software full year costs and Local Authority pay awards.

4.4 Investment management fees of £25.8m are £1.1m higher than the £24.7m budget of 2025-26. As a percentage of forecast assets under management, this represents a 0.01% increase to 0.40%. The estimated fees assume there is no change in asset allocation during the year.

4.5 Expenditure for the current year 2025-26 is predicted to be within budget, with a predicted underspend of > £200k.

## 5 ADMINISTRATION PERFORMANCE REPORT

5.1 Appendix 4 is the performance report up until 31 January 2026. The Fund is on track to achieve >90% performance for all KPI's by 31 March 2026.

## 6 STATUTORY CONSIDERATIONS

6.1 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.

## **7 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

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

## **8 RISK MANAGEMENT**

- 8.1 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.

## **9 EQUALITIES STATEMENT**

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

## **10 CLIMATE CHANGE**

- 10.1 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.

## **11 OTHER OPTIONS CONSIDERED**

- 11.1 None.

## **12 CONSULTATION**

- 12.1 The Council's Director of Assurance, Risk & Pensions has had the opportunity to input to this report and has cleared it for publication.

<b>Contact person</b>	Nick Dixon – Head of Pensions 01225 477325
<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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# ANNEX 1

## SERVICE PLAN & BUDGET REPORT 2026-29

### 1 Management Summary

Global markets were helpful during 2025. Equities increased in value by 19% with the UK and Emerging Markets being standout performers. Gilts and other Credit were positive while there were emerging signs of recovery in Property. The Fund's portfolio value returned 7.5% reaching £6,323m<sup>1</sup> and we enter 2026 in a robust financial position with 108% funding<sup>1</sup>.

The Fund continued to invest in Local Impact assets during 2025-26 focused on three areas: renewable infrastructure, affordable housing, and small business funding. We have now deployed £55m into solar farms, we have deployed £12m into affordable housing, and will shortly announce further housing investment in our region. We have also started to fund small businesses across the South West with two such investments to date. Our new target is to invest c.£300m or 5% of the Fund into local impact by the end of 2027.

The Fund made further progress on climate targets. The equity portfolio is reaching its decarbonisation targets ahead of time, faster than required to meet net zero by 2045

In terms of service experience, 2025-26 delivered further progress. Member requests addressed within required timeframes was sustained at 90%. Backlogs were materially reduced and individual members' different pension accounts merge, strengthening our administrative foundations for further improvements during 2026-28.

Looking forward the Fund has set itself core objectives for the next three years:

In terms of administration and service:

- We will further improve service experience for both our members and employers
- We will raise our operational efficiency to enable lower unit costs

In terms of investments:

- We will execute new pooling arrangements and move our assets from Brunel to LPPI.
- We will review our Investment Strategy, seeking to improve the Fund's risk / return mix and improve the probability of contribution reductions for employers.
- We will accelerate investment in Local Impact and raise assets to our target of £300m.
- We will start to invest in Natural Capital.

We will aim to achieve the above objectives while also getting the basics right:

- We will meet all our regulatory obligations.
- We will improve skills among both officers and Board / Committee members.
- We will identify, measure, and mitigate risks.
- We will manage within the budget set by the Pension Committee.

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<sup>1</sup> 31 December 2025

## **2 Administration**

### *2025-26 Review*

The year has seen continued improvement in member servicing, with member requests completed within the required timeframes averaging 90%.

Introduction of a hybrid mail system has made a significant impact in the way we manage our postal correspondence to members, making the process quicker safer and secure. The Fund introduced multiple new software products to better support member engagement which included a new member portal, telephone system and data cleansing.

### *Objectives 2026-27*

During 2026-27 we plan to drive three core objectives: 1) meet regulatory requirements, 2) improve member servicing 3) increase operational efficiency.

#### *1. Meet regulatory requirements*

- McCloud: we will implement the final phase of remedy by the deadline of August 2026.
- Pensions Dashboard: we continue to improve our data readiness in anticipation of the launch of the public dashboard.
- The Fund will comply with other regulatory changes including outcomes of the government's recent Access & Fairness and Access & Protections consultations.

#### *2. Improve Member Servicing*

- The Fund will continue to develop online processing to give members better options to self-serve within our member portal.
- Offer a multi-channel approach to offer a service that reflects a member's choice in a safe and secure environment.

#### *3. Increase operational efficiency*

- We will continue to develop digital communications, through improved online content and web experience for our members and employers.
- We will automate key processes to drive operational efficiency and reduce risks.

## **3 Investments & Funding**

### *2025-26 Review*

Global markets shrugged off trade policy concerns to deliver strong returns during 2025. Equities increased by 19% with the UK outperforming. Government bonds delivered broadly positive returns, supported by expectations of future rate cuts. The Fund in aggregate returned 7.5% during 2025 rising to £6,300m, with a funding level of 108%<sup>2</sup>.

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<sup>2</sup> estimate of 31 December 2025

A number of strategic changes were implemented including increased allocations to index-linked gilts and multi asset credit. The strategic allocation to local impact assets increased from 3% to 5%. At the end of the year £180m had been committed and £70m invested across the priority areas of renewable infrastructure, affordable housing and SME financing.

The Fund also made further progress on its climate targets. By the end of 2025 the Fund's equity portfolio was 60% less carbon intensive than the global equity index, exceeding its decarbonisation targets ahead of time, faster than required to meet net zero by 2045.

Consistent with 'Fit for the Future' proposals, the Fund will become one of nine shareholders of its new pool (LPPI) on 1<sup>st</sup> April 2026. Significant work was undertaken during the year in readiness for the asset transition and subsequent wind down of the Brunel business.

### *Triennial Valuation*

The triennial valuation was struck based on the Fund's financial position on 31 March 2025 and showed a surplus of £339m compared with a deficit of £238m in the last (2022) triennial valuation. Average employer contribution rates for future service reduced from 18.6% of pay to 16.3%.

The Fund's Funding Strategy Statement was updated in March 2026 to reflect these changes, setting out the Fund's valuation and funding plan to objectively balance affordability for individual employers and solvency of the Fund. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical. The inclusion of a Surplus policy sets out how any surplus will be utilised to reduce employer rates and the inclusion of a surplus reserve to manage contribution sustainability.

### *Objectives 2026-27*

The Fund aims to achieve predictable employer contributions, through a growth-oriented investment strategy at acceptable risk, seeking to achieve financial returns which exceed the Fund's actuarial assumptions. Focus areas include the following:

#### *Implementation of New Pooling Arrangements*

- During 2026-27 the Fund will work with our new pool LPPI, to embed investment management arrangements and related governance and operational arrangements.
- Assets will transition to LPPI and subsequent work will focus on reshaping the portfolio, to drive operational efficiencies and implement the new investment strategy (see below).
- The Fund will also review its framework for governing investment decisions to ensure efficient and effective decision making, aligned with Fit for the Future arrangements.

#### *Investment Strategy*

- A review of the investment strategy will be conducted during 2026-27, following the triennial valuation, to ascertain the optimal strategy to deliver the funding plan.
- The Fund will work with LPPI to review risk and return objectives, asset allocation and risk management framework.

#### *Local Impact Portfolio*

- The Fund will continue to deploy capital into its local investments across its three sub-sectors: renewable infrastructure, affordable housing, small company (SME) funding.
- The Fund will commence work with LPPI, WECA and other delivery partners to identify opportunities that meet specification for this portfolio.

#### *Natural Capital portfolio*

- The Fund will work with LPPI to further define the objectives for the strategic allocation to Natural Capital and develop a specification to support identifying opportunities. This work is expected to commence in second half of 2026.
- This will be managed by LPPI which is developing solutions to meet the needs of all nine LGPS funds in the pool.

#### *Employers*

- The focus during 2026-27 will be on managing employer admissions and exits. We will ensure scheme exits are managed compliantly and with actuarial integrity.
- The Fund undertakes annual covenant checks on employers to assess their specific risks – required to identify employers facing potential funding issues – so we can work with them to manage pension costs and minimise financial risks. We will review and adjust this process in consideration of updated TPR guidance.

## **4 Governance**

#### *Fit for Future - Good Governance Review*

- The LGPS Fit for the Future regulations set out expectations to improve LGPS governance at Fund and Pool level. Regulations and statutory guidance are expected to be published 1<sup>st</sup> April 2026.
- The Fund has already taken action to comply with the draft requirements issued in 2021 but will conduct a further gap analysis and implementation plan during 2026.

#### *General Code of Practice (GCOP)*

- The Pension Regulator's GCOP came into force on 27 March 2024, consolidating 10 separate Codes.
- During 2025 the Fund implemented its action plan to meet compliance with new requirements. A further review will be conducted in 2026.

#### *Knowledge & Skills*

- Knowledge & skills requirements are a key component of the Fit for Future requirements for committees, pension boards and officers.
- Committee and Board members and officers have committed to complete Hyman's Learning Academy which now forms a mandatory part of the Fund's Training policy.
- Achieving compliance with Fit for Future and our policy will be a priority for 2026-27.

#### *Audit*

- The Audit Plan for 2026-27 will focus on a few critical areas.

	Timing
Risk Management	Q1
Pension Dashboard - Data Readiness: Phase 1	Q2
Cyber Security - Staff Training & Awareness, inc. Boards	Q3
Cyber Security - Malware & Ransomware: APF Response	Q4
LPPI - Review of Control Environment	Q4
Follow Up Reviews on 2025/26 Audits	All

#### *Pension Committee Recruitment*

- The Fund will undertake a nomination exercise to appoint a new Academy representative as well as appointing its first Independent Person aligned with Fit for Future requirements.

#### *Risk Management*

- The Fund will keep its Business Continuity Plan under review to ensure it remains fit for purpose and resilient vs new threats.
- The Fund will also identify key risks and undertake mitigating actions to reduce the Fund's aggregate risk exposure.

## **5 Regulatory Update**

Regulatory change will be considerable in 2026-27. The government has already notified LGPS Funds of new regulation changes being introduced from 1 April 2026 based on the Access and Fairness, and the Access and Protection Consultations published in 2025.

Key changes impacting funds in 2026 include 1) Equalisation of survivor pensions and death grants, 2) Gender gap benefits which will mean amendments to regulations to make more periods of authorised absence pensionable, 3) Introduction of a new Councillors Pension Scheme for England.

Whilst new regulations will become effective, the Fund is still working on the McCloud Remedy which has been extended to August 2026, as guidance is not complete for all processes. Work is still to be completed for members with divorce debits, club transfers, and members with Teachers' excess service.

For Pensions Dashboard, the Fund connected to the Integrated Service Provider (ISP) in October 2025. Work is ongoing to ensure that data, systems, and processes are compliant prior to the 'Go Live' date, assumed to be October 2026 and requiring the Secretary of State to give at least 6 months' notice.

Annual projects for 2026-27 include Annual Benefit Statements for deferred and active members and Annual Allowance Statements for members breaching the annual allowance.

Looking further ahead, the Fund will need to review systems, processes, and communications for upcoming regulatory changes, including IHT on death grants and unused pension benefits in 2027, and increase in the minimum pension age (to 57) in 2028.

## 6 Business Change

### ***Change Programme***

#### *2025/26 Review*

The Business Change team delivered the following projects with the Administration team:

- New member portal,
- Migration to hosted environment,
- Connection to the Pensions Dashboard ecosystem,
- Telephony system & Hybrid mail,
- Data cleansing tool.

#### *Objectives 2026-27*

The Business Change team's 2026-27 focus is to work with the Administration and Technical teams to support their key objectives by delivering the following projects:

- Pensions Dashboard readiness and target operating model.
- Introducing online processing via the member portal.
- Driving internal process improvements.
- Administration to Payroll system integration.

### ***Communications***

In 2025-26 the Fund made progress communicating its objectives and ethos including:

- Securing media coverage of our new investment in a local affordable housing.
- Keeping stakeholders informed about investment pooling changes and the Pension Committee's decision on Aerospace & Defence.
- Deepening employer engagement via quarterly newsletters and consultation on the updated Administration Strategy.
- Sharing news on staff charity fundraising via LinkedIn.

Example media coverage includes: [Room 151](#), [Professional Pensions](#), and [Somerset Live](#).

The Fund has several communications objectives for 2026-27, focused on regulatory commitments and key stakeholder groups.

- *Regulatory*: communicate changes such as Pensions Dashboard and Fit for the Future.
- *Members*: raise members' engagement with their pension and improve digital experience. We will encourage members to sign-up to our online portal and implement improvements to our new starter process.
- *Employers*: work with employers to support member portal sign-ups and new starter engagement.

## 7 Budget & Cashflow Forecast 2026-29

The 2026-27 budget of £35.4m is £0.8m (+2%) above the £34.6m budget of 2025-26.

<i>£ millions</i>	2025-26	2026-27	Change 2027 vs 2026
	budget	budget	
Admin & Governance	9.9	9.6	-0.3
Investment management fees	24.7	25.8	+1.1
Total	34.6	35.4	+0.8

The 2026-27 budget shows a £0.8m (2%) increase vs 2025-26.

### **Admin & Governance**

The £0.3m reduction in Admin & Governance costs reflects a combination of material increases and decreases to budgets between 2025-26 and 2026-27.

Increases to the budget include a) new digital system costs covering a full financial year, b) annual salary increases, c) reduction in the vacancy factor provision, d) expected support costs arising from Fit for Future implementation and change of asset pool.

Decreases to the budget include a) a reduction in consultancy requirements, b) savings on LGPS employer contributions for APF staff, c) Triennial Valuation costs funded from the 2025-26 budget, d) a reduction in fees paid for independent investment advice as LPPI take on more responsibility for delivering the investment strategy and providing advice.

Rising operational efficiencies will enable lower unit costs, e.g. through deploying new software and digital integration. Such savings will feed through from 2027-28.

### **Investment Fees**

2026-27 investment management fees of £25.8m are £1.1m (4%) higher than the £24.7m for 2025-26.

Increased investment fees are driven by: a) higher asset values, b) continued build out of the Local Impact portfolio, c) higher exposure to index linked gilts through Liability Driven Investment. In aggregate this represents a 1 bps increase in investment management fees to 40 bps, projected to fall to 39 bps for the next two years.

Investment costs also include fees paid to LPPI which will manage the Fund's assets. The estimated share of LPPI costs is 11% or £1.75m (3 bps). There are also ongoing costs associated with the run-down of Brunel in 2026-27.

In the budgets for 2026-27 and 2027-28, we have assumed an increase in fees paid to LPPI as they take on more responsibility for implementing the investment strategy and providing investment advice, alongside a corresponding reduction in fees paid for independent investment advice, e.g. fees paid to Mercer.

## **Cashflow**

As Fund membership matures, monitoring cash flow trends becomes increasingly critical.

The Fund has now passed an inflection point from being cash flow positive (contributions exceed benefits) to cash flow negative. At the same time, the Fund has now moved into an actuarial surplus. Taken together, these factors result in projected net cash outflows of £106.7 million in 2026–27, with further detail provided in Appendix 3.

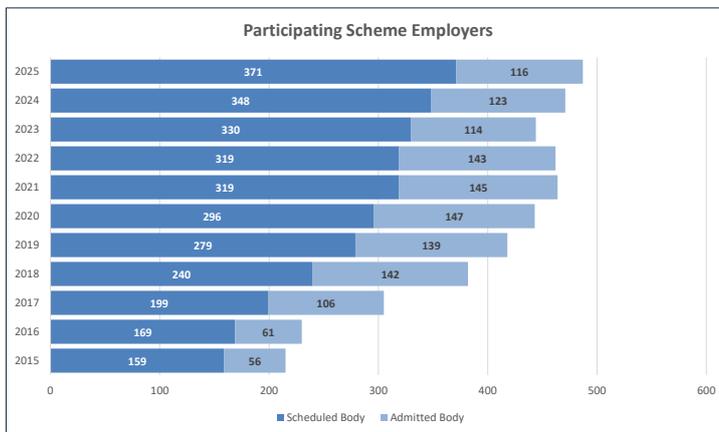
Future service contribution rates are expected to reduce, and employers will transition from making deficit recovery payments to claiming surplus in accordance with the valuation. This change materially lowers the projected level of employer contributions from an estimated £244m in 2025-26 to £186m in 2026-27.

Pensions in payment are scheduled to increase by 3.8% in 2026-27.

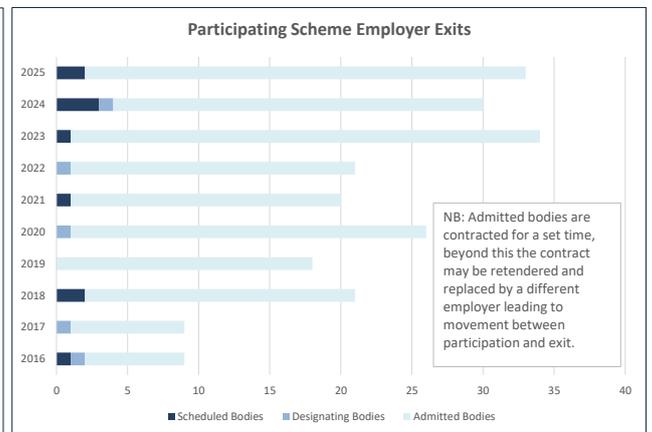
# Avon Pension Fund Scope 2015 - 2025



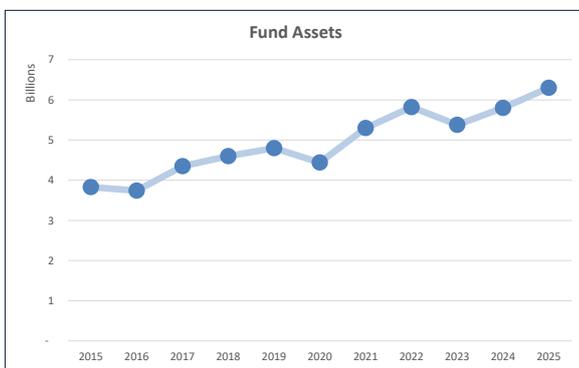
(Data: 31st March 2025)



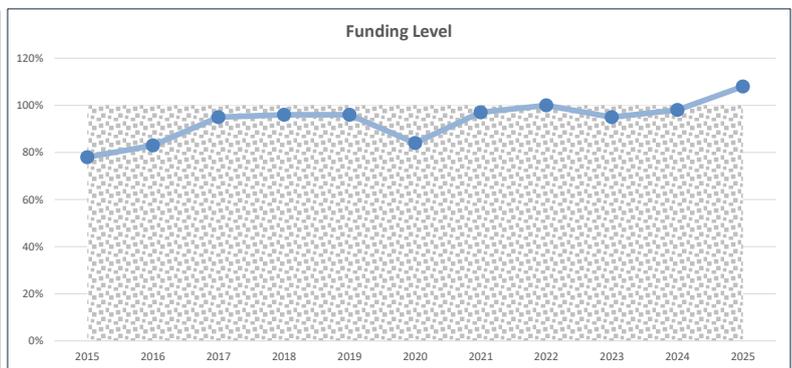
(Data: 31st March 2025)



(Data: 31st March 2025)



(Data: 31st March 2024 with update to 31st December 2025)



(Data: 31st March 2024 with update to 31st December 2025)

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## Appendix 2a - Service Plan Monitoring 2026

Change Programme			
Project Activity	Project / High Level Description	Completion Date of Overall Project	Status
<b>Annual Projects</b>			
Year End			
Annual Benefit Statement	Issue of deferred and active statements to members	31/08/26	Not Yet Started
Pension Savings Statement / Annual Allowance	Issue of annual allowance statements to members breaching	06/10/26	Not Yet Started
Payroll YE		30/06/26	Not Yet Started
HMRC Event Reporting	Reporting of tax breaches, unauthorised payments etc	01/12/26	Not Yet Started
<b>Regulatory/Foundation/Dashboard</b>			
McCloud	McCloud remedy - full completion	31/08/26	In Progress
GMP – remedy	Data cleansing and calculations	30/06/26	In Progress
Data Improvement Plan	Final version to go to Pension Board	31/03/26	In Progress
Process control framework	Wider change plan now includes key deliverables	31/12/26	In Progress
Telephony upgrade - Phase 2	Phase 2 - Call recording and transcription implementation	30/06/26	Progress Delayed
Drupal 11	Upgrade of website, Improved security i.e. Cyber	30/06/26	In Progress
<b>Procurement</b>			
Website hosting	Joint procurement with BANES IT	30/09/26	In Progress
Printing and Fulfilment	Collaboration with BANES	31/12/26	In Progress
E Comms	Procurement of Email communications platform	30/06/26	In Progress
<b>Transformation</b>			
Bulk processing	Process review - impact and scoping assessment	30/09/26	In Planning
New member onboarding	Deliver new process on line for new starters	30/09/26	In Planning
Enhanced Admin to Pay	Decision on implementation time line	31/01/27	In Progress
Payslips and P60	Delivery of new stationary / platform to upload to member portal	31/05/26	In Progress
Deferred Leavers	Deliver digital improvements to online the outcome	31/08/26	In Progress
Refunds	Deliver digital improvements to online the outcome	31/10/26	Not Yet Started
Online Retirements	Deliver digital improvements to online the outcome	31/05/27	Not Yet Started
iConnect Multi-factor authentication	Phase 2 roll out to employers	30/04/26	In Progress
iConnect document integration	One-stop portal for employer document submissions	31/12/26	In Progress
<b>Governance</b>			
Fit for Future - Good Governance Review	review regulations & guidance published 01/04/26 and implement requirements	Mar-27	In Planning
TPR GCOP requirements	Action plan for remaining requirements	Mar-27	In Progress
Annual Reports	Produce and publish Fund's annual report	Dec-26	Not Yet Started
	Committee's annual report to Council	Nov-26	Not Yet Started
	Pension Board's annual report	Nov-26	Not Yet Started
Business Continuity Plan	Annual review of plan	Mar-27	Not Yet Started
Pension Committee Governance arrangements	review inline with Fit for Future requirements	Jun-26	Not Yet Started

Pension Board governance review	Annual review all items on governance checklist	Sep-26	Not Yet Started
Training Plan for Committee & Board members	Plan annual training programme for members	Jun-26	Not Yet Started
Recruitment for Committee & Pension Board	Recruitment & Induction Training - new PC/PB members	Jun-26	In Progress
Contract Reconciliation	to prepare for implementation of new Payments system	Oct-26	Not Yet Started
<b>Finance</b>			
Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	Sep-26	In Progress
Treasury Management Policy	Draft revised policy annually	Mar-26	In Progress
Decoupling Pension Fund Accounts	Liaise with auditors to ensure resources available for decoupling work. Produce separate Annual Governance Statement and Value for money assessment	Mar-27	Not Yet Started
<b>Investments</b>			
Strategic Investment Review	Work with LPPI to review risk and return objectives, asset allocation and risk management framework. Revise ISS as required. In progress - LPPI to update March Committee	Mar-27	In Progress
Local Impact Portfolio	Find opportunities for unallocated capital post increase in allocation to 5% - implement via LPPI.	Mar-27	In Progress
Natural Capital Investing	Invest via LPPI portfolio. Currently on hold whilst review investment strategy. Anticipated will commence work with LPPI second half of 2026.	Mar-27	Progress Delayed
Investment Governance Review	Review of investment governance for the Fund. David Crum appointed to provide external view. Final proposals to go to June Committee	Jun-26	In Progress
Fit 4 Future - Investment services from new pool partner	Ensure LPPI can deliver investment implementation and advice.	Mar-27	In Progress
<b>Funding Strategy</b>			
Review Covenant Monitoring Process	Review and adjust process in consideration of TPR guidance. Continue quarterly updates.	Dec-26	In Planning

## Appendix 2b - Completed Projects 2025

<b>Annual Projects</b>		
Year End	Jun-25	Complete
Annual Benefit Statements	Aug-25	Complete
Pension Savings Statement / Annual Allowance	Oct-25	Complete
Payroll YE	Apr-25	Complete
HMRC Event Reporting	Dec-25	Complete
National Fraud Initiative	Dec-25	Complete
<b>Regulatory/Foundation/Dashboard</b>		
Pensions Dashboard - ISP Connection	Oct-25	Complete
Member tracing Exercise	Feb-26	Complete
Telephony upgrade - Phase 1	Jun-25	Complete
Admin Strategy refresh	Mar-26	Complete
<b>Procurement</b>		
Pension Admin System Procurement (inc Hosting)	Sep-25	Complete
<b>Transformation</b>		
Engage (My Pension Online – upgrade)	Dec-25	Complete
Hosting migration	Sep-25	Complete
Digital mail solution	Dec-25	Complete
<b>Governance</b>		
TPR GCOP gap analysis & action plan	Mar-25	Complete
Annual Reports (Fund, Committee, Pension Board)	Dec-25	Complete
Business Continuity Plan Review	Mar-25	Complete
Pension Committee Governance arrangements Review	Jun-25	Complete
Pension Board governance review	Sep-25	Complete
Training Plan for Committee & Board members	Mar-25	Complete
Recruitment for Committee & Pension Board	Jun-25	Complete
Legal Contract Retender	Dec-25	Complete
<b>Finance</b>		
Final Accounts	Sep-25	Complete
Treasury Management Policy	Mar-25	Complete
<b>Investments</b>		
Local Impact Portfolio	Dec-25	Complete
Impact Reporting	Dec-25	Complete
Pooling: Fit 4 Future - Pool selection	Mar-26	Complete
<b>Funding Strategy</b>		
2025 Valuation	Mar-26	Complete
2025 Funding Strategy Statement	Mar-26	Complete

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<u>Three Year Budget</u>	Budget for 2025/26 £	Budget 2026/27 £	Budget 2027/28 £	Budget 2028/29 £	Change YR on YR 2025/26 Vs 2026/27 £
Administration Cost	99,560	97,134	91,577	91,255	(2,426)
Payroll Communication Costs	161,400	182,300	142,346	102,393	20,900
Business Change & Communication	364,550	296,250	283,575	270,795	(68,300)
Information Systems	886,889	1,030,000	1,041,900	1,108,400	143,111
Salaries - Administration	4,433,787	4,587,328	4,679,075	4,772,656	153,541
Central Allocated Costs - Administration	518,410	519,530	529,921	540,519	1,120
Miscellaneous Recoveries/Income	(159,791)	(159,239)	(135,000)	(135,000)	552
<b>Administration</b>	<b>6,304,805</b>	<b>6,553,303</b>	<b>6,633,393</b>	<b>6,751,018</b>	<b>248,498</b>
Technical & Compliance costs	73,065	75,551	77,062	78,649	2,486
Actuarial & Compliance costs	1,621,264	1,500,984	1,393,304	1,942,746	(120,280)
Investment Governance Costs	791,788	390,256	256,331	194,015	(401,532)
Committee Governance & Projects	149,443	149,421	162,609	155,601	(22)
Salaries - Governance & Compliance	1,140,797	1,178,607	1,202,179	1,226,223	37,810
Compliance Costs recharges/Income	(180,560)	(274,000)	(279,480)	(285,070)	(93,440)
<b>Governance &amp; Compliance</b>	<b>3,595,797</b>	<b>3,020,819</b>	<b>2,812,006</b>	<b>3,312,164</b>	<b>(574,978)</b>
<b>Pensions Board</b>	<b>23,826</b>	<b>27,215</b>	<b>27,759</b>	<b>28,314</b>	<b>3,389</b>
Global Custodian Fees	50,000	51,000	52,020	53,060	1,000
Brunel/LPPI Management Fees	2,100,000	2,230,000	2,502,060	2,807,311	130,000
Annual Management Fees	19,598,042	20,495,964	20,665,722	17,914,000	897,922
Performance Related Fees	3,000,000	3,000,000	3,180,000	3,370,800	3,370,800
<b>Investment Fees</b>	<b>24,748,042</b>	<b>25,776,964</b>	<b>26,399,802</b>	<b>24,145,172</b>	<b>1,028,922</b>
<b>TOTAL COST TO FUND</b>	<b>34,672,470</b>	<b>35,378,302</b>	<b>35,872,960</b>	<b>34,236,668</b>	<b>705,832</b>

<u>Cost per Member</u>	Budget for 2025/26 £	Budget 2026/27 £	Budget 2027/28 £	Budget 2028/29 £	£ Change 2025/26 Vs 2026/27 £
Administration	44.58	46.34	46.91	47.74	1.76
Governance & Compliance	25.60	21.55	20.08	23.62	-4.05
<b>Total Cost per Member</b>	<b>70.18</b>	<b>67.89</b>	<b>66.99</b>	<b>71.36</b>	<b>-2.29</b>
Members as at 31st December 2024	141,416	141,416	141,416	141,416	

<u>Fees as a % of Assets under management (AUM)</u>	Budget for 2025/26 £	Budget for 2026/27 £	Budget for 2027/28 £	Budget for 2028/29 £	2025/26 Vs 2026/27 £
Global Custodian Fees	0.00%	0.00%	0.00%	0.00%	0.00%
Brunel Management Fees	0.03%	0.03%	0.04%	0.04%	0.00%
Annual Management Fees	0.31%	0.32%	0.30%	0.25%	0.01%
Performance Related Fees	0.05%	0.05%	0.05%	0.05%	0.00%
<b>Total fees as a % of AUM</b>	<b>0.39%</b>	<b>0.40%</b>	<b>0.39%</b>	<b>0.34%</b>	<b>0.01%</b>
AUM	6,322,548,000	6,417,279,485	6,802,211,259	7,210,239,415	

<u>Cash Flow Forecast</u> (Excluding Administration and Investment costs)		2026/27 £'000	2027/28 £'000	2028/29 £'000
<b>Benefits Outflows</b>				
Benefits	Pensions	(226,024)	(230,544)	(235,155)
	Lump sums	(43,882)	(44,760)	(45,655)
<b>Total Benefits Outflows</b>		<b>(269,906)</b>	<b>(275,304)</b>	<b>(280,810)</b>
<b>Inflows</b>				
Deficit recovery		1,429	1,475	1,522
Deficit recovery - paid in advance		1,493	30	31
Surplus recovery - upfront		(3,035)	(3,035)	(3,035)
Surplus recovery - monthly		(18,966)	(18,966)	(18,966)
Future service Contributions		205,439	211,602	217,950
<b>Total Contributions</b>		<b>186,360</b>	<b>191,106</b>	<b>197,502</b>
<b>Net Cash Flow (excluding Administration &amp; Investment costs)</b>		<b>(83,546)</b>	<b>(84,198)</b>	<b>(83,308)</b>
Divestments & Investment income received as cash		106,735	104,995	104,520
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(23,184)	(20,792)	(21,208)
<b>Net Cash Flow (Out-Flow)</b>		<b>5</b>	<b>5</b>	<b>4</b>

**Notes**

- Net cash requirements will be met from divestments and cash balances
- Transfers in and out are assumed to net to zero
- The cash outflow due to administration includes Investment Management Fees that are invoiced to the Fund.
- The capital injection into LPPI is included within 2026/27

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# Administration Update 27<sup>th</sup> March 2026

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Avon  
Pension  
Fund



Your pension, your future

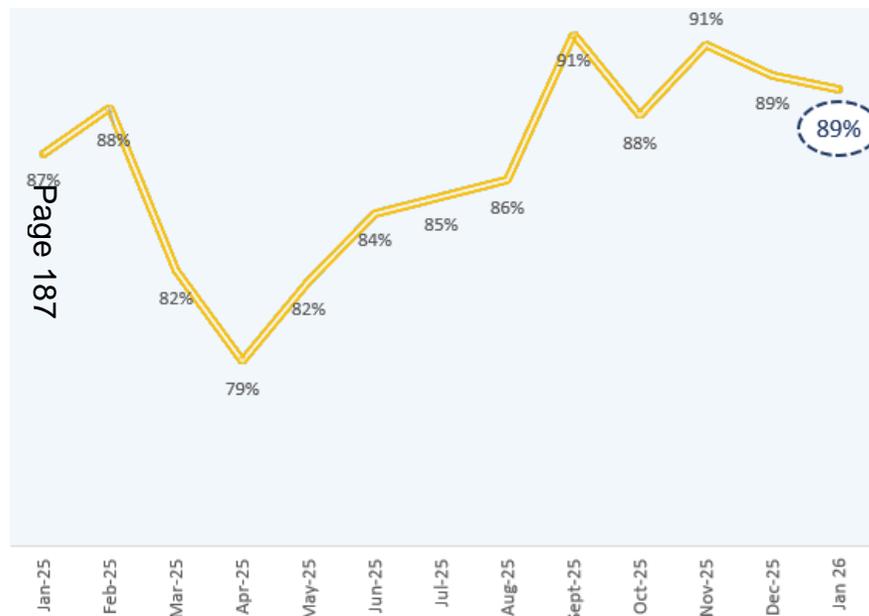
# KPIs & service performance



# SLA monthly performance average January 2025 to January 2026

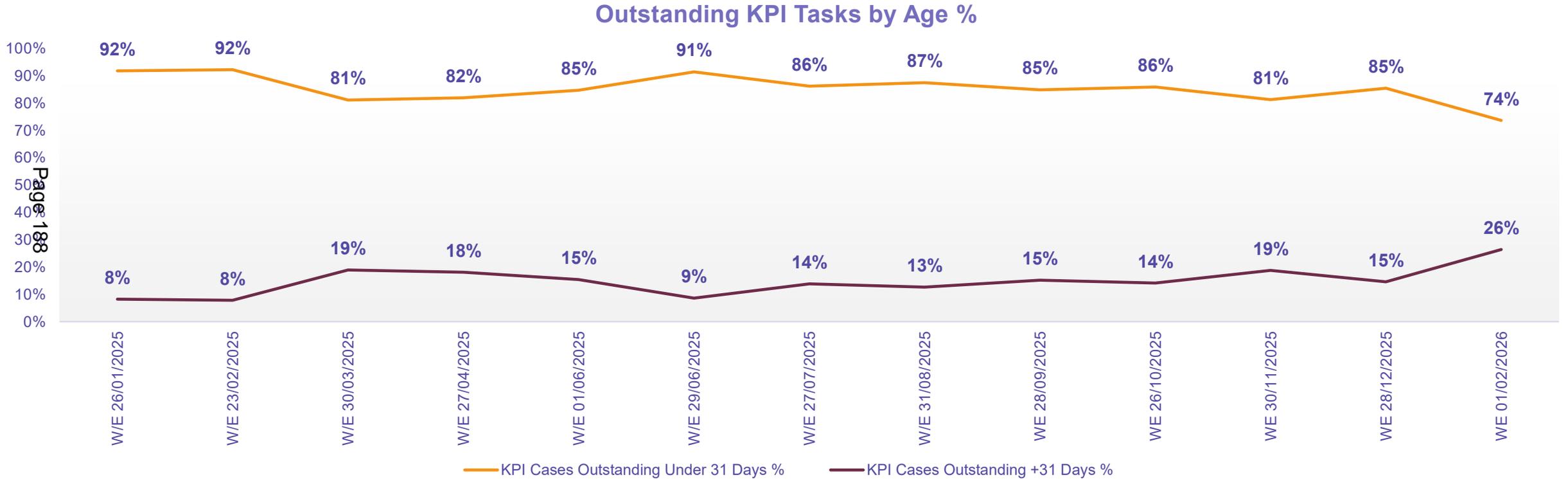
## Average SLA Performance

\*Based on weekly KPI data



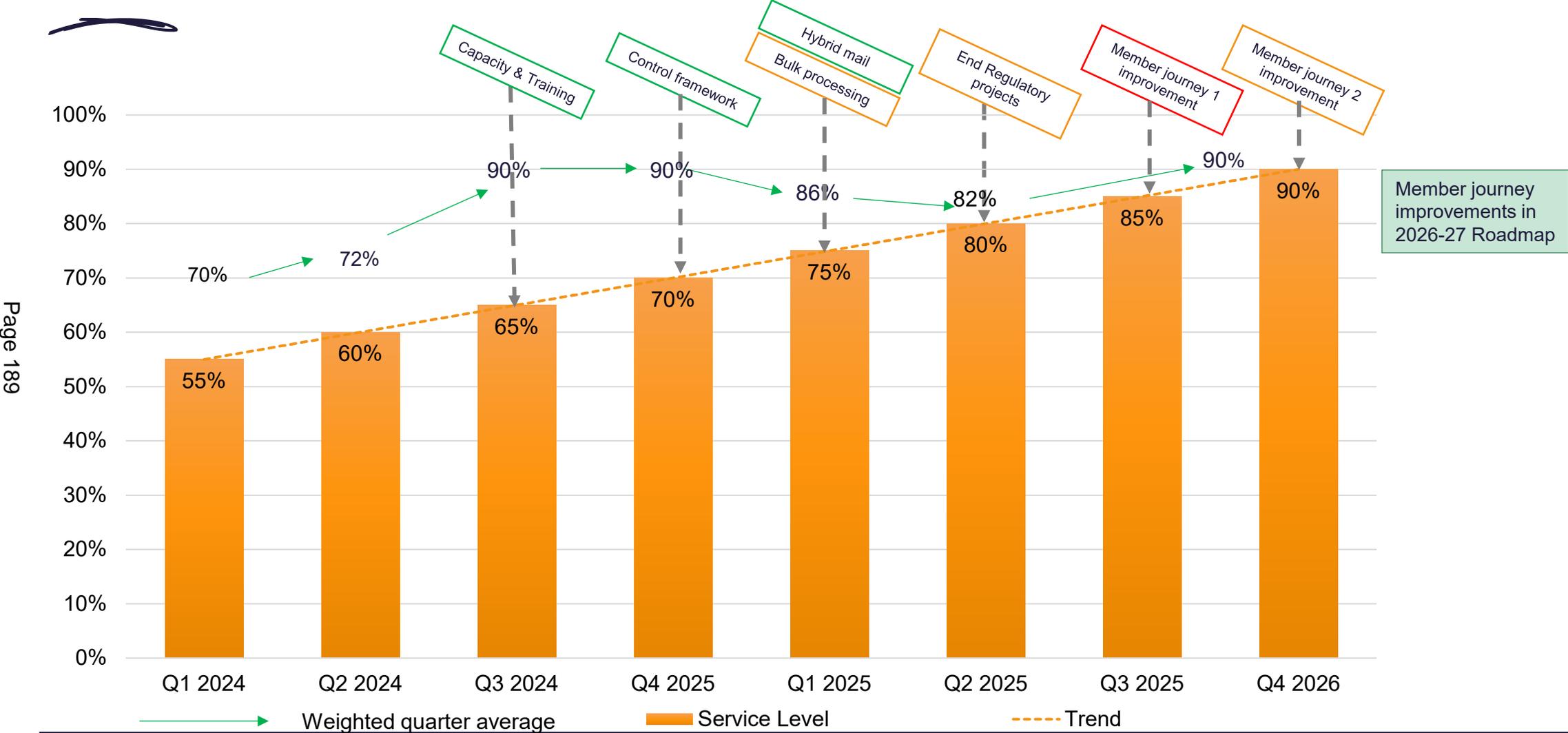
KPI Category	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sept-25	Oct-25	Nov-25	Dec-25	Jan 26	Cases Created Jan-24 to Jan-26
Death Notification	100.0%	93.8%	63.8%	71.0%	76.7%	90.6%	97.0%	98.2%	94.8%	98.7%	92.9%	97.2%	97.8%	1,261
Death - Act/Def/Pen - Payment	81.6%	65.3%	59.9%	49.2%	60.3%	52.6%	70.4%	70.9%	51.4%	55.6%	53.1%	86.6%	64.1%	941
Retirement (Active) - Quote	45.5%	83.5%	77.7%	80.4%	69.7%	61.7%	76.8%	89.9%	85.0%	79.9%	79.8%	87.8%	83.9%	2,903
Retirement (Active) - Actual	94.4%	90.1%	83.5%	69.4%	78.5%	80.8%	97.0%	92.1%	90.6%	93.5%	90.9%	88.6%	91.4%	2,036
Retirement (Deferred) - Quote	73.8%	71.3%	57.0%	25.5%	72.3%	80.7%	68.7%	81.0%	93.5%	91.0%	82.4%	86.3%	92.2%	4,863
Retirement (Deferred) - Actual	99.0%	98.7%	77.0%	85.5%	77.4%	76.1%	88.5%	90.6%	90.9%	86.9%	86.8%	84.2%	95.9%	3,285
Divorce - Quote	100.0%	100.0%	100.0%	86.3%	95.5%	100.0%	96.4%	100.0%	96.9%	100.0%	100.0%	98.8%	100.0%	707
Divorce - Actual	N/A	0.0%	20											
Refund - Quotes	73.4%	93.3%	72.5%	52.5%	64.1%	67.3%	52.1%	36.1%	85.5%	84.2%	92.0%	70.7%	76.5%	5,809
Refund - Actual	66.7%	68.6%	61.1%	77.7%	39.3%	70.3%	94.8%	98.6%	100.0%	94.6%	100.0%	94.1%	91.1%	2,094
Deferred Benefits	92.6%	87.8%	86.0%	83.8%	84.6%	87.9%	97.8%	90.0%	90.8%	86.7%	94.6%	89.3%	87.7%	6,671
Transfer In (Active) - Quote	97.4%	93.9%	77.1%	60.0%	42.2%	64.9%	58.9%	44.7%	33.3%	95.5%	72.1%	100.0%	63.8%	789
Transfer In (Active) - Actual	0.0%	56.4%	50.0%	100.0%	63.9%	47.7%	78.6%	72.2%	83.3%	50.0%	83.3%	66.7%	75.0%	387
Transfer Out (Active/Deferred) - Quote	35.9%	2.8%	9.8%	30.4%	34.8%	27.2%	43.5%	46.4%	52.0%	8.8%	25.8%	40.0%	22.4%	2,542
Transfer Out (Active/Deferred) - Actual	100.0%	83.3%	100.0%	33.3%	100.0%	85.4%	100.0%	62.5%	77.8%	20.8%	66.7%	45.0%	41.0%	256
Employer Estimate - Quote	94.5%	100.0%	97.5%	92.0%	76.4%	86.4%	90.2%	91.7%	100.0%	91.7%	100.0%	83.3%	76.0%	499
Member Estimate - Quote	91.9%	97.5%	94.3%	96.3%	87.1%	100.0%	90.9%	77.2%	76.7%	60.8%	96.2%	95.0%	93.8%	1,592
Joiner	99.6%	100.0%	99.6%	99.8%	99.8%	100.0%	95.4%	100.0%	100.0%	100.0%	100.0%	100.0%	99.5%	24,598
<b>Weighted Average</b>	<b>87%</b>	<b>88%</b>	<b>82%</b>	<b>79%</b>	<b>82%</b>	<b>84%</b>	<b>85%</b>	<b>86%</b>	<b>91%</b>	<b>88%</b>	<b>91%</b>	<b>89%</b>	<b>89%</b>	

# KPI's case by age % - Jan 2025 to Jan 2026



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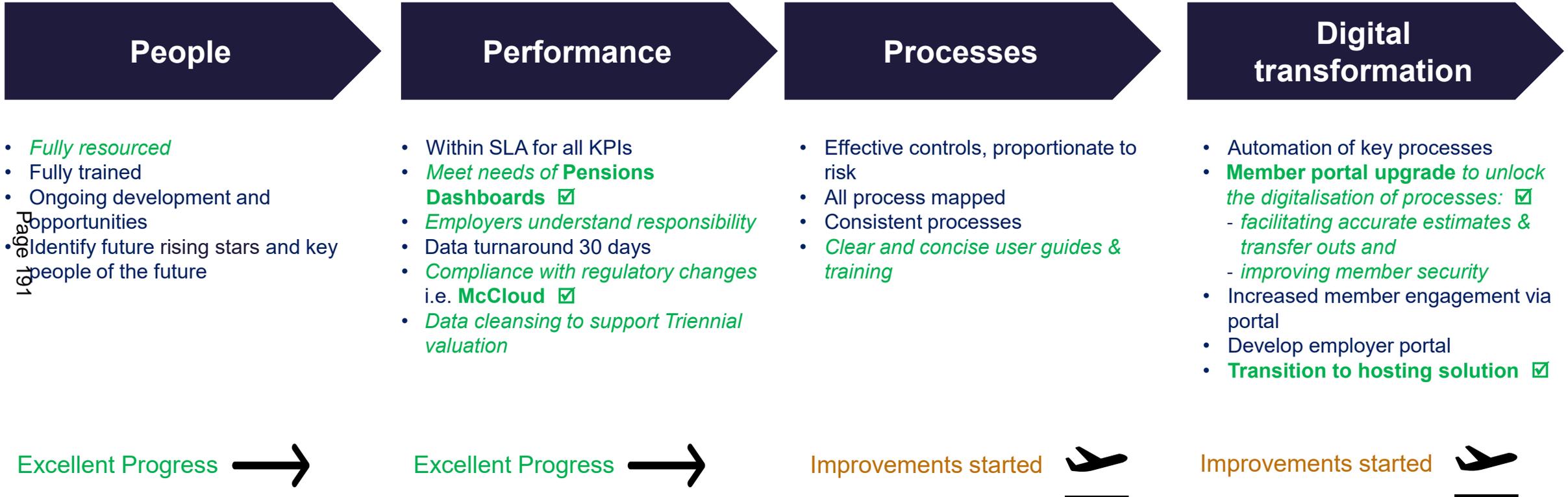
# Service performance – plan vs. actual – Jan 2026



# Administration Roadmap



# 2025 and beyond – key priorities achieved



# 2025-26 Administration projects delivered

## Regulatory / Foundation

## Transformation



Software supplier procurement



Administration Strategy



Member portal upgrade



Hosting migration



McCloud compliance



Triennial valuation support



Data cleanse tool implementation



Hybrid mail implementation



Dashboard ISP connection



Telephony system enhancement



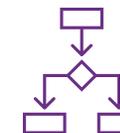
Employer portal MFA



Aggregation improvements



Employer engagement



Status 2 improvements

### Key



Procurement



Employer impacts



Member impacts



Process improvements



Software implementation

# 2026-27 focus – member experience & operational efficiency



Maximise member portal sign-ups



Prepare for Dashboard public launch



Comply with regulations (McCloud, Access)



Move member journeys online - building block approach

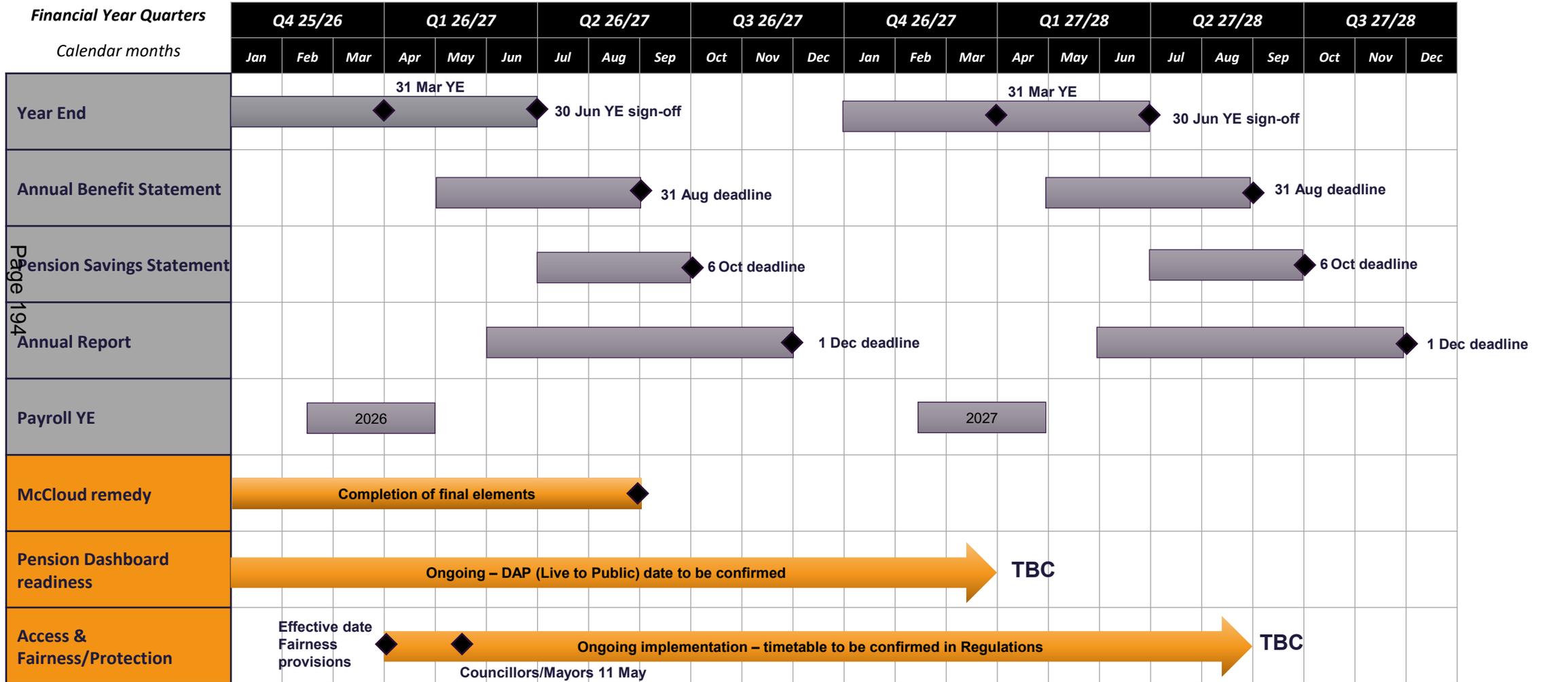


Continue process improvements - operational efficiency & risk control

# 2026-27 Annual & Regulatory Projects

**Key:**

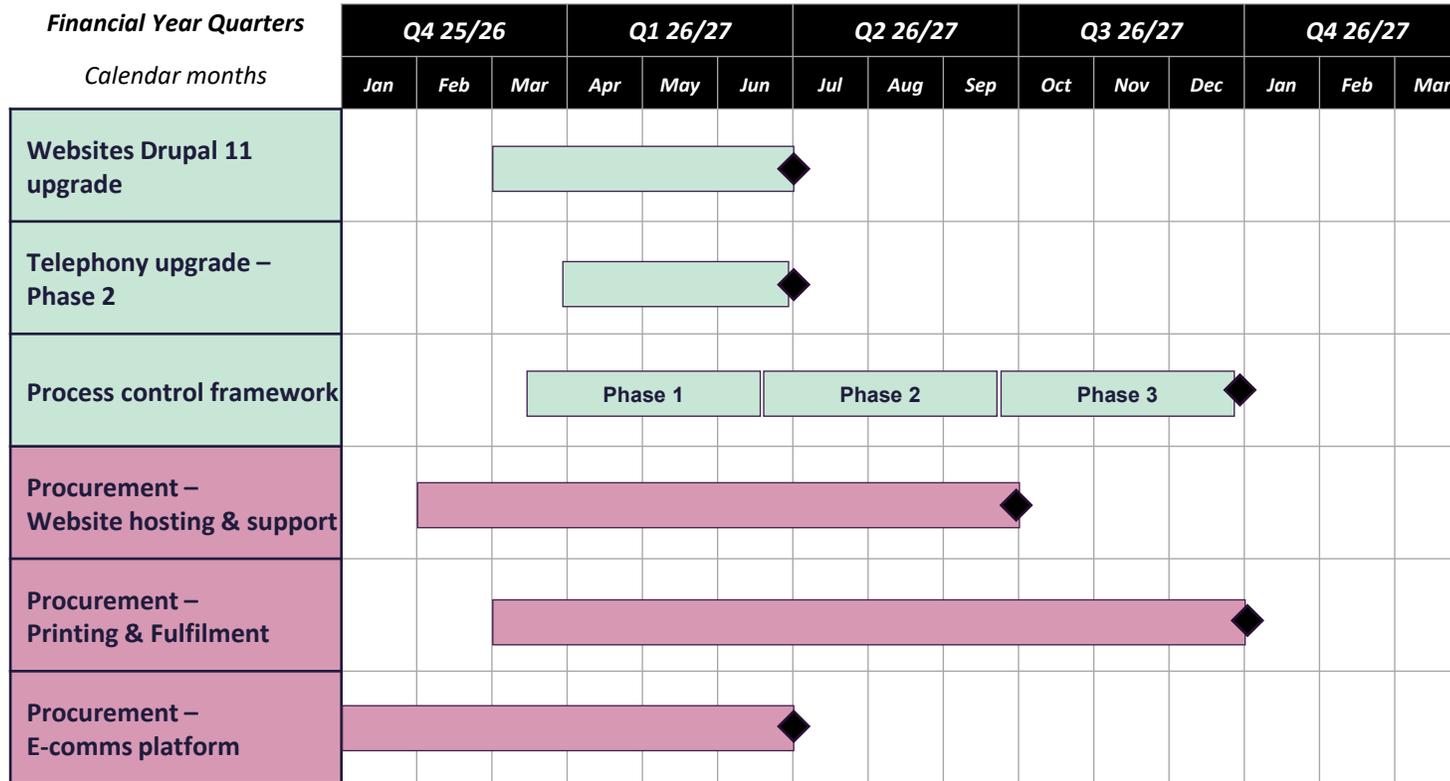
- Annual
- Regulatory
- Milestone



# 2026-27 Foundation & Procurement projects

**Key:**

- Foundation
- Procurement
- Milestone



**Website upgrade** improves performance, build tools and security.

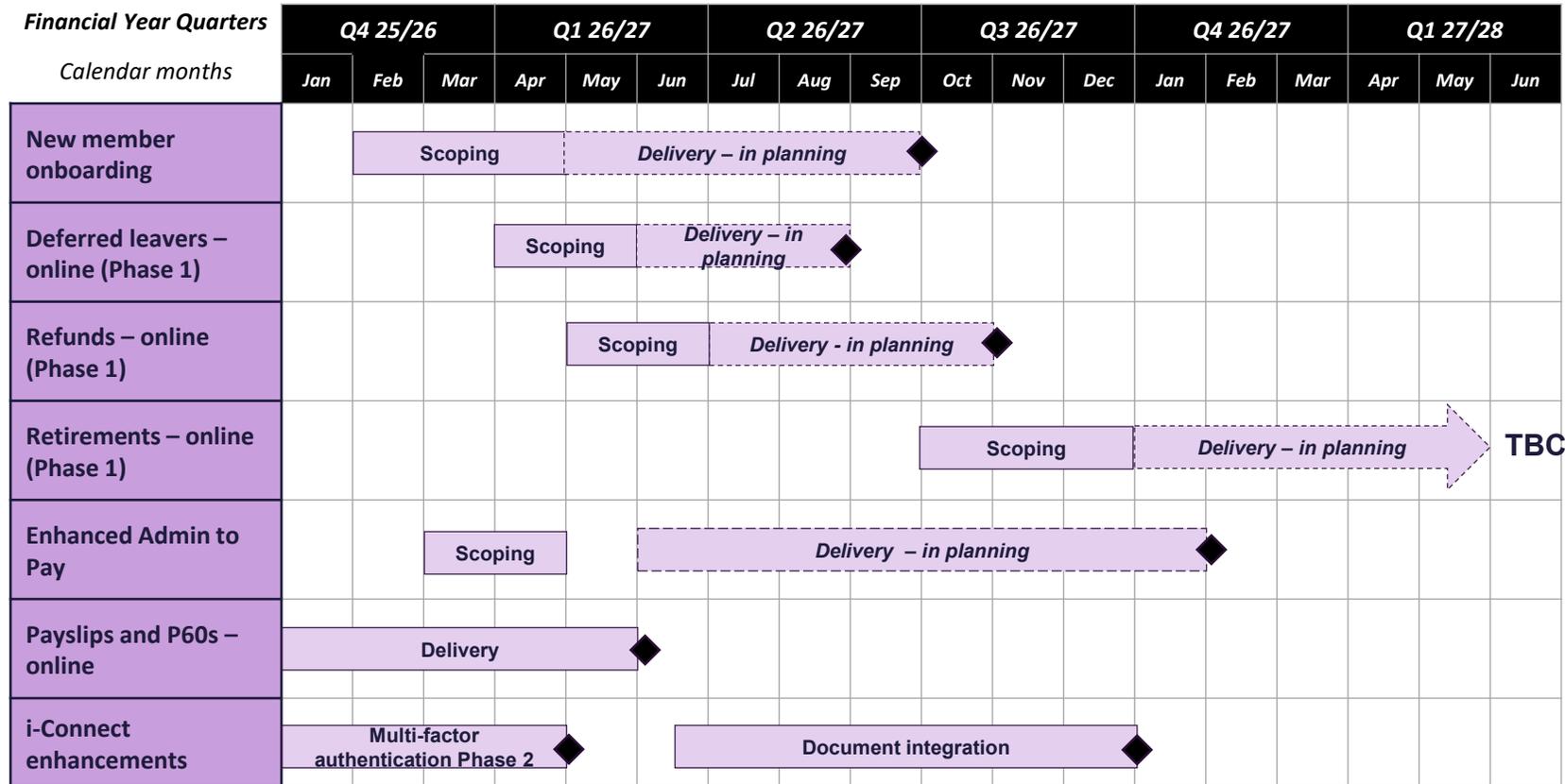
**Telephony Phase 2** introduces call recording and transcription facilities.

**Three key supplier contracts** to be re-procured during 2026.

# 2026-27 Transformation projects



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**Bulk processing** in Admin system will be considered as part of Deferred and Refund projects.

**‘Online’ projects** will leverage processing/document storage features in the new member portal and automated workflow creation.

**Retirements – online** will cover member initiated voluntary retirements without AVCs – both from Active (Paying In) and Deferred (Not Paying In). We will delivery one journey before moving to the next.

**Enhanced Admin to Pay** automates the interface between the Admin and Payroll modules and improves controls.

**i-Connect** is the employer data submission portal.

# Communications Strategy 2026

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Avon  
Pension  
Fund



Your pension, your future

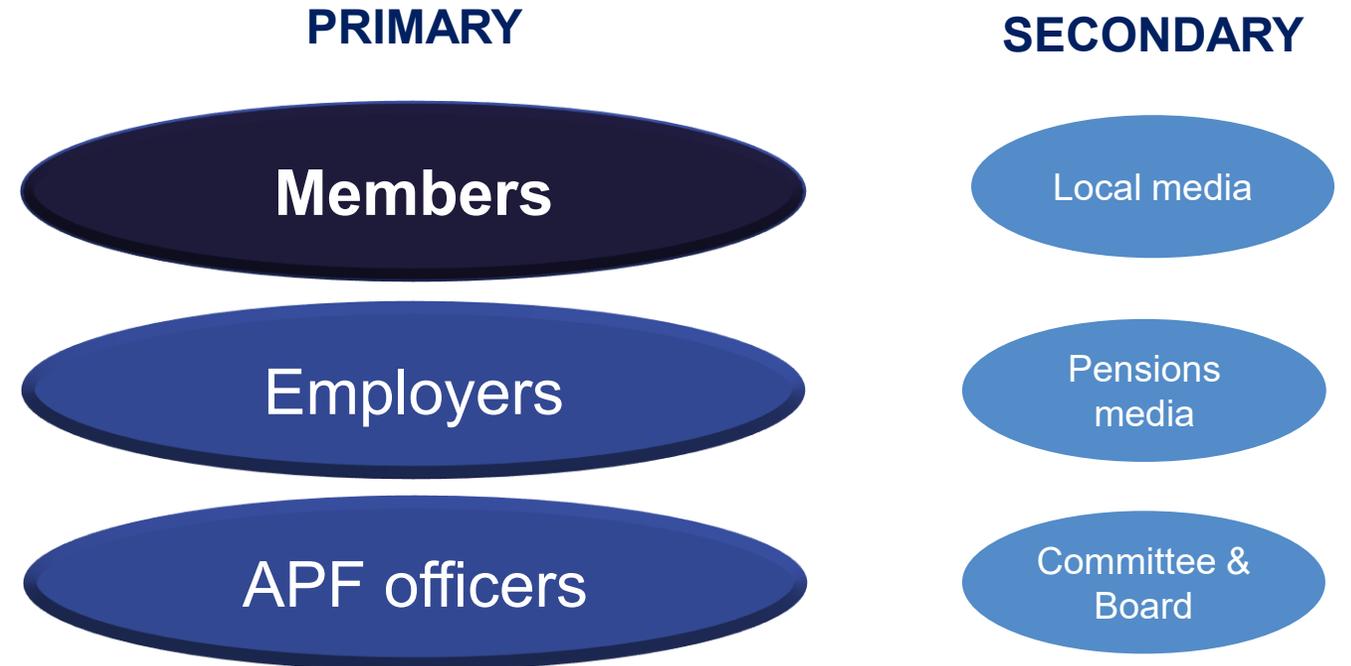
March 2026

# 1. Audiences



# Audiences ....

- The Fund serves multiple audiences.
- To meet our objectives, we need to focus on 'primary audiences' while also engaging with 'secondary' ones.



## 2. Purpose & Objectives



**“Our purpose is to provide secure pensions and deliver meaningful impact by investing responsibly.”**

# Aims and objectives



	Aims	Objectives
<b>Members</b>	Raise members' engagement with their pension and improve digital experience.	<ul style="list-style-type: none"> <li>• Increase sign-ups to upgraded my pension online (MPO)</li> <li>• Raise understanding of their pension:               <ul style="list-style-type: none"> <li>- continued awareness of pension scams</li> <li>- new starter process improvements</li> </ul> </li> <li>• Build awareness of our climate action &amp; local impact</li> </ul>
<b>Employers</b>	Improve employers' digital experience and how they can engage their employees.	<ul style="list-style-type: none"> <li>• Raise engagement with our website through comms &amp; training</li> <li>• Help employers support our member aims and MPO sign ups</li> </ul>
<b>APF officers</b>	Foster a positive, interactive, and open culture which encourages employee participation and pride in their work.	<ul style="list-style-type: none"> <li>• Use two-way communication and provide clear and regular updates.</li> <li>• Raise awareness of Fund successes and charity work.</li> <li>• Survey officers annually to measure views &amp; identify improvement opportunities.</li> </ul>

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## Regulatory communications

Dashboard, Annual Statements, Access & Fairness, Fit for the future

# 3. Brand values



# Brand values - these run as common threads through our communications



## Responsible

As responsible investors, we care about the future of our members and the world. Our commitment to the environment informs how we work.

*We're committed*

## Constant

We're long-lasting, strong and reliable. You can count on us every step of the way.

*We're secure*

## Local

We're devoted to serving local members and employers, to deliver pensions that work for everyone.

*We're here*

## Service

Your pension is our priority – we want to help you understand your pension benefits and choices.

*We care*

# 4. Plan



# 2026 plan on a page ....



	Q1 2026	Q2 2026	Q3 2026	Q4 2026
<b>Regulatory</b>	<p>Year end content</p> <p>Fit for the Future</p>	<p>Year end content</p> <p>Fit for the Future</p> <p>P60's</p>	<p>ABS: deferred &amp; active</p> <p>Fit for the Future</p> <p>Access &amp; Fairness</p>	<p>Annual report</p> <p>Access &amp; Fairness</p>
<p>Page 205</p> <p><b>Members</b></p>	<p><b>MPO sign up campaign</b></p> <p>RI report publication</p> <p>New starter digitisation</p> <p>Website process improvements</p>	<p><b>MPO sign up campaign</b></p> <p>P60 digitise</p> <p>New starter digitisation</p> <p>Newsletter: pensioner</p>	<p><b>MPO sign up campaign</b></p> <p>New starter digitisation</p> <p>Newsletter: active &amp; deferred</p>	<p><b>MPO sign up campaign</b></p> <p>Dashboard</p>
<b>APF officers</b>	<p>Celebrate successes</p> <p>Show case charity work</p>	<p>Celebrate successes</p> <p>Show case charity work</p>	<p>Celebrate successes</p> <p>Show case charity work</p> <p>Staff pulse survey</p>	<p>Celebrate successes</p> <p>Show case charity work</p>
<b>Employers</b>	<p>Quarterly newsletter</p> <p>Actuarial valuation</p> <p>Website promotion</p>	<p>Quarterly newsletter</p> <p>Website promotion</p>	<p>Quarterly newsletter</p> <p>Dashboard</p> <p>Website promotion</p>	<p>Quarterly newsletter</p> <p>Dashboard</p> <p>Website promotion</p>

# 5. Channels



# Member channel selection

	Digital (Primary) Web/email/MPO	Post	Phone	In-person	Social
Audience reach	<ul style="list-style-type: none"> <li>c.50% members</li> </ul>	<ul style="list-style-type: none"> <li>All members</li> </ul>	<ul style="list-style-type: none"> <li>All members</li> </ul>	<ul style="list-style-type: none"> <li>Low %</li> <li>Targeted support</li> <li>Access needs</li> </ul>	<ul style="list-style-type: none"> <li>Not good for reaching all members</li> <li>Great for recruitment (LinkedIn)</li> </ul>
Suitable for explaining pensions <small>Page 207</small>	<ul style="list-style-type: none"> <li>Perfect for reports, videos, online forms, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Effective for technical messages</li> <li>Not preferred by younger people</li> </ul>	<ul style="list-style-type: none"> <li>Great for help, advice, immediate service</li> <li>Not scalable</li> </ul>	<ul style="list-style-type: none"> <li>Great for complex forms &amp; processes for in-depth/sensitive matters inc. deaths</li> </ul>	<ul style="list-style-type: none"> <li>Great for crisp short messages</li> <li>Not for technical explanations</li> </ul>
Access for digitally excluded	No	Yes	Yes	Yes	No
Efficiency	High	Medium	Medium	Medium	No complex to manage constant queries and comments
Record keeping	Yes	Yes	Yes after phone changes, date tbc	Yes	No
Use this channel ?	✓	✓	✓	✓	X

# Thank you



If you have any questions please contact:

**Nick Dixon**

Head of Avon Pension Fund

[Nick\\_dixon@bathnes.gov.uk](mailto:Nick_dixon@bathnes.gov.uk)

Avon  
Pension  
Fund



Your pension, your future

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	<b>AGENDA ITEM NUMBER</b>
MEETING DATE:	<b>27 MARCH 2026</b>	
TITLE: <b>TREASURY MANAGEMENT POLICY</b>		
WARD: <b>'ALL'</b>		
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1</b>	The proposed Treasury Management Policy	
<b>Appendix 2</b>	Counter parties acceptable under the policy and their Credit ratings	

## 1. THE ISSUE

- 1.1. The Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2025. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.
- 1.2. The policy proposed for 2026/27 set out in Appendix 1 has minor changes to the policy approved in March 2025. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

## 2. RECOMMENDATION

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

### **3. THE REPORT**

- 3.1. The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management Strategy. The Fund's Treasury Management is delegated to the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.
- 3.2. The Fund makes extensive use of Money Market Funds (MMF), Handelsbanken Call Account and its own call account with Nat West. The MMFs include Goldman Sachs, Federated Investors, Aberdeen Asset management, State Street, Invesco, Morgan Stanley and CCLA Public Sector Deposit Fund. The rules of access to these accounts particularly suit the Fund's cash flow requirements.
- 3.3. The Council's Treasury Management investment policy incorporates ESG criteria where it lends to banks via bank deposits on longer maturity terms. In contrast the Fund requires more liquid cash management which means it utilises money market funds rather than bank deposits meaning that the Council's use of ESG criteria is less applicable to the Fund. 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.
- 3.4. The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers Arlingclose. All potential counterparties are continuously monitored using the advice of external consultants.
- 3.5. To accommodate the rise in pension payments and expected reduction in contributions as more employers go into surplus, the minimum working balance has been raised from £25m to £30m. This provides sufficient liquidity to meet all pension payments and supplier invoices without needing to sell assets, and—based on monthly contribution receipts—covers approximately 2 to 3 months of net outgoings.
- 3.6. The level of cash that can be held on the Fund's behalf is currently £79m. The Council are in the process of setting up MMFs with Royal London Asset Management and Legal and General Investment Management Limited. This will increase the level of cash that can be held to £99m.
- 3.7. Any changes to the Treasury Management Policy are noted within Appendix 1.
- 3.8. The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria because of the policy.

### **4. STATUTORY CONSIDERATIONS**

- 4.1. 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.

## 5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

5.1. The Fund requires accessibility to short term cash investments to meet its day-to-day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short-term investment of up to £79m earns interest and incurs transfer costs. However, the significance of an efficient means of short-term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

## 6. RISK MANAGEMENT

6.1. 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.

## 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 addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 9. OTHER OPTIONS CONSIDERED

9.1. None.

## 10. CONSULTATION

10.1. The Council's Director of Assurance, Risk & Pensions has had the opportunity to input to this report and has cleared it for publication.

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

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**AVON PENSION FUND****– DRAFT TREASURY MANAGEMENT POLICY 2026**

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

	<b>Maximum Monetary limit</b>	<b>Time limit</b>
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (A-) or equivalent.	£10m each	2 months
CCLA LA Deposit Fund	£6m	2 months
Invesco AIM	£8m	2 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10 m	To next working day.

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

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

1, Banks within the same group ownership are treated as one bank for limit purposes.

2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2023

3, as defined in the Local Government Act 2003

- 8 The cash retained as the required working balance will target £30 million. **(amended March 2026)**

- 9 The Treasury Manager will inform the Pension Fund of any changes to the counterparty credit ratings.
- 10 All Treasury Management activity related to the Pension Fund will be reported to the Finance Manager, Pensions and Investments on a regular basis.
- 11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

**Credit Rating Comparison Table**

Fitch		Moddy's		S&P			
L-Term	S-Term	L-Term	S-Term	L-Term	S-Term		
AAA	F1+	Aaa	P-1	AAA	A-1+	Prime	Investment Grade
AA+		Aa1		AA+		High Grade	
AA		Aa2		AA		High Grade	
AA-		Aa3		AA-		High Grade	
A+	F1	A1	P-2	A+	A-1	Upper Medium Grade	
A		A2		A		Upper Medium Grade	
A-	F2	A3	P-2	A-	A-2	Lower Medium grade	
BBB+		Baa1		BBB+			
BBB	F3	Baa2	P-3	BBB	A-3	Lower Medium grade	
BBB-		Baa3		BBB-			
BB+	B	Ba1	Not Prime	BB+	B	Non-Investment Grade (Speculative)	Non-Investment Grade (junk)
BB		Ba2		BB		Non-Investment Grade (Speculative)	
BB-		Ba3		BB-		Non-Investment Grade (Speculative)	
B+		B1		B+		Highly Speculative	
B		B2		B		Highly Speculative	
B-		B3		B-		Highly Speculative	
CCC	C	Caa1	Not Prime	CCC+	C	Substantial Risk	
		Caa2		CCC		Extremely Speculative	
		Caa3		CCC-		Extremely Speculative	
CC		Ca		CC		Default imminent with little prospect for recovery	
C		Ca		C		Default imminent with little prospect for recovery	
D		/		D		In Default	

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

## Proposed Counterparty List - Unsecured Bank Investments

2026/27									
CRITERIA									
Duration	Fund Limit	FITCH RATINGS			Moody's Ratings		S&P Ratings		
		S/Term	L/Term	Outlook	S/Term	L/Term	S/Term	L/Term	
<b>UK Banks</b>									
	<b>Sovereign Rating</b>			<b>AA-</b>			<b>Aa3</b>		<b>AA</b>
Barclays Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
HSBC Bank plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
<b>Lloyds Banking Group</b>									
LLOYDS BANK PLC	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
Bank Of Scotland plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
<b>NatWest Group</b>									
National Westminster Bank plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
Royal Bank of Scotland plc	2 months	10	F1+	AA-	STABLE	(P)P-1	A1	A-1	A+
Nat West Markets Plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A
Santander UK plc (domiciled in UK)	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Clydesdale Bank	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Handelsbanken (domiciled in UK)	2 months	10	F1+	AA	STABLE			A-1+	AA-
<b>UK Building Societies</b>									
Nationwide	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
<b>UK: LOCAL AUTHORITIES</b>									
Aberdeen City Council	2 months	10					A2		
Greater London Authority	2 months	10						A-1+	AA
Lancashire County Council	2 months	10	F1+	A+			A2		NR
Sutton London Borough Of	2 months	10					A1		
Transport For London	2 months	10		AA-	STABLE	P-1	A1	A-1+	AA-
Westminster City Council	2 months	10	F1+				Aa3		
<b>UK: OTHER INSTITUTIONS</b>									
United Kingdom	2 months	10		AA-u	STABLE		Aa3	A-1+u	AAu
LCR Finance PLC	2 months	10		AA-	STABLE		Aa3		AA
Network Rail Infrastructure	2 months	10		AA-	STABLE	P-1	Aa3		
Wellcome Trust Finance PLC	2 months	10	F1+u				Aaa		AAA
<b>Foreign Banks</b>									
<b>Australia</b>									
	<b>Sovereign Rating</b>			<b>AAAu</b>	<b>STABLE</b>		<b>Aaa</b>	<b>A-1+u</b>	<b>AAAu</b>
Aust And NZ Banking Group	2 months	10	F1+u	AA-	STABLE	P-1	Aa2	A-1+	AA-
Commonwealth Bank Of Austral	2 months	10	F1+	AA-	POS	P-1	Aa2	A-1+	AA-
National Australia Bank Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa2	A-1+	AA-
Westpac Banking Corp	2 months	10	F1+	AA-	STABLE	P-1	Aa2	A-1+	AA-
<b>Canada</b>									
	<b>Sovereign Rating</b>			<b>AA+u</b>	<b>STABLE</b>	<b>P-1</b>	<b>Aaa</b>	<b>A-1+</b>	<b>AAA</b>
Bank of Montreal	2 months	10	F1+u	AA	STABLE	P-1	Aa2	A-1	A+
Bank Of Nova Scotia	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
Can Imperial Bk Of Commerce	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
Export Development Canada	2 months	10	F1+			P-1	Aaa	A-1+	AAA
National Bank Of Canada	2 months	10		AA-	STABLE	P-1	Aa2	A-1	A+
Royal Bank Of Canada	2 months	10	F1+	AA	STABLE	P-1	Aa1	A-1+	AA-
Toronto-Dominion Bank	2 months	10	F1+	AA	NEG	P-1	Aa1	A-1	A+
<b>Norway</b>									
	<b>Sovereign Rating</b>			<b>AAAu</b>	<b>STABLE</b>		<b>Aaa</b>	<b>A-1+u</b>	<b>AAAu</b>
Kommunalbanken AS	2 months	10	F1+u			P-1	Aaa	A-1+	AAA
<b>Singapore</b>									
	<b>Sovereign Rating</b>			<b>AAAu</b>	<b>STABLE</b>		<b>Aaa</b>	<b>A-1+u</b>	<b>AAAu</b>
DBS Bank Ltd	2 months	10	F1+u	AA-	STABLE	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 March 2026</b>
TITLE:	<b>SF3 Annual Benchamarking Review</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: Appendix 1 – Results of SF3 Benchmarking 2024/25	

## **1. THE ISSUE**

- 1.1. The purpose of this report is to present to the Committee the results of the annual benchmarking exercise for 2024/25.

## **2. RECOMMENDATIONS**

### **The Committee is asked to;**

- 2.1. Note the report

## **3. THE REPORT**

- 3.1. Benchmarking is a vital tool that helps drive improvements and deliver value for money by measuring back office functions and comparing performance to similar organisations, therefore identifying where changes are needed and improve efficiency.
- 3.2. The Fund took part in the CIPFA Benchmarking exercise for approximately 15 years. However over the years the number of Funds taking part in the exercise declined and therefore the Fund decided to make use of the SF3 data which all Funds are required to submit to MHCLG.
- 3.3. SF3 data collection obtains data on the administration and fund management of the Local Government Pension Scheme.
- 3.4. The Fund has extracted benchmarking data from the SF3 extract and has attached the results in appendix 1.

## **4. STATUTORY CONSIDERATIONS**

- 4.1. 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.

## **5. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

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

## **6. RISK MANAGEMENT**

6.1. 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.

## **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 addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **9. OTHER OPTIONS CONSIDERED**

9.1. None.

## **10. CONSULTATION**

10.1. The Council's Director of Assurance, Risk & 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
<b>Please contact the report author if you need to access this report in an alternative format.</b>	

Please note that some page numbers may repeat as they are layered on the same slide within the presentation

# LGPS Fund Benchmarking 2024/2025

This year's data is obtained from SF3 pension data, collected annually (by MHCLG) from all LGPS funds in England & Wales



Avon  
Pension  
Fund

Your pension, your future

# Membership Comparisons

Page 220

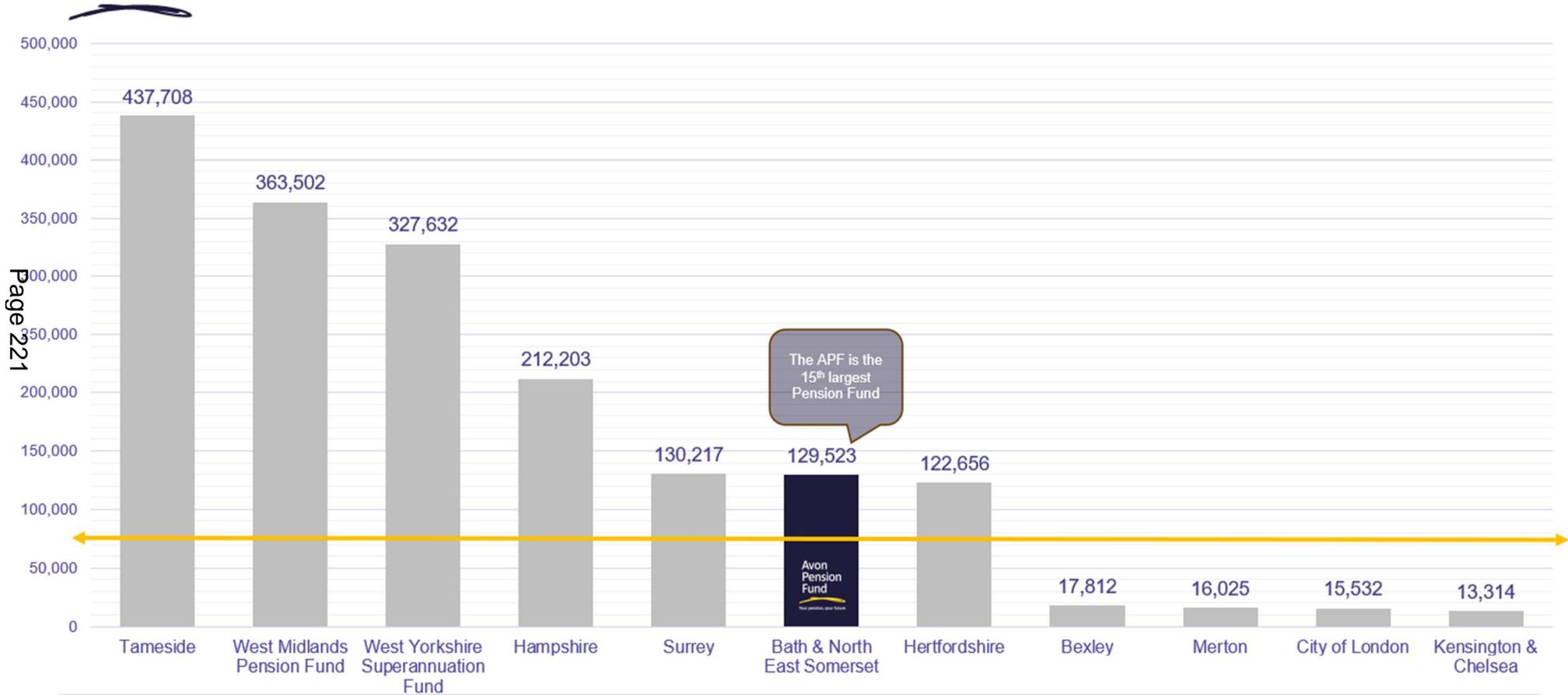
Avon  
Pension  
Fund

Your pension, your future



# Total Number of Members

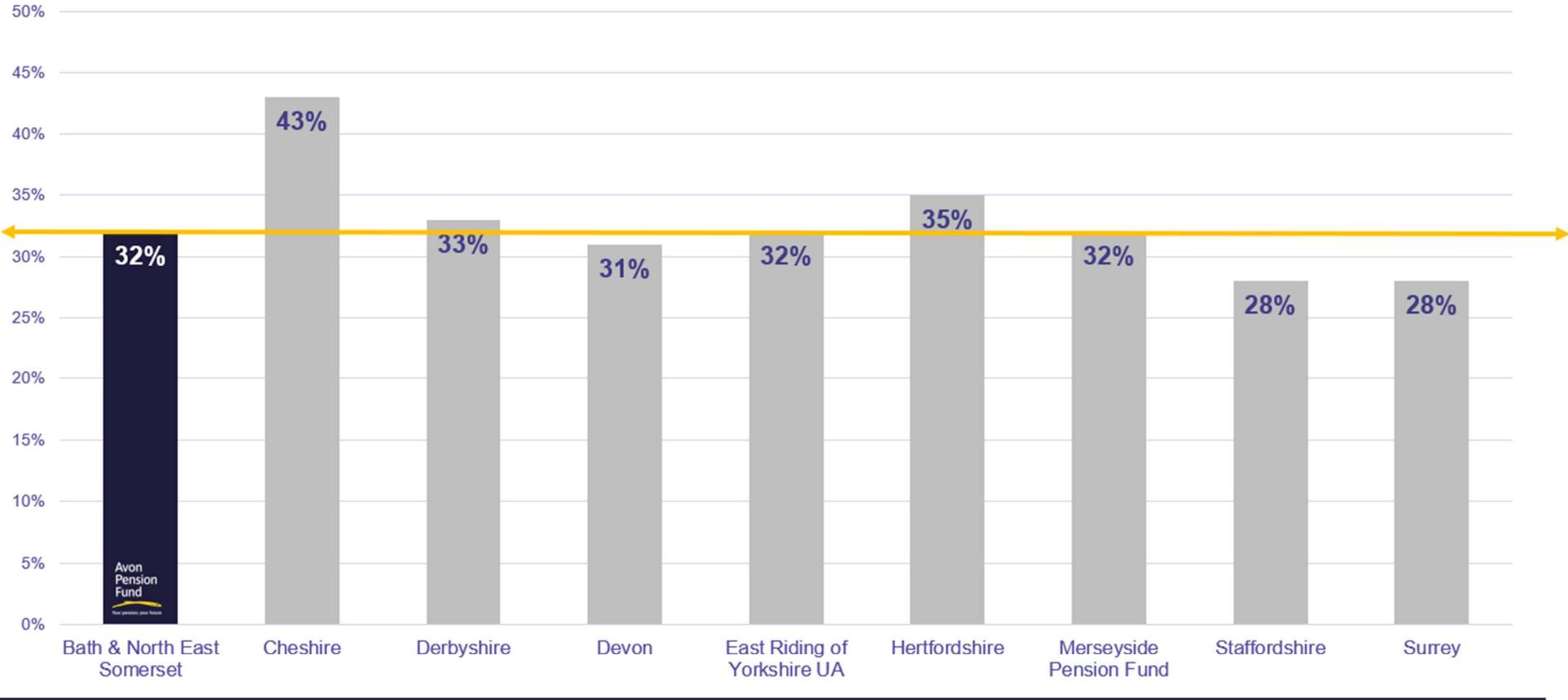
This is the total membership within a fund regardless of status



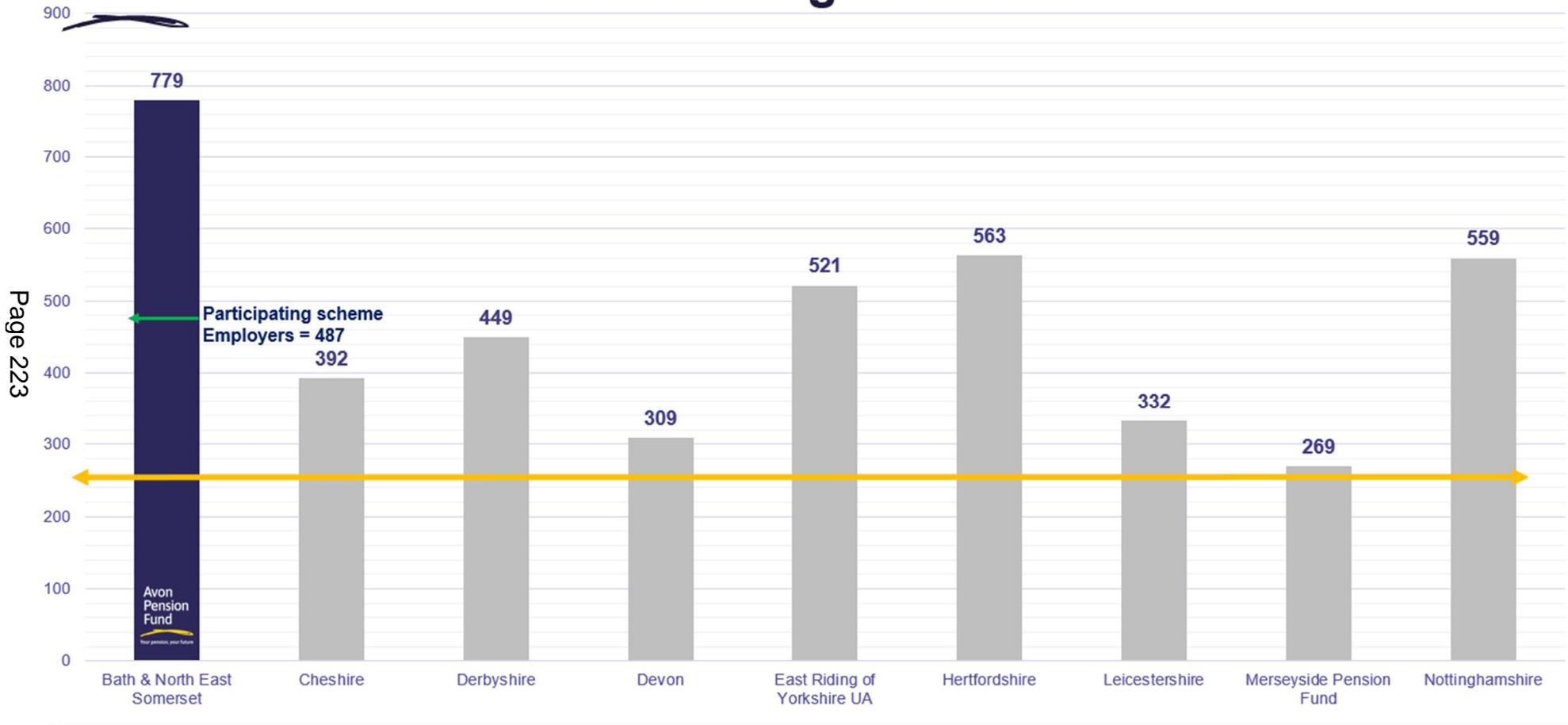
Page 221

# Contributing Members as a % of Total Membership

Members still paying into their pension as a percentage of total membership



# Employer Totals Compared to Funds with a Similar Number of Contributing Members



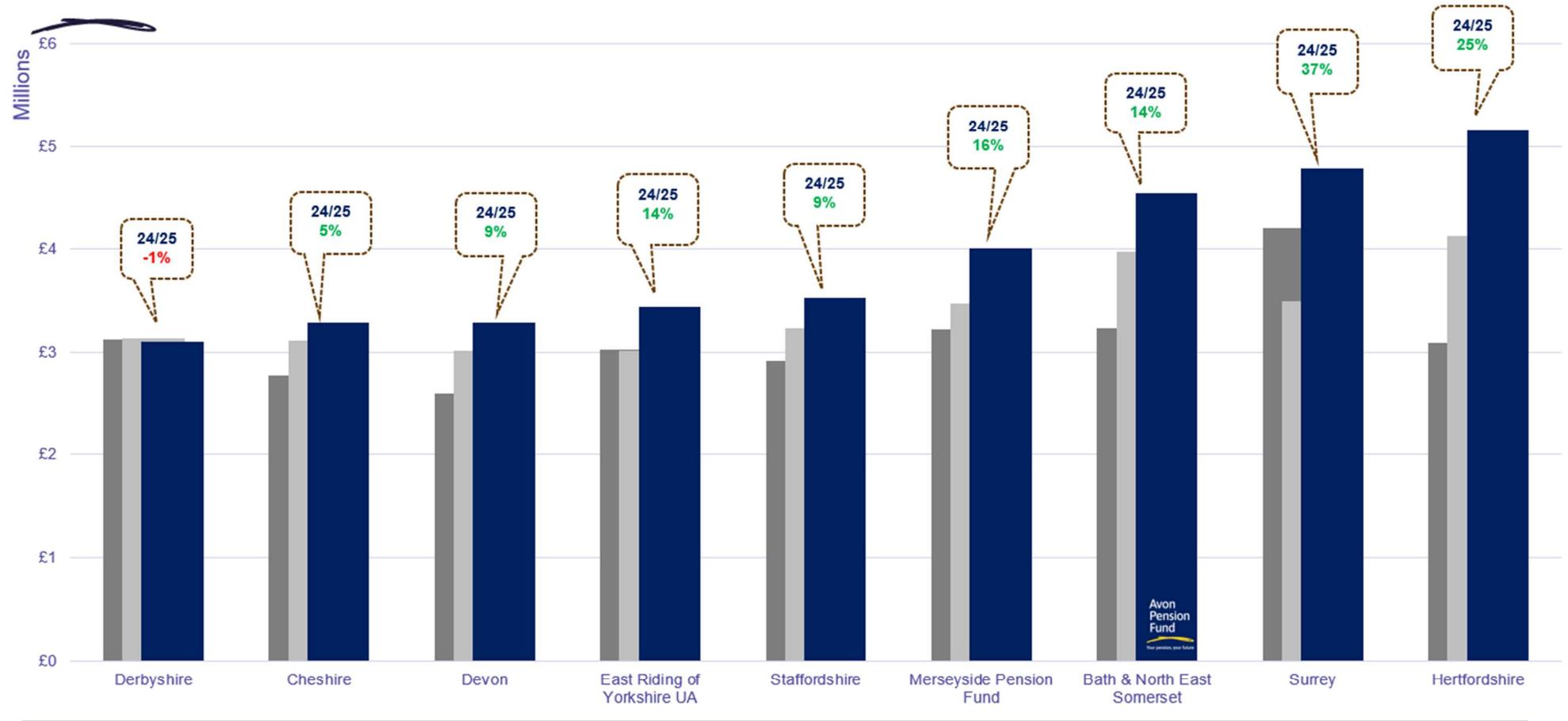
# Investment and Administration Costs

Page 224

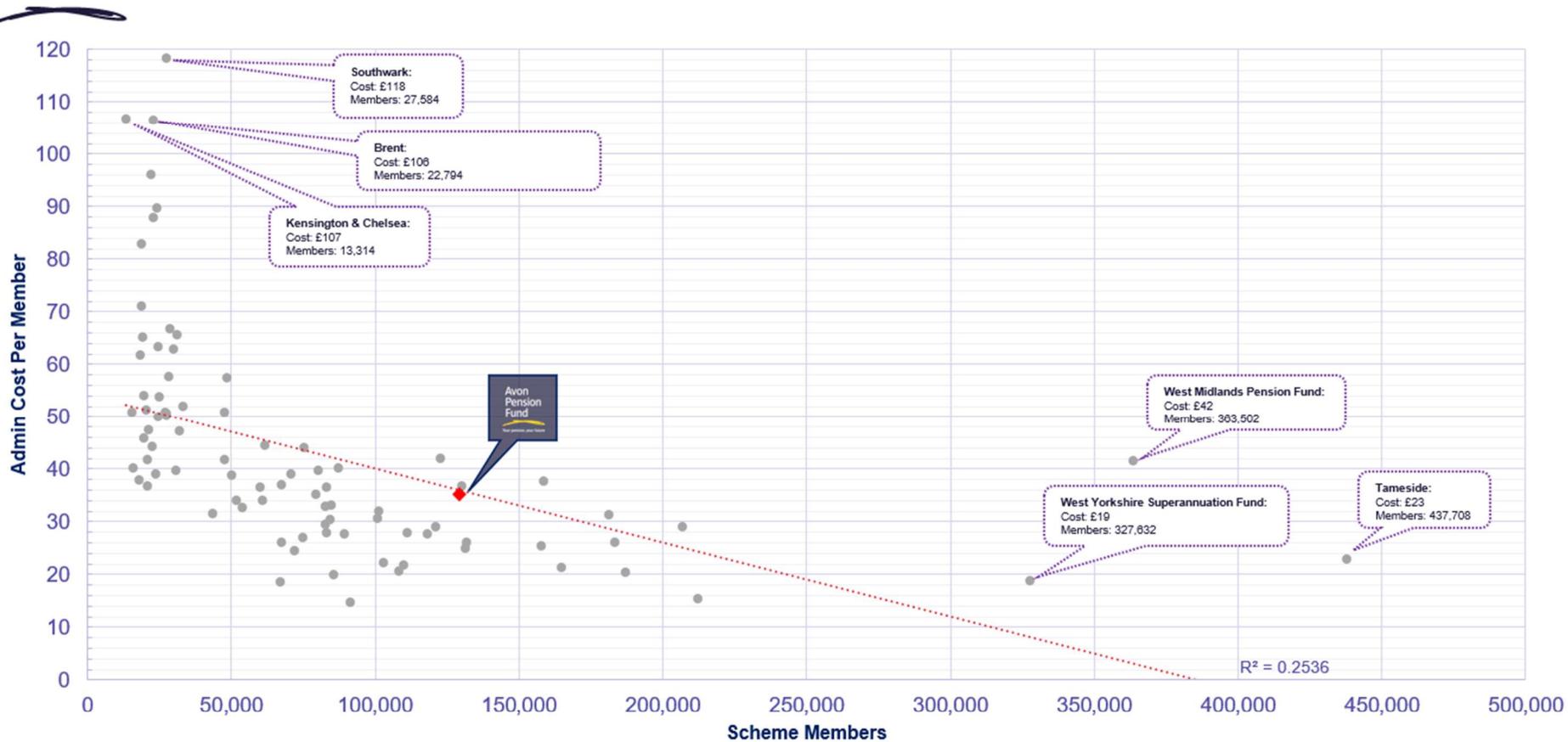


# Administration Expenses 2022-2025

■ Administration Expenses 2022/23   ■ Administration expenses 2023/24   ■ Administration expenses 2024/25

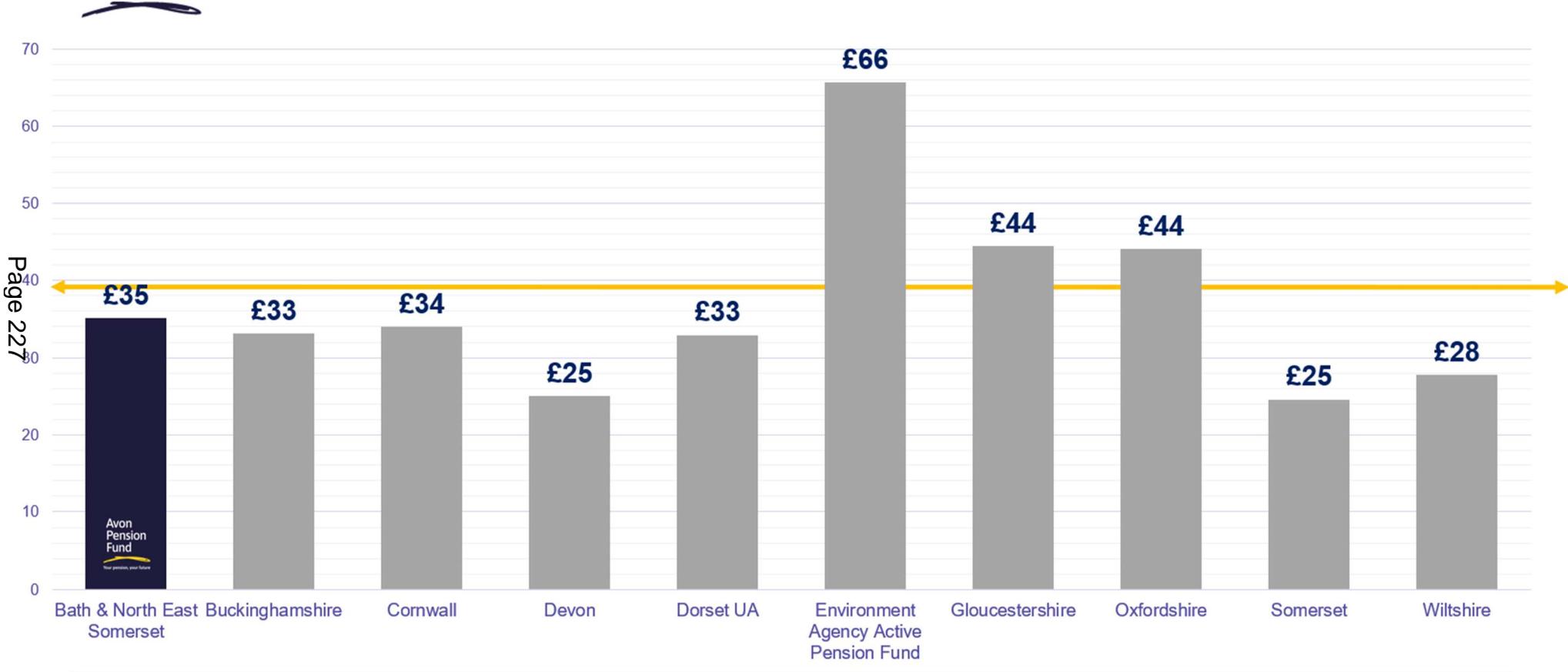


# Admin Costs Per Member



# Admin Cost Per Member Comparison

## Brunel



Page 227

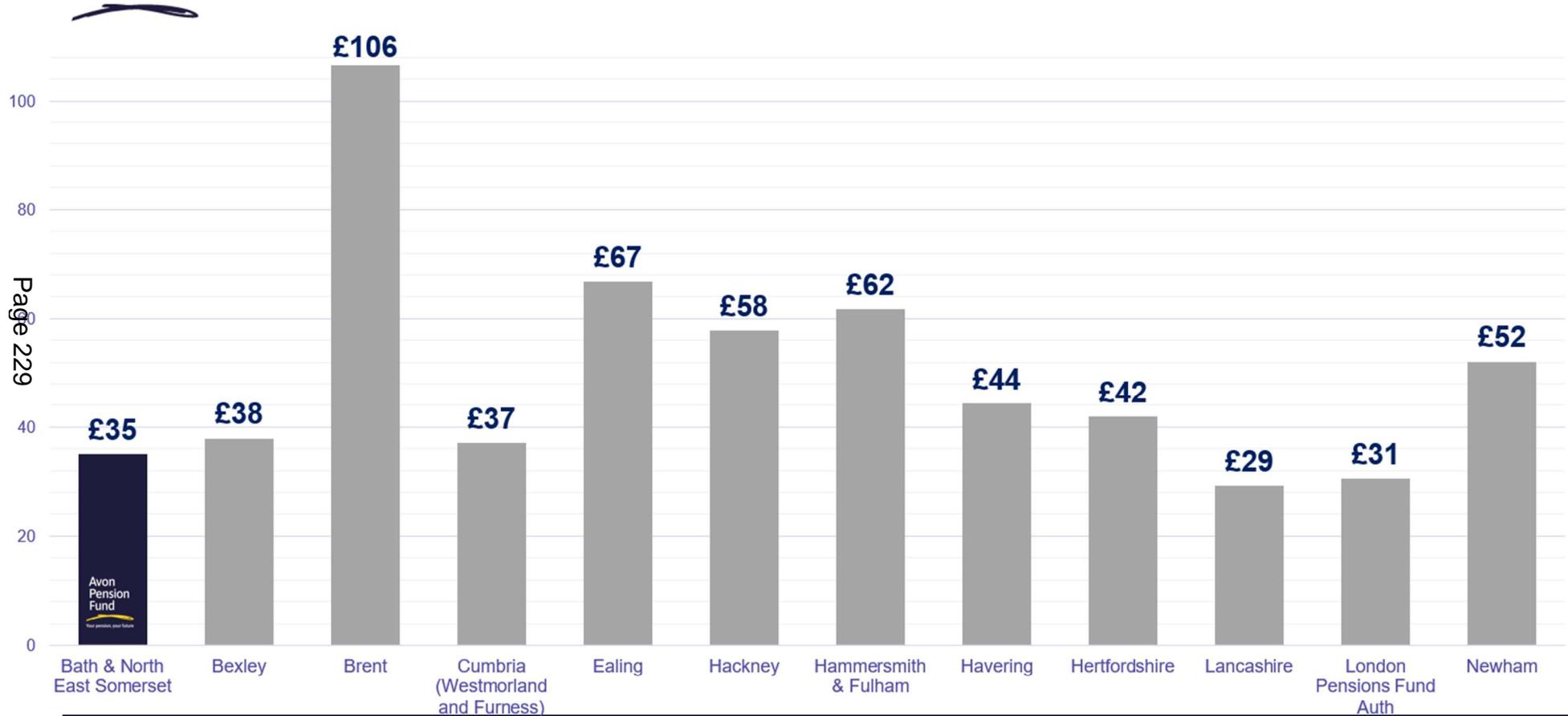
# Admin Cost Per Member Comparison

## LPPI



# Admin Cost Per Member Comparison

## LPPA

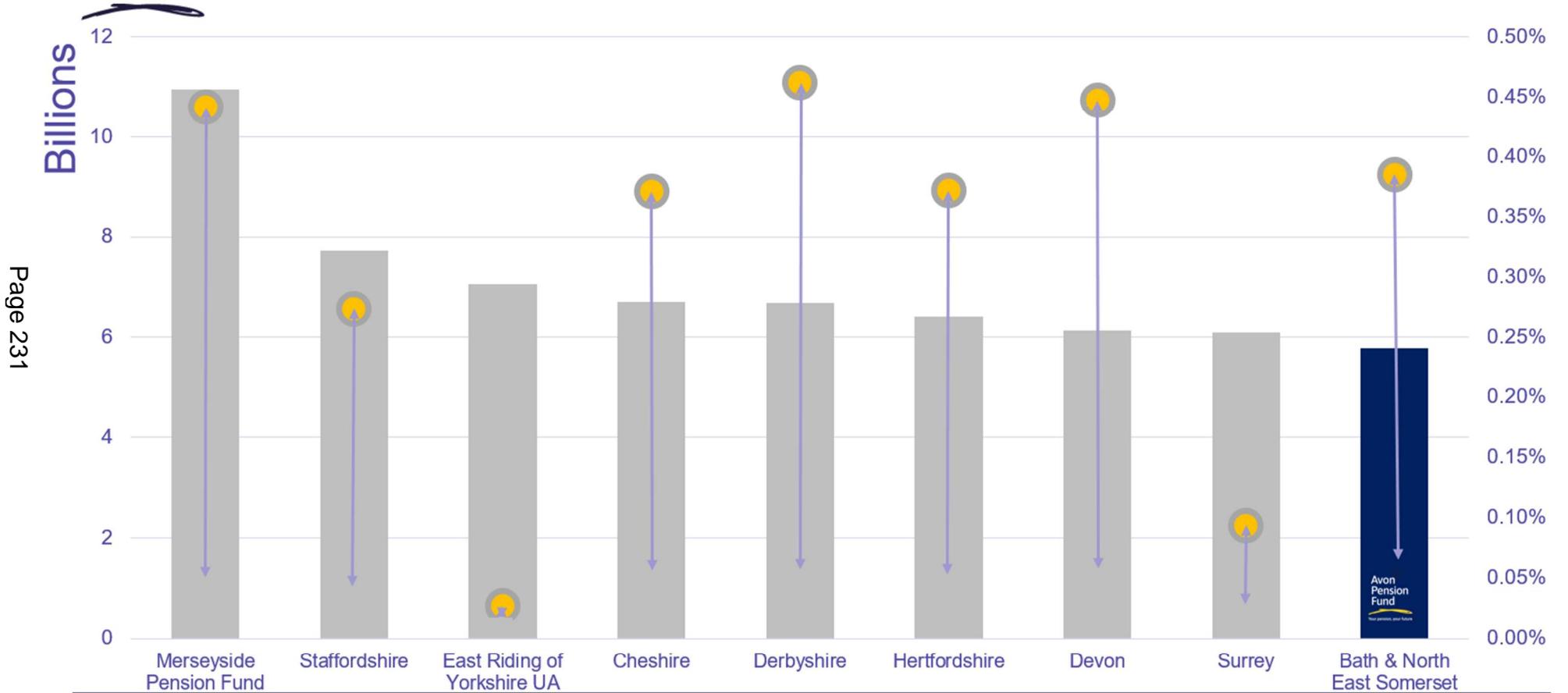


# Market Value as at March 2025 Compared to Investment Management Cost as a % of Assets



## Market Value as at March 2025 Compared to Investment Management Cost as a % of Assets (Funds with a similar total membership)

■ Market value of the fund: At 31 March 2025     
 ● Investment Management Cost as a % of Asset



# Summary



The average cost per member is less than the LGPS average of £39 at £35.



The average % of contributing members compared to total membership is at 32%, equal to the LGPS Average



Avon Pension Fund has a higher-than-average number of employers when compared to contributing members. This can drive costs up and lead to higher work loads and required staffing.

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 March 2026</b>
TITLE:	<b>Update on Legislation</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
List of attachments to this report: <b>Appendix 1 – Regulatory Update</b>	

## **1 THE ISSUE**

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

## **2 RECOMMENDATIONS**

### **The Committee is asked to;**

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

## **3 THE REPORT**

3.1. The appendix table attached provides a summary of the main regulatory updates since the last meeting, including brief comment on what the implications are for the Fund and what the next steps will be.

## **4 STATUTORY CONSIDERATIONS**

4.1 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.

## **5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

5.1 Any changes to regulations will likely impact both procedure and calculation. Calculation changes must be developed by software providers, and the Fund will need to redesign procedure, all resulting in increased resourcing, testing and cost.

## 6 RISK MANAGEMENT

6.1 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.

## 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 addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 9 OTHER OPTIONS CONSIDERED

9.1 None.

## 10 CONSULTATION

10.1 The Council's Director of Assurance, Risk & Pensions has had the opportunity to input to this report and has cleared it for publication.

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

**APPENDIX 1 – REGULATORY UPDATE**

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
<p><b>Pensions Review / General Governance</b></p>	<p><b>LPPI</b> Work continues to transition the Fund’s assets from Brunel to LPPI.</p> <p><b>Consultations</b> On <b>9 December 2025</b>, MHCLG issued a closed consultation with regard to the draft investment, pooling and governance guidance that will accompany the new LGPS investment, and LGPS Amendment Regulations.</p> <p>Whilst a closed consultation, the Scheme Advisory Board responded on 9 January 2026. The consultation closed on 12 January 2026. LGPC also submitted comments to MHCLG and echoed the Board’s concerns that introducing significant changes simultaneously across member benefits, governance and investments could undermine effective implementation and pose risks to the reputation of the LGPS. The importance of adequate notice and sufficient time to implement change (prior to any further reforms) has been stressed.</p> <p>On <b>20 November 2025</b>, MHCLG launched the “Fit for the Future – technical consultation” seeking views on draft statutory instruments – the LGPS (Pooling, Management and Investment of Funds) Regulations 2026, which will replace the LGPS (Management and Investment of Funds) Regulations 2016 and give legal effect to pooling/local investment changes emerging from the Fit for the Future consultation, and the LGPS (Amendment) Regulations 2026, which will implement the governance proposals from the consultation. Both sets of Regulations will be supported by guidance and will come into force from 1 April 2026 (subject to the Pensions Schemes Bill’s passage through Parliament).</p> <p>The LGPC issued a response to the consultation on <b>22 December 2025</b>, and the Scheme Advisory Board’s published its response on <b>23 December 2025</b>. The consultation closed on 2 January 2026.</p> <p>A response to both consultations from the government is now awaited.</p>	<p><a href="https://lgpsboard.org/wp-content/uploads/2026/01/SAB-response-to-MHCLG-FFF-guidance-closed-consultation-FINAL-1.pdf">https://lgpsboard.org/wp-content/uploads/2026/01/SAB-response-to-MHCLG-FFF-guidance-closed-consultation-FINAL-1.pdf</a></p> <p><a href="https://lgpslibrary.org/assets/cons/lgpsew/20260102%20Fit%20for%20the%20future%20technical%20response.pdf">https://lgpslibrary.org/assets/cons/lgpsew/20260102%20Fit%20for%20the%20future%20technical%20response.pdf</a></p> <p><a href="https://lgpsboard.org/wp-content/uploads/2026/01/Fit-for-the-Future-technical-consultation-SAB-response-FINAL-1.pdf">https://lgpsboard.org/wp-content/uploads/2026/01/Fit-for-the-Future-technical-consultation-SAB-response-FINAL-1.pdf</a></p>	<p>The latest position around the transition to LPPI and other updates on pooling will be considered further by the Head of Pensions and the investment team alongside advisors and reported separately.</p> <p>The latest position around the governance requirements and how the Fund will comply with these will be reported separately.</p> <p>Overall, as highlighted by LGPC and SAB, the simultaneous changes that will emerge across multiple areas of the Fund will need to be managed/resourced effectively to ensure the Fund meets the new requirements.</p>
<p><b>Pension Schemes Bill</b></p>	<p>The Pension Schemes Bill 2025 continues to make its way through Parliament and is now at the Committee stage in the House of Lords.</p> <p>A number of amendments continue to be debated in relation to the Bill, some of which will have implications for the LGPS both in relation to pooling, governance, and more recently potential implications for funding. It is now expected that the government will consult on changes to Regulation 64A later in the year, which relates to the review of contributions between actuarial valuations.</p>	<p><a href="https://bills.parliament.uk/bills/3982">https://bills.parliament.uk/bills/3982</a></p>	<p>The Bill will have implications for how the outcomes of the Fit for the Future consultation are implemented and so will impact the investment and governance teams, in particular. Developments will be monitored and the impact considered further should any changes be made and/or further details are released.</p> <p>Aside from the Fit for the Future implications, the Fund will continue to monitor how the approach to remedying the problems caused by the Virgin Media judgment will be implemented and also observe potential changes to Regulation 64A which may emerge following the expected consultation later in the year, which will have implications for the Fund’s policies, the employer team, and employers themselves.</p>

			Regulation 64a relates to: <b>Revision of rates and adjustments certificate: Scheme employer contributions</b>
<b>Access and Protection Consultation</b>	<p>Responses to the “Access and Protection” consultation were published by the Scheme Advisory Board on <b>18 December 2025</b> and the LGPC on <b>22 December 2025</b> (which included comment on the proposed draft Regulations). The Board’s response endorsed much of that included in the LGPC response although there were differences in the introduction of the NMPA and the need for protection for existing members given the composition of the Board’s membership.</p> <p>The Fund also submitted its own response and liaised with Mercer on their response.</p> <p><b>On 24 February 2026</b>, the government published a response to the section of the consultation relating to access to the LGPS in England for elected Councilor members. The response confirms that elected members will be eligible for membership (on an opt-in basis) with effect from 11 May 2026. The benefits will be closely aligned with those for non-elected members but there will be some exceptions.</p> <p>The government’s response to the other three areas of the consultation (minimum pension age, academy consolidations, and New Fair Deal) is expected to be available later in the year.</p>	<p><a href="https://lgpsboard.org/wp-content/uploads/2026/01/Access-and-Protections-SAB-response-FINAL-1.pdf">https://lgpsboard.org/wp-content/uploads/2026/01/Access-and-Protections-SAB-response-FINAL-1.pdf</a></p> <p><a href="https://lgpslibrary.org/assets/cons/lgpsew/202512_22_Access_Protections_response.pdf">https://lgpslibrary.org/assets/cons/lgpsew/202512_22_Access_Protections_response.pdf</a></p> <p><a href="https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-scheme-improvements-access-and-protections/outcome/local-government-pension-scheme-in-england-and-wales-access-for-elected-members-government-response#introduction">https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-scheme-improvements-access-and-protections/outcome/local-government-pension-scheme-in-england-and-wales-access-for-elected-members-government-response#introduction</a></p>	<p>The proposals in the consultation will have implications for the Fund in a number of areas given the impact on members, employers, administration and governance. As with the Access and Fairness proposals (see below), as changes emerge in 2026 it is important for the Fund to factor these into business planning and budget considerations for the year ahead.</p> <p>The announcement of the effective date for the Councilor / Mayor Scheme in May 2026 means that the Fund will need to liaise closely with software providers to ensure system functionality is available and consider what communications, website updates etc. will be required.</p> <p>Given MHCLGs decision to approve the transfer of Oasis academies to LPFA, the administration team are currently considering what the next steps will be in relation to the transfer process to LPFA.</p>
<b>Access and Fairness Consultation</b>	<p>On <b>2 February 2026</b>, the government published its response to the “Access and Fairness” consultation that was released in May 2025 and closed in August 2025. The response acknowledges the concerns raised regarding administrative impact and confirms that the government will proceed with a phased implementation. Phase one changes will be introduced in April 2026, and phase two later in the year. A statutory instrument implementing the phase one changes will be laid at the start of March and take effect from 1 April 2026.</p> <p>The first phase will prioritise changes to the following:</p> <ul style="list-style-type: none"> <li>• Survivor benefits and death grants</li> <li>• Gender pension gap (unpaid absence)</li> <li>• Gender pension gap reporting (reduced version for 2025)</li> <li>• McCloud remedy</li> <li>• Abolition of Lifetime Allowance</li> </ul> <p>The second phase will focus on implementing changes to:</p> <ul style="list-style-type: none"> <li>• Gender pension gap reporting (fuller version ahead of 2028)</li> <li>• Opt-out reporting</li> <li>• Forfeiture</li> <li>• All other Regulation changes set out in the consultation response</li> </ul> <p>Where appropriate, guidance will be produced in collaboration with stakeholders.</p>	<p><a href="https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-access-and-fairness/outcome/local-government-pension-scheme-in-england-and-wales-access-and-fairness-government-response">https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-access-and-fairness/outcome/local-government-pension-scheme-in-england-and-wales-access-and-fairness-government-response</a></p>	<p>Whilst the changes to this consultation are being staggered, it does not give LGPS Funds or system providers the time to plan and implement changes to deal with the work in an efficient way, and it all comes in a year when McCloud Remedy is to be completed and potentially Pensions Dashboard goes live. This has the potential to overwhelm LGPS Funds administration teams.</p> <p>Implementing the various changes can only be started when guidance is given, which is not expected until April 2026 at the earliest. This is particularly critical for the rectification of survivor benefits, which has been confirmed as being an historic review.</p> <p>The Funds Actuary has incorporated Gender Pension Gap reporting into the 2025 valuation results schedules and their formal actuarial valuation report. It remains to be seen whether any employers will request further information of their own position in due course.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 237</p>	<p>Various publications/updates relating to Pension Dashboards including updated support for LGPS Funds to comply with the necessary requirements have been released and are summarised below:</p> <p><b>PDP</b> On <b>28 January 2026</b>, PDP issued a consultation on changes it has proposed to the latest draft of its reporting standards (version 2.1). The updated draft changes how data will be reported to MaPs but does not change what data must be generated, recorded, or reported. The consultation closes on 25 March 2026.</p> <p>On <b>8 January 2026</b>, PDP issued a consultation on how they can work with the industry to deliver Private Sector Dashboard (PSDs). The consultation closed on 10 February 2026.</p> <p>PDP have also published further articles on preparing data for dashboards, their December 2025 progress update report, and a blog around getting data ready.</p> <p><b>LGA Connection/Administration Guides</b> In response to an update from TPR on 17 December 2025 the LGA will be updating their Dashboard Connection / AVC guides to reflect these changes, which relate to:</p> <ul style="list-style-type: none"> <li>- Aligning illustration dates for LGPS benefits e.g., main/AVC benefits and,</li> <li>- Unavailable codes and 10-day deadline for submitting value data, with TPR setting out its expectations for administering authorities here and what should be recorded/reported etc.</li> </ul>	<p><a href="https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/reporting-standards-latest-update-and-consultation">https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/reporting-standards-latest-update-and-consultation</a></p> <p><a href="https://www.pensionsdashboardsprogramme.org.uk/publications/news/proposed-approach-to-collaborating-with-industry-to-deliver-private-sector-dashboards">https://www.pensionsdashboardsprogramme.org.uk/publications/news/proposed-approach-to-collaborating-with-industry-to-deliver-private-sector-dashboards</a></p> <p><a href="https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/preparing-data-for-dashboards-what-you-need-to-do">https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/preparing-data-for-dashboards-what-you-need-to-do</a></p> <p><a href="https://www.pensionsdashboardsprogramme.org.uk/progress-update-report">https://www.pensionsdashboardsprogramme.org.uk/progress-update-report</a></p> <p><a href="https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/getting-data-ready-for-dashboards-benefits-for-savers-and-schemes">https://www.pensionsdashboardsprogramme.org.uk/publications/blogs/getting-data-ready-for-dashboards-benefits-for-savers-and-schemes</a></p>	<p>The Fund joined the Pensions Dashboard ecosystem by 31 October 2025, with contracts having been signed by all parties including our AVC providers.</p> <p>We are continuously monitoring and improving our data, identifying any new areas which need attention in line with issued guidance. In advance of the Dashboard going live, we are creating BAU admin procedures to process Dashboard-related requests within the timescales prescribed under the Regulations.</p>
	<p>On <b>26 November 2025</b>, the Chancellor delivered the Autumn Budget. The changes set out included direct implications for the LGPS on:</p> <ul style="list-style-type: none"> <li>- <b>Salary Sacrifice</b> – a limit of £2000 on the value of contributions made through such arrangements that can receive employer and employee national insurance contributions relief. This will impact those members using such arrangements to make AVCs. Guidance has also been produced.</li> <li>- <b>Inheritance Tax</b> – confirmation that the government will proceed with previously announced proposals to include certain unused pension funds and death benefits within the estate for inheritance tax purposes for deaths after April 2027. A policy paper was also produced.</li> <li>- <b>Stamp Duty Land Tax Relief (SDLT)</b> – An amendment to the rules to provide a time limited (5 years) SDLT exemption for transfers of real estate assets from LGPS funds to the pools.</li> </ul> <p>Since the Budget, Bills relating to National Insurance Contributions and Inheritance Tax are progressing through Parliament.</p>	<p><a href="https://www.gov.uk/government/publications/budget-2025-document">https://www.gov.uk/government/publications/budget-2025-document</a></p> <p><a href="https://www.gov.uk/government/publications/changes-to-salary-sacrifice-for-pensions-from-april-2029/changes-to-salary-sacrifice-for-pensions-from-april-2029">https://www.gov.uk/government/publications/changes-to-salary-sacrifice-for-pensions-from-april-2029/changes-to-salary-sacrifice-for-pensions-from-april-2029</a></p> <p><a href="https://www.gov.uk/government/publications/inheritance-tax-unused-pension-funds-and-death-benefits">https://www.gov.uk/government/publications/inheritance-tax-unused-pension-funds-and-death-benefits</a></p> <p><a href="https://bills.parliament.uk/bills/4046">https://bills.parliament.uk/bills/4046</a></p> <p><a href="https://bills.parliament.uk/bills/4042/stages">https://bills.parliament.uk/bills/4042/stages</a></p>	<p>The Technical team will continue to monitor the outcomes of the two bills making their way through Parliament to ensure that the necessary communications can be made to members as to what the implications will be and the requirements for them alongside any required changes to calculation routines.</p>

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 March 2026</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 – Committee Workplan</p> <p>Appendix 2 – Training Programme</p> <p>Appendix 3 – TPR GCOP Action Plan 2025</p> <p>Appendix 4 – TPR GCOP Action Plan 2026</p> <p>Appendix 5 &amp; 5a – Risk Register</p> <p>Appendix 6 &amp; 6a,6b,6c – Internal Audit Annual Review</p>	

## **1. THE ISSUE**

- 1.1. Attached to this report is:
- 1.2. The workplan for the Committee is attached as Appendix 1 and the provisional training programme is included as Appendix 2.
- 1.3. The Fund’s action plan to meet compliance with The Pension Regulator’s (TPR) General Code of Practice is attached as appendices 3 and 4.
- 1.4. The Fund’s risk register is attached as appendix 5.
- 1.5. Internal Audit’s annual review is attached as appendix 6.

## **2. RECOMMENDATIONS**

### **The Committee is asked to;**

- 2.1. Note the Committee workplan & training programme
- 2.2. Note the TPR’s General Code of Practice action plan
- 2.3. Note the risk register
- 2.4. Notes Internal Audit’s annual review

## **3. THE REPORT**

### **3.1. Committee Workplan**

3.1.1. The workplan for the Committee for the year ahead is attached as Appendix 1. The purpose of the workplan is to provide members with an indication of their future workload and the associated timetable. The plan is subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

### **3.2. Training Programme**

3.2.1. The provisional training programme for 2026 is also included as Appendix 2, so that members are aware of intended training sessions and workshops. The plan will be updated quarterly.

### **3.3. Hymans LGPS Online Learning Academy (LOLA)**

3.3.1. In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA).

3.3.2. 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.

3.3.3. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework.

3.4. The modules are set out below:

- Committee Role & Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions Accounting and Audit Standards
- Procurement & relationship Management
- Investment Performance & Risk Management
- Financial Markets & Products
- Actuarial Methods, Standards & Practices
- Current Issues

The schedule for completion of the modules is contained within the training programme (Appendix 2)

### **3.5. TPR General Code of Practice (GCOP)**

3.5.1. 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.

3.5.2. The Fund conducted an assessment against the requirements of the code and presented an action plan to the Committee in March 2025, with the aim of reaching compliance with the code over the next year.

3.5.3. Appendix 3 sets out the updated action plan with progress up to March 2026.

3.5.4. Appendix 4 is the Fund's new plan for 2026 setting out a few actions which were not able to be completed in 2025.

3.5.5. The full GCOP can be found by visiting TPR website  
<https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice>

### **3.6. Risk Management Review**

- 3.6.1. The risk register and framework is attached as appendix 5 and 5a. The quarterly review has taken place with the following changes made to risks and scores for this quarter:
- 3.6.2. NR01 – Poor service levels below agreed standards – the likelihood of this risk has been reduced from likely to possible to reflect the fact that the administration is in a much better position, with backlogs reduced, KPIs consistently met and recruitment and retention stable.
- 3.6.3. NR02 – Regulatory changes – the pre mitigant score has been reviewed and the likelihood amended from likely to almost certain. The post mitigant likelihood is also almost certain as although the mitigants are managing the impacts the amount of change still make it likely that member outcomes could be impacted.
- 3.6.4. NR19 – Move to new asset pool – the latest position reflects more certainty now that the move to LPPI has been confirmed, with legal agreements nearly finalised. The likelihood has been reduced from almost certain to likely as the consequences of the impacts identified are now less likely.
- 3.6.5. NR12 – Failure to achieve decarbonisation targets – this risk has been reworded so the emphasis is on interim targets. The pre mitigant score has been updated to high and likely moving to medium and possible post mitigant actions.
- 3.6.6. NR11 – Brunel fails to deliver client objectives – this risk has been reworded to reflect the move to LPPI, although the actual risks remain the same.
- 3.6.7. NR04 – Governance of Fund – the SAB Good Governance Review has been updated to Fit for Future. Following advice from Internal Audit the risk associated with fraud has been added to this risk and a counter fraud risk assessment will take place during the year.
- 3.6.8. NR16 – Cashflow profile is maturing - the cash buffer has been further increased from £25m to £30m to meet increasing monthly outflows
- 3.6.9. The changes mean that 'red' risks have reduced from 4 to 2. Our current top 2 risks are:
- NR06 – the loss of IT including cyber attack and loss of power.
  - NR02 – Regulatory Changes

### **3.7. Internal Audit's Annual Review**

Internal Audit presented their findings to the Pension Board on 11<sup>th</sup> March. The Pension Board meeting report is attached as appendix 6, 6a, 6b & 6c.

#### **4. FUTURE MEETING DATES**

4.1. Pension Committee meetings as currently scheduled:

<b>2026</b>
27 March
26 June
18 September
11 December

4.2. The provisional dates for the Investment panel meetings are:

<b>2026</b>
25 Feb 2026
02 Jun 2026
04 Sept 2026
26 Nov 2026

#### **5. STATUTORY CONSIDERATIONS**

5.1. 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.

#### **6. RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

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

#### **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 Assurance, Risk & 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
<b>Please contact the report author if you need to access this report in an alternative format.</b>	

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**Appendix 1**

<b>Committee Workplan</b>	<b>Mar-26</b>	<b>Jun-26</b>	<b>Council 16-July</b>	<b>Sep-26</b>	<b>Dec-26</b>
<b>Governance</b>					
Pension Board minutes					
Governance Update (workplans )					
Review of Risk Register					
Roles & Responsibilities of the Committee, Investment Governance Review					
Approval of Committee’s Annual Report to council & PB Annual Report for noting					
Update on Legislation					
Annual audit plan & review					
SF3 Benchmarking Exercise					
Review of General Code of Practice Compliance					
Fit for Future - Good Governance Requirements					
<b>Administration &amp; Budget</b>					
Administration – performance indicators					
Budget & Cash flow Monitoring (as needed)					
Budget and Service Plan					
Treasury management Policy					
<b>Investments &amp; Funding</b>					
Strategic Investment review					
Approve Investment Strategy Statement					
Review Investment Performance					
Annual RI report inc progress on climate targets, stewardship, etc.					
Fit 4 Future - Pooling update re. LPPI & Brunel windown					
Investment Governance Framework					
Valuation Outcome & Updated Funding Strategy Statement					
Annual Employer and Covenant review					
Local Investments Update					

Approve   
 Noting 

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Type of Training	Date	Content	
Workshop	TBC	Cyber Security	
Workshop	TBC	Fit for Future - Good Governance	
Hymans Learning Academy	Title of Module	Date to be completed	Time Commitment
<b>Introduction</b>	• An Introduction to LGPS Online Learning Academy	Sep-25	2 minutes
<b>Module 1 – Committee Role and Pensions Legislation</b>	• An Introduction to Pensions Legislation • An introduction to Pensions Legislation - The Role of a Councillor	Sep-25	27 minutes
<b>Module 2 – Pensions Governance</b>	• LGPS Oversight Bodies – DLUHC & GAD • LGPS Oversight Bodies – TPR • Business Planning • LGPS Governance	Dec-25	50 minutes
<b>Module 3 – Pensions Administration</b>	• Introduction to Administration • Additional Voluntary Contributions • Policies and Procedures	Nov-25	51 minutes
<b>Module 4 – Pensions Accounting and Audit Standards</b>	• Pensions Accounting and Audit Standards	Nov-25	11 minutes
<b>Module 5 – Procurement and Relationship Management</b>	• Public Procurement	Jan-26	11 minutes
<b>Module 6 – Investment Performance and Risk Management</b>	• Introduction to Investment Strategy • LGPS Investment Pooling • Performance Monitoring • Responsible Investment	Feb-26	48 minutes
<b>Module 7 – Financial Markets and Product Knowledge</b>	• Introduction to Financial Markets and Product Knowledge • Investment – MiFID II	Mar-26	33 minutes
<b>Module 8 – Actuarial Methods, Standards and Practices</b>	• Introduction to Funding Strategy • LGPS Actuarial Valuations – Process • LGPS Valuation – Technical • Employers	Oct-25	53 minutes
<b>Current Issues</b>	• Understanding McCloud • 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 • McCloud Recent Developments • LGPS Fit for Future Consultation • Gender Pensions Gap in LGPS • Partial Cessations • LGPS Fit for Future Consultation - Government Response • What is a pension scam • Pension Scams in the LGPS • Access & Protections Consultation	Ongoing	

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## Appendix 3 - 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	Current Status	Actions	Responsibility	Timescale	Comments
<b>The Governing Body: Board Structure and Activities</b>					
Members of governing bodies to display the characteristics shown in <b>Appendix 1</b> .	Complete	Mandatory training required for several members.	Governance and Risk Advisor	Dec-25	Training requirements carried forward under knowledge & understanding
<b>The Governing Body: Knowledge and Understanding</b>					
The governing body should regularly carry out an audit of its members' skills and experience to identify gaps and imbalances.	In Progress				Not fully compliant - carry over to 2026
Members of the pension board can work towards completing TPR public service toolkit or equivalent learning programmes.	Complete	Mandatory training required for several members.	Governance and Risk Advisor	Dec-25	
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> .	Complete				
<b>The Governing Body: Advisers and Service Providers</b>					
Follow the processes set out for appointing advisers and service providers. (see <b>Appendix 8</b> for more detail)	Complete	Check SLAs agreed for all new contracts.			
Follow the processes set out for managing advisers and service providers. (see <b>Appendix 9</b> for more detail)	In Progress	Review process for monitoring performance of service providers and engaging advisers and service providers, embedded Q2 2026 onwards.	Fund officers	Mar-26	Not fully compliant - carry over to 2026
Follow the processes set out for replacing advisers and service providers. (see <b>Appendix 10</b> for more detail)	Complete	Internal procurement process to be reviewed to ensure contracts in place for all services via a compliant procurement route.			
<b>The Governing Body: Risk Management</b>					
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.	Complete	Embed 12 process improvements agreed with Simplify.  Check other key processes and embed new controls if required	Head of Pensions	Mar-26	Work complete but ongoing review to be carried out as BAU
When designing internal controls governing bodies should consider TPR expectations. (see <b>Appendix 12</b> for more detail)	Complete	New projects and associated documents to be reviewed to include all TPR expectations. Go/No-Go checklist updated to cover internal controls.	Business Change Manager	Mar-26	
To maintain internal controls governing bodies should consider TPR expectations. (see <b>Appendix 13</b> for more detail)	Complete	Assurance reports required from Heywood.	Head of Pensions	Mar-26	
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> .	Complete	New Business Continuity Plan to be completed and tested.	Governance and Risk Advisor	Apr-25	Live test for BCP needed and review of BCP since going hosted in July 25. Add requirement to 2026
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).	Complete	Add requirement to conflicts of interest policy, applied only if a relevant case arises	Governance and Risk Advisor	Jun-25	
<b>Administration: Scheme Administration</b>					
Every scheme must operate internal controls which should include administration.	Complete	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> .	Complete	Complete new Business Continuity Plan and carry out test. Complete consistency review of procedure notes for all processes.	Pensions Operations Manager	Mar-26	
<b>Administration: Information Handling</b>					
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	Mar-26	Not fully complete - move to 2026
Governing bodies should meet the record keeping requirements set out in <b>Appendix 26</b> .	Complete	Review data improvement plan and record of Processing Activities. And embed required improvements.	Pensions Operations Manager	Mar-26	
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.	Complete	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	Mar-26	Decision made to postpone deletion of Altair records while Access & Fairness rectification work is in progress
Governing bodies should have appropriate processes in place for monitoring scheme data. (see <b>Appendix 29</b> for full details)	Complete	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)					
<b>Administration: IT &amp; Cyber Security</b>					
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> .	Complete	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> .					
<b>Administration: Contributions</b>					

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	Mar-26	Late payment interest policy still needs updating and to be formalised. carry over to 2026 based on audit requirements
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.	Complete	Review process of new reconciliation data with iconnect team.	Group Manager, Funding, Investment & Risk	Mar-26	
<b>Communications and Disclosure: Information to Members</b>					
The scheme manager should comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.	Complete	Review the Disclosure of Information Regs to check compliance in all areas.	Technical and Compliance Advisor	Dec-25	Claire to undertake reviews as BAU
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	Mar-26	Not fully complete - move to 2026
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)	Complete	Review of statements required to include McCloud data for 2025, plus Business Change Team to look at alternative ways to support members' understanding.	Technical and Compliance Advisor	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	Mar-26	Not fully complete - move to 2026
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.	Complete	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.	Complete	Tighter controls to be implemented for the process/potential review of process.	Pensions Operations Manager	Dec-25	
<b>Communications and Disclosure: Public Information</b>					
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> )	Complete	TPR General Principles reviewed and incorporated into APF's updated Comms Policy.	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>	Complete	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 Progress	APF Comms Policy reviewed and updated. Process development to monitor all published data in progress.	Business Change Manager	Mar-26	Not fully complete - move to 2026
<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>	Complete	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.	Complete	Review breaches policy and process and add additional requirements	Governance and Risk Advisor	Dec-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.	In Progress			Mar-26	Not complete - carry over to 2026 Requirement to be added to process/breach policy

Regulatory Requirement
TPR Requirement
Best Practice

## Appendix 4 - 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	Current Status	Actions	Responsibility	Timescale	Comments
<b>The Governing Body: Board Structure and Activities</b>					
<b>The Governing Body: Knowledge and Understanding</b>					
The governing body should regularly carry out an audit of its members' skills and experience to identify gaps and imbalances.	In Progress	Mandatory training to be enforced as part of Fit for Future	Governance and Risk Advisor	Mar-27	
<b>The Governing Body: Advisers and Service Providers</b>					
Follow the processes set out for managing advisers and service providers. (see <b>Appendix 9</b> for more detail)	In Progress	Additional work required in monitoring contracts	Governance and Risk Advisor	Mar-27	
<b>The Governing Body: Risk Management</b>					
Governing bodies should consider having a continuity plan that meets the requirements of <b>Appendix 14</b> .	In Progress	Live test for BCP needed, review of BCP since going hosted. Pensions Payroll critical service testing.	Governance and Risk Advisor	Oct-26	Although new plan in place additional actions are now required
<b>Administration: Information Handling</b>					
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-26	
<b>Administration: Contributions</b>					
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	Late payment interest policy to be updated and formalised	Group Manager, Funding, Investment & Risk	Mar-27	
<b>Communications and Disclosure: Information to Members</b>					
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	Mar-27	
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	Mar-27	
<b>Communications and Disclosure: Public Information</b>					
Scheme managers should: - Have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete - Ensure any out-of-date or incorrect information identified is updated as soon as possible and in any event, within one month	In Progress	APF Comms Policy reviewed and updated. Process development to monitor all published data in progress.	Business Change Manager	Mar-27	
<b>Reporting to TPR: Reporting Breaches</b>					
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.	In Progress	Requirement to inform members where there has been a material breach in respect of payment of contributions to be added to process/breach policy	Governance and Risk Advisor	Mar-26	

Regulatory Requirement

TPR Requirement

Best Practice

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Appendix 1 - Risk Register

Number	Function	Risk	Impact	Pre Mitigants			Mitigating Actions / Control Framework	Current Impacting Factors	Post Mitigants				
				Impact	Likelihood	Score			Impact	Likelihood	Score	Previous 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>- Heywood Business Continuity plan in place</li> <li>- Pensions Dashboards security framework in place</li> </ul>	Hosted server arrangement with Heywood Implementation of General Code of Practice Requirements Emerging risk that pension dashboard will increase potential scamming activity	Critical	Likely	20	20	→
NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers	High	Almost Certain	20	<ul style="list-style-type: none"> <li>- Regulatory changes monitored via LGA and professional advisors</li> <li>- Officers attend SWAPOG/Tech Group/working groups</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 Remedy Pensions Dashboard Resource implications of access and fairness regulations Access and Protections implications	Medium	Almost certain	15	15	→
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>- Staff vacancies below 6%, ongoing training and development</li> <li>- Process improvements have been implemented</li> <li>- Review of Top 10 Process Controls done</li> <li>- Plan to minimise effects of key people/resources</li> <li>- Business Continuity and Crisis Communications Plan in place</li> <li>- Operations in steady state</li> </ul>	Transformation project Skills and experience of staff New Regulations Implementation of process reviews Pensions Dashboard go live pending	High	Possible	12	16	↑
NR19	Investments	Move to new asset pool	Challenging timelines increase risk of poor decision making Significant increase in workload Potential impact to investment strategy and disruption to service provision Potential loss of influence / control within pool 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>- LPPI chosen pool</li> <li>- Legal advice sought for Brunel wind-up and LPPI entry</li> <li>- All partner funds granted shareholder status</li> <li>- Good progress made towards finalising legal agreements. Appropriate Governance arrangement starting to take shape.</li> <li>- Building working relationship with LPPI to mitigate service provision risks. Retaining some external advice to provide resilience.</li> </ul>	Speed of change driven by government is challenging Working with LPPI, Brunel and partner funds on transition options	Medium	Likely	12	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 Introduce bulk processes Potential updates to telephone system	High	Possible	12	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	12	→
NR11	Investments	LPPI 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>- LPPI governance framework for strategic and operational decision making</li> <li>- Robust performance reporting</li> <li>- Avon-LPPI working group (internal)</li> </ul>	Future of pooling is strategic challenge for pool, focus needs to be on BAU	High	Possible	12	12	→
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 Fraud	High	Almost Certain	20	<ul style="list-style-type: none"> <li>- Internal Audit plan in place</li> <li>- Fund policies regularly reviewed</li> <li>- Counter fraud measures in place</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>- Action plan in place for TPR GCOP</li> </ul>	Fit for Future regulatory changes to Investment & Fund governance arrangements TPR General Code of Practice Counter Fraud risk assessment to be conducted	Medium	Likely	12	12	→
NR12	Investments	Failure to achieve interim climate targets (decarbonisation, alignment and engagement)	Reputational risk from failing to meet targets and financial risk arising from slower than expected transition (given current Fund SAA)	High	Likely	16	<ul style="list-style-type: none"> <li>•SAA</li> <li>• Independnet assessment of progress</li> <li>• Collective engagement and membership of industry bodies</li> <li>• Screens and divestment criteria based on industry best practice</li> </ul>	<ul style="list-style-type: none"> <li>• Tougher policy backdrop</li> <li>• Transition to new Pool</li> <li>• Limited scope to further enhance SAA</li> </ul>	Medium	Possible	9	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>- Employer regulatory newsletter</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 Administration Strategy currently out for consultation	Medium	Possible	9	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 public sector funding environment Valuation in progress	Medium	Possible	9	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 LPPI and suppliers</li> </ul>	Data management and cyber risk	Medium	Possible	9	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>- Increased the cash buffer from £25m to £30m to meet increasing monthly outflows</li> <li>- Tradeable assets can be swiftly sold</li> <li>- Strict limits on illiquid assets</li> <li>- Post-triennial valuation, contributions expected to fall from April 2026, increasing cash needs</li> </ul>	Increased the cash balance that can be held in money market funds	High	Unlikely	8	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> <li>- Simplification of LDI programme post 2025 ISR makes monitoring leverage and collateral easier</li> </ul>	UK gilt market environment Currently have high collateral buffer	High	Unlikely	8	8	→
NR03	Governance	Pension Committee and Pension Board cannot operate effectively	Delays in decision making by the Pension Committee Limited oversight from the Pension Board Failure to meet MIFID & TPR regulations	Medium	Almost Certain	15	<ul style="list-style-type: none"> <li>- Representation 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> <li>- Terms of Reference set out governance framework</li> </ul>	Recruitment for replacement Academy Rep and new Independent Person role	Medium	Unlikely	6	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	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> <li>- More employers in surplus heightens the risk of incorrect contributions</li> </ul>	Employer budgets stretched by insufficient funding Increased reconciliations and additional checks Issue updated guidance to employers on surplus deductions	Low	Possible	6	6	→

### CURRENT RISKS - SUMMARY

#### LIKELIHOOD

		Rare	Unlikely	Possible	Likely	Almost Certain
IMPACT	Critical	0	0	0	1	0
	High	0	2	4	0	0
	Medium	0	2	4	2	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	<b>Negligible</b>	Minimal disruption not impacting on an important service which can be resolved	Capital loss potential up to 1% of assets	Litigation, claims or fines Services up to £10k Corporate £25k	Minimal impact on APF delay < 1 month	Minimal or no impact on Services Duty of Care requirements.
2	<b>Low</b>	Brief disruption of important service /service area	Capital loss potential up to 5% of assets	Litigation, claims or fines Services up to £25k Corporate £50k	Some impact on APF delay < 3 months	Consideration required re. Duty of Care unlikely to have adverse impact meeting overall requirements.
3	<b>Medium</b>	Major effect to an important service area	Capital loss potential up to 15% of assets	Litigation, claims or 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	<b>High</b>	Complete loss of an important service area	Capital loss potential up to 25% of assets	Litigation, claims or fines Services up to £125k Corporate £250k	Significant impact on APF major delay of 6+ months	Significant impact on meeting Duty of Care responsibilities.
5	<b>Critical</b>	Major loss of whole service	Capital loss potential > 25% of assets	Litigation, claims or fines Services up to £250k Corporate £500k	Complete failure of project extreme delay > 12 months	Not meeting legal responsibilities placing individuals at risk.

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>LOCAL PENSION BOARD - AVON PENSION FUND</b>	
MEETING DATE:	11 <sup>th</sup> March 2026	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>2025/26 Internal Audit Progress Update &amp; 2026/27 Internal Audit Plan</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p><b>Appendix 1</b> – Internal Audit Report – Pensions Payroll</p> <p><b>Appendix 2</b> – Internal Audit Report – Transfers Out</p> <p><b>Appendix 3</b> – Internal Audit Plan 2026/27</p> <p>Audit updates included within this document:</p> <p>Update 1 – 4.5 Internal Audit Report – iConnect System Access</p> <p>Update 2 – 4.6 Internal Audit Report – Business Continuity</p> <p>Update 3 – 4.7 Internal Audit Report – Monitoring Contributions</p>		

## **1 THE ISSUE**

- 1.1 The purpose of this report is to provide an update on Internal Audit activity since the last report to the Pension Board on 12<sup>th</sup> December 2025.
- 1.2 The Board should consider the report and the appendices in the context of their understanding of the performance and management of the fund.

## **2 RECOMMENDATION**

- 2.1 The Pension Board is asked to –
  - a) Note the report and the outcomes of the Internal Audit work carried out on behalf of the Avon Pension Fund (APF).
  - b) Approve the 2026/27 Internal Audit Plan.

**3 FINANCIAL IMPLICATIONS**

3.1 The assurance work carried out by Internal Audit is performed within the budget agreed with the APF.

**4 REPORT**

**2025-26 Internal Audit Work**

4.1 The work of the Internal Audit Service is to provide independent assurance to the APF’s senior officers and members that governance, risk management and the related framework of internal controls are sufficient in ensuring delivery of the APF’s objectives.

An annual programme of internal audits of APF governance and operations is scheduled based on the annual audit planning process, which is used to assess risks that could impact the Pension Fund.

4.2 This report provides an update on progress in delivering the programme of work since the last update report presented to the Pension Board. The table below shows audits issued and in progress, and summarises the Assurance Level assigned to each internal audit review:

Audit	Assurance Opinion
Pensions Payroll (see Appendix 1)	Reasonable (Level 3)
Transfers Out (see Appendix 2)	Reasonable (Level 3)
i-Connect System Access	Reporting
Business Continuity Planning	In Progress
Monitoring Contributions	Reporting
Follow-up Reviews	Scheduled March 2026

4.3 The **Pensions Payroll** audit was assigned a “Reasonable” Assurance rating, where the systems of internal control were found to be satisfactory.

Effective controls over the payroll processing were identified, that includes payroll administration as well as management of spousal pensions and death grants. In addition, there has been further improvements made to pension increase processes.

The latest pension increase reconciliation reports identified a high number of variances between admin and payroll records, some of which are significant and would have a financial impact on individual pensioners. However, the Pensions Payroll Team are aware and are in the process of undertaking a review of these variances.

Similar to previous years, error and warning messages were identified on management reports generated during the annual pensions increase process. Whilst the majority of pension increases have been correctly applied, these reports show errors which require further review as well as a high number of warning messages.

There are some improvements which should be considered for bank validation and bank change processes. The APF are in the process of upgrading their online portal and are also planning changes to their bank validation software which should help in administering these more efficiently and securely.

4.4 The **Transfers Out** audit was assigned a “Reasonable” Assurance rating, where again the systems of internal control were found to be satisfactory and no high priority findings were reported.

Procedures are in place and there is routine reporting of performance to the Pensions Board and Committee. This shows actual transfers to be timely, with quotations somewhat below the internally set target. ICT access controls, separation of duties, and automated system checks help protect the integrity of the process.

Some improvements are suggested in the form of a counter fraud risk assessment, improving the quality of supporting evidence for scam checks, and in the evidence retained for any post system update checks carried out.

4.5 **i-Connect System Access Controls: Audit Update**

It is pleasing to note that no significant issues have been identified, and the audit is currently expected to conclude with a Level 4 - Substantial Assurance rating.

Overall, the control framework around user access was found to be well designed and operating effectively. User registration and deregistration processes are clearly defined and documented, with access granted based on role. Inactive and unused accounts are reviewed every 3 - 4 months, with follow-up and timely deletion where continued access is not confirmed; this process has resulted in a significant reduction in inactive accounts (from 72 in October 2025 to 21 in February 2026). Multi Factor Authentication (MFA) is already in place for APF administrative users and is scheduled to be extended to all remaining i-Connect users in March 2026.

A small number of low-impact findings were however noted, including around inactive users which the APF were already aware of and are following these up. In addition, APF has asked the software supplier, Heywood, to investigate an issue where a standard user roles report was found to be incomplete.

4.6 **Business Continuity Planning: Audit Update**

This review is progressing well, with a number of potential findings identified for discussion. These findings will form the basis of early engagement with management at the start of fieldwork in March 2026.

A key challenge in this area is that there is no statutory requirement for APF to undertake BCPR, nor does it fall clearly within the jurisdiction of the B&NES

Emergency Planning team. Guidance from The Pensions Regulator indicates that, for public sector schemes, BCPR is considered good practice rather than a mandatory requirement.

#### **4.7 Monitoring Contributions: Audit Update**

The audit brief for Monitoring Contributions has been issued, and initial scoping meetings have been completed. We have arranged discussions with the key contacts for this review, which will take place w/c 02/03/2026. These discussions should allow us to gain the necessary understanding to progress the audit with a target completion for the end of March 2026.

### **2026-27 Internal Audit Plan**

4.8 Our planning process for 2026/27 is complete and the draft Internal Audit Plan has been produced following presentation to the APF Management Team. This document is attached as part of this pack under **Appendix 3** and is included for review and approval by the Board.

## **5 RISK MANAGEMENT**

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

5.2 The role of the Internal Audit Service is to review high risk areas of the Pension Fund and provide independent assurance about systems of internal control. This report therefore provides the Pension Board with assurance on how risks are managed.

5.3 The Avon Pension Fund Committee is the formal decision-making body for the Fund and it uses the Pension Board to focus on ongoing risks to the operation of the Fund including internal and external audit work. As such it has responsibility to ensure adequate risk management processes are in place.

5.4 The Committee 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 using the assurances from the Board and Investment Panel meetings.

## **6 EQUALITIES**

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

**7 CLIMATE CHANGE**

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

**8 CONSULTATION**

8.1 The Report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director – One West representing the administering authority.

<b>Contacts</b>	Peter Cann, Head of Audit & Assurance: <a href="mailto:peter_cann@bathnes.gov.uk">peter_cann@bathnes.gov.uk</a> Pat Jenkins, Audit Manager: <a href="mailto:patrick_jenkins@bathnes.gov.uk">patrick_jenkins@bathnes.gov.uk</a>
<b>Please contact the report authors if you need to access this report in an alternative format.</b>	

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Specialist Professional Services

# Final Internal Audit Report

**Audit Title:**

Pension Payroll processes

**Date of Issue:**

December 2025

**Prepared for:**

Avon Pension Fund (APF)



## Assurance Rating

Based on our review, Internal Audit have concluded the following assurance rating:

### Level 3 - Reasonable Assurance

The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement.

## Executive Summary

Overall, we have given a Reasonable Assurance rating since there are effective controls over the payroll processing, that includes payroll administration as well as management of spousal pensions and death grants. In addition, there has been further improvements made to pension increase processes.

The latest pension increase reconciliation reports identified a high number of variances between admin and payroll records, some of which are significant and would have a financial impact on individual pensioners. However, the Pensions Payroll Team are aware and are in the process of undertaking a review of these variances.

Similar to previous years, error and warning messages were identified on management reports generated during the annual pensions increase process. Whilst the majority of pension increases have been correctly applied, these reports show errors which require further review as well as a high number of warning messages.

There are some improvements which should be considered for bank validation and bank change processes. The Avon Pension Fund (APF) are in the process of upgrading their online portal and are also planning changes to their bank validation software which should help in administering these more efficiently and securely.

## Recommendations for Improvement

A total of 5 recommendations have been raised as a result of our review.

Recommendations are given priority ratings which reflect the significance of the findings and the need for remediation.

Priority	Recommendations
▲ High	1
▲ Medium	4
▲ Low	0

Full details of recommended actions, responsible officers and implementation dates are included in the report Action Plan.

## Follow Up Review

Work detailed in the Action Plan is to be actioned before the end of December 2025.

After this date we will conduct a follow up review to assess the implementation of recommendations and responsible officers will be required to provide an update on progress with the agreed actions.

## Audit Personnel

Lead Auditor: David Hodgson  
Audit Manager: Tariq Rahman



## Audit Methodology

This audit has been undertaken in accordance with the 2025/26 Internal Audit planned programme of work, as approved by the Audit Committee.

It has been conducted in conformance with the Global Internal Audit Standards (GIAS).

The focus of the review was to provide assurance that the Avon Pension Fund (APF) are administering pensioner's payroll correctly, including any annual pension increases which are due and applied to individual pensions timely, accurately and correctly.

Assurance was also sought to evidence that spousal payments including death grant payments, and pensions are being administered in accordance with the scheme requirements.

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## Audit Scope

The scope of audit work undertaken during this review was discussed and agreed as per the Audit Brief issued in September 2025, with the following objectives:

- Appropriate checks undertaken for each monthly payroll including bank change requests.
- Annual pension increases are being applied correctly and timely.
- Spouse pensions and lump sum death grants are correctly administered by the pension scheme, including payments and ongoing checks to confirm continued eligibility.

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## Background

### Monthly Payroll processes & bank accounts

The APF deploys a Pensions Payroll Team, and a Pensions Payroll Manager. Their roles and responsibilities include administering of monthly and interim payrolls, administering death claims/payments, calculating and processing payments to third parties, and managing annual pension increases.

Pension payroll payments are administered through an agreed payment schedule which includes full payment runs (monthly) and interim payments.

The payroll system provides various management and exception reports which are used to check and reconcile payroll data. These reports are held on a central record and are checked by the Pensions Payroll Team prior to payments being made to existing pensioners.

### Bank Change requests

Bank change requests are received by the Pensions Payroll Team through various methods including bank changes via pension online (self-service), completion of bank change forms sent via post, as well as notifications from their BACS software provider.

As part of the monthly payroll process, the Pensions Payroll Team generate a report showing a breakdown of bank changes that have been processed within the month. Secondary checks of all bank change requests are undertaken to validate these requests, and to check that bank details have been processed correctly.



### Bank Validation processes

The APF has recently adopted bank validation software, and this is being used to check and validate individual member's bank details. Whilst this is not a requirement for the LGPS, it is recommended practice to perform these types of checks in order to verify account ownership, improve data accuracy and prevent fraud and overpayments.

Bank account details are checked and validated when the APF Member Services Team process a member's retirement. Bank validation results are provided in real time, though in some cases, bank details are not successfully verified by the software and can lead to further information being required from the pension member, to complete this process. The Pensions Payroll Team also perform bank validation checks when administering bank changes for current pensioners receiving regular pension payments under the scheme.

### Annual pension increases

Under the LGPS scheme active pension accounts, deferred pensions and pensions in payment are adjusted each April in line with the cost of living.

The Pensions Payroll Team, with support from the Quality Assurance (QA) Team, are responsible for managing the annual pension increases on existing pensions.

It is recommended by the software provider, for AFP to undertake a check and reconciliation between admin and payroll records as part of the PI process including prior to and following applying pension increases onto the live system.

There is a range of management and exception reports which are generated by the Altair system, and these are used by the Pensions Payroll Team when uploading the pension increases onto the system including warning and error messages.

APF applied annual pension increases for the majority of pensioners under the main pension scheme. However, there was still 168 pension errors following this year PI's process which are outstanding and will require resolution.

### Spouse/Partner and dependent payments

Death grant payments are paid if the member dies, this includes active members (in service), deferred members and pension members receiving a pension.

Death grant payments and spousal pensions (including partners and children) are subject to eligibility checks and are calculated by the Member Services Team before they are passed to the Pensions Payroll Team to administer payment and add onto the existing payroll.

The Pensions Payroll Team perform various ongoing checks of the spouse, partner and children's pensions. This includes mortality screening (cross matching of payroll data) which is undertaken monthly through a 3<sup>rd</sup> party.

The APF also participate in the Tell Us Once Service (TUO). Tell Us Once (TUO) is a digital service run by the Department for Work & Pensions (DWP) across England, Scotland and Wales. It allows citizens to notify multiple government departments of a bereavement through a single form. The Pensions Payroll Team have system access to the DWP system to review notifications that have been issued to them.



## Summary of Findings

Monthly and interim pension payrolls are subject to effective checks, and reconciliations. This audit was able to confirm that management reports were being used and checked by the Pensions Payroll Team for each monthly and interim payroll run. The Pensions Payroll Team had completed checklists which provide confirmation of each payroll, including checks that have been undertaken.

The Pensions Payroll Team does have effective processes for checking bank change requests. This includes bank change requests which have been submitted via Online system and manual bank change forms. However, we considered there were some improvements that should be considered for this process which are included in our findings below.

This audit was also able to confirm that bank validation software was being used to verify bank details and there were effective controls in place for current bank validation processes such as user access, segregation of duties and secondary checks undertaken. However, feedback from pension staff, and sample testing would indicate there is a high proportion of bank account details which do not pass the verification software and require additional information from the member. In some cases, this would involve corresponding with the member using a personal email address which could increase the risk of fraud and error. The Members Services Manager confirmed that the AFP are in the process of migrating to a new version of the online portal (November 2025) which, once integrated, should allow members to upload documents more securely. In addition, it was also fed back during this audit that there will be changes to the bank validation software provider, which should also reduce the number of accounts requiring additional verification.

For this year's PI exercise, the Pensions Payroll Team ran two different reconciliation reports, to check and reconcile the differences between pension values held in admin and payroll records. These reports show a high number of variances between these two pension records some of which could have a financial impact on individual pensioners. The Pensions Payroll Team should ensure that these payroll variances are reviewed, and records corrected where this is needed.

Payroll records would indicate that the latest annual pension increases have been applied successfully on the live system for the majority of pension records. However, there was still some pension records where the annual PI had not been applied automatically, and these will require further work to be addressed.

The Pensions Payroll Team perform various post checks on pensioners, spousal and children's pensions, including regular mortality screening. Current processes do ensure that any 'high' risk matches identified during mortality screening are being identified timely and added to a workflow. At present the Pensions Payroll Team are not undertaking any further work to investigate 'low' risk matches, which are high in volume, and could result in overpayments for some of these pensions. A recommendation has been made for this area.



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## Positive Observations

- Monthly Payroll records – the Pensions Payroll Team maintain a good central record (including monthly and interim payroll. This includes completion of checklists for each payroll to evidence the process.
- Management reports for monthly payroll - these are produced consistently and assist the Pensions Payroll Team to check and reconcile payroll data.
- Monthly and interim payrolls – are subject to secondary checks and approval.
- Payroll variance checks – the Pensions Payroll Team are reviewing payroll variances (£250+) as part of the monthly payroll process.
- Bank change requests – are subject to review before bank details are input onto pension records. This includes secondary checks that are undertaken during the monthly payroll process.
- Bank Validation Software – is being used to check and validate individual member bank details. There are also effective controls within the process, including user access, segregation of duties, and secondary checks.
- Spouse/children pension payments and death grant claims are subject to various controls - including segregation of duties, secondary checks and approval.
- Post checks are being undertaken for spouses, partners and children's pensions - these include mortality screening and the Tell Us Once service. Children's pensions are also subject to ongoing review to verify eligibility.
- The majority of pension increases have been successfully applied in this year's annual pension increase exercise.
- Improvements in segregation of duties in this year's pension increase exercise.
- Error & warnings and reconciliation reports were generated as part of this year's pension increase exercise.

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**Weaknesses and areas for improvement identified during the course of the audit review are captured in the report Action Plan.**

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## Action Plan - High Priority Findings

Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b><u>Reconciliation between Admin and Payroll records</u></b> The Pensions Payroll Team generated reports to compare pension values held in admin and payroll records. This was undertaken prior to applying this year's pension increases.</p> <p>This report identified 1,870 variances between pension admin and payroll records including 149 individual member records which show a high variance (£500+), 199 records which show a medium variance (£100-£499) and 1,522 records which show a low variance (0-£99)</p> <p>A separate reconciliation report was also generated following this year's PI's exercise. This report also highlighted some high variances for some pension members.</p>	<p>Pension values may not reconcile between Admin and Payroll records which could result in incorrect pension amounts being applied.</p> <p>Pensioners could be impacted financially if they are receiving a lower amount of pension.</p> <p>Incorrect data could result in non-compliance with regulatory requirements as well as reputational damage to the service.</p>	<p>The Pensions Payroll Team should ensure they undertake a review of the variations identified in the reconciliation reports.</p> <p>In particular, any medium and high variances should be prioritised, fully reviewed and corrected.</p> <p>Low variances could be due to rounding, and timing differences but should be investigated.</p>	<p><b>Implementation:</b> On going and currently live.</p> <p><b>Management Comment:</b> Work is underway on the reconciliations difference identified on the report. We are starting with the highest variance and will complete the work in a phased approach.</p> <p>Phase 1: The highest variances cleared with a target date April 2026</p> <p>Phase 2: The medium variance cleared with a target date July 2026</p> <p>Phase 3: Low variance cleared with a target date October 2026</p>
<p><b>Responsible Officer</b></p>	<p>Anna Capp Pensions Payroll Manager</p>	<p><b>Target Implementation Date</b></p>	<p>October 2026</p>



**Action Plan - Medium Priority Findings**

Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b><u>Pension increase errors and warnings</u></b>                      Following this year’s pension increase exercise, 168 errors were recorded as well as 5738 warning messages.</p> <p>The Pensions Payroll Team has kept a separate record to demonstrate that some checks were carried out on individual errors as part of this year’s PI exercise. However, this record does not clearly indicate which specific errors and warnings have been reviewed or remain unreviewed.</p>	<p>Errors identified in these reports would prevent a PI from being applied on the system.</p> <p>Warning messages could indicate underlying system issues. Ignoring them may compromise the integrity of the pension system, leading to broader operational issues.</p>	<p>The Pensions Payroll Team should ensure that all errors on pension records are resolved in this financial year and prior to next year’s pension increase.</p> <p>In addition, the Pensions Payroll Team should ensure they keep a clear record to demonstrate review of error and warning messages.</p>	<p><b>Management Comment:</b>                      To clear the remaining 168 error following the 2025 PI exercise.</p>
<p><b>Responsible Officer</b></p>	<p>Anna Capp                      Pensions Payroll Manager</p>	<p><b>Target Implementation Date</b></p>	<p>April 2026</p>

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Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b>M2</b></p> <p><b>Bank change requests</b> Feedback from Payroll staff, and sample testing would indicate some inconsistency in validating bank account details when responding to bank change requests submitted from existing pensioners.</p> <p>In addition, pensioners who are making these requests are not receiving notification confirming the change of bank details.</p>	<p>Could increase the risk of fraud and error if bank account validation is not undertaken for bank change requests.</p> <p>A fraud or error may not be detected timely if notification is not issued to the pensioner.</p>	<p>The Pensions Payroll Manager should ensure that bank account validation procedures are discussed with the Pensions Payroll Team and agree when these checks should be undertaken.</p> <p>The Pensions Payroll Team should issue notification to the pensioner confirming the change of bank details.</p>	<p><b>Management Comment:</b> All bank changes received to be acknowledge confirming the bank details have been updated.</p>
<p><b>Responsible Officer</b></p>	<p>Anna Capp Pensions Payroll Manager</p>	<p><b>Target Implementation Date</b></p>	<p>December 2025</p>



Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b>M3</b> Page 274</p> <p><b>Bank Account Validation processes.</b> Currently the Member Services Team are seeking additional information from pension members to validate bank account details. In some instances, this is resulting in communications with the pension member via personal email addresses.</p>	<p>Confirming bank details with pensions members via personal email addresses could increase the risk of fraud and error.</p>	<p>The APF should ensure the new version of the online portal will allow members to upload documents as part the bank account validation process.</p>	<p><b>Management Comment:</b> We only contact members via their personal email addresses if they have registered for My Pension Online and their details have been validated via the portal. Any members who have not registered for My Pension Online would be sent a request via the post.</p> <p>Document upload development to MPO for members target date December 2026.</p>
<p><b>Responsible Officer</b></p>	<p>Rebecca Clark Member Services Manager</p>	<p><b>Target Implementation Date</b></p>	<p>December 2026</p>



Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b><u>Mortality Screening processes</u></b>                      A monthly mortality screening exercise run for October 2025 identified approximately 5500+ pensioners with a 'low' risk match.</p> <p>These have been identified as 'low' risk due to missing or mismatches between pension records and the data records used by the mortality screening company including name, date of birth, and address details.</p> <p>Currently these records are being included in further mortality screening exercises, but no further actions are taken by the Pensions Payroll Team on 'low' risk matches.</p>	<p>Continued pension payments to deceased members due to missed death notifications can result in significant overpayments as well as potential fraud risk.</p>	<p>Pensions Payroll Team should undertake a review of current mortality screening processes and determine whether any further actions are needed in review of 'low' risk matches.</p> <p>The Avon Pension Fund should develop and implement policy, and procedural guidance that clearly classifies and categorises mortality risk ratings.</p>	<p><b>Management Comment:</b>                      To review the current mortality screening process and develop a process for cases flagged that aren't already being reviewed.</p> <p>Document the process covering each category.</p>
<p><b>Responsible Officer</b></p>	<p>Anna Capp                      Pensions Payroll Manager</p>	<p><b>Target Implementation Date</b></p>	<p>April 2026</p>

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## Guide to Assurance Ratings

Assurance Rating	Opinion
Level 5 Full Assurance	The systems of internal control are excellent with a number of strengths evident. No weaknesses have been identified, and full assurance can be provided.
Level 4 Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided.
Level 3 Reasonable Assurance	The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement.
Level 2 Limited Assurance	The systems of internal control are weak and only limited assurance can be provided. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 No Assurance	The systems of internal control are poor, and no assurance can be provided. There are fundamental weaknesses, and urgent action is necessary to reduce the high levels of risk exposure.

## Report Distribution

This report has been shared with key audit clients and service area management. You may wish to further share this report with colleagues directly involved in this area and any other interested parties.

## Acknowledgements

Internal Audit thank management and service staff for the cooperation and assistance throughout this audit review.



Specialist Professional Services

# Final Internal Audit Report

**Audit Title:**

Avon Pension Fund - Transfers Out

**Date of Issue:**

February 2026

**Prepared for:**

Avon Pension Fund (APF)



## Assurance Rating

Based on our review, Internal Audit have concluded the following assurance rating:

### Level 3 - Reasonable Assurance

The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement.

## Executive Summary

Overall, we have given a Reasonable Assurance rating. Documented procedures and guidance were found to be in place although these were undergoing review at the time of testing.

Management oversight of transfers out includes Key Performance Indicators (KPI's) on the timeliness of processing which are routinely reported to the Pensions Board and Committee. These indicate good performance with respect to actual transfers, but that performance with respect to quotes could be improved.

ICT controls are in place which help to reduce the risk of unauthorised access or changes to member records within the pensions administration system, Altair. The system includes functionality which helps automate the task of checking member records for potential errors or data issues prior to the production of quotations. At the time of testing, Altair was found to be running the latest software version.

Separation of duties is an integral part of transfers out, and evidence shows that quotation checks are in all cases undertaken by a second officer. Authorisation thresholds also ensure that high value transfers are approved by either the Member Services Team Leader or a Pensions Manager.

Despite these internal controls being in place, there are areas where further improvements

are possible, albeit none of these were considered high-priority.

## Recommendations for Improvement

A total of 11 recommendations have been raised as a result of our review.

Recommendations are given priority ratings which reflect the significance of the findings and the need for remediation.

Priority	Recommendations
 High	0
 Medium	5
 Low	6

Full details of recommended actions, responsible officers and implementation dates are included in the report Action Plan.

## Follow Up Review

Work detailed in the Action Plan is to be actioned before the end of December 2026.

After this date, One West will conduct a follow up review to assess the implementation of recommendations and responsible officers will be required to provide an update on progress with the agreed actions.

## Audit Personnel

Lead Auditor: Gary Spratley  
Audit Manager: Pat Jenkins



## Audit Methodology

This audit has been undertaken in accordance with the 2025/26 Internal Audit planned programme of work, as approved by the Committee.

Audit work has been conducted in conformance with the Global Internal Audit Standards (GIAS).

Discussions were held with the client to ensure that the audit scope and test programme provided adequate coverage of the main risk areas.

The fieldwork phase of the audit has included discussions with staff in order to walkthrough the end-to-end processes and understand how controls are implemented.

Supporting evidence and records were then reviewed in order to verify whether the identified controls were implemented consistently and effectively, for a sample of cases.

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## Audit Scope

The objective of the review was to provide independent assurance on whether the APF are managing risks associated with the Transfer Out of pension benefits effectively and in accordance with any regulatory and scheme requirements.

The agreed audit brief and test programme was issued in November 2025, and established the following control objectives:

Ensure that suitable governance processes are in place, including:

- Policies and procedures
- Monitoring and reporting of performance
- Restricted systems access
- Authorisation and separation of duties
- Suitably skilled and experienced staff

Ensure that statutory requirements are met, including:

- Fraud identification, prevention and reporting
- Eligibility of applicants
- Timeliness of processing
- Quality assurance checking of calculations and data
- Record retention

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## Background

### Overview of Transfers Out

Transfers out of the Avon Pension Fund (APF) allow members to move their accrued benefits to another pension arrangement, such as:



- Another registered Local Government Pension Scheme (LGPS) fund administrator
- Another public service pension scheme under Club transfer rules
- Another registered UK pension scheme
- A Qualifying Recognised Overseas Pension Scheme (QROPS)

Transfers typically occur when a member leaves employment or wishes to consolidate pensions.

If a member wishes to transfer out of the LGPS, the member relinquishes all LGPS benefits, including death grants and dependants' pensions. Additional Voluntary Contributions (AVCs) can be transferred separately.

### Regulatory Environment

There are several pieces of legislation which establish the framework for Transfers Out. These include:

- Pensions Act 1993 - Statutory Right to Transfer (subject to certain criteria being met)
- LGPS Regulations 2013 - Calculation and Process Rules (including for instance the requirement to use Government Actuary Department (GAD)-set actuarial factors)
- Conditions for Transfers Regulations 2021 - Anti-Scam and Due-Diligence Checks
- Pensions Schemes Act 2015 - Regulated Financial Advice Requirement (applies in instances where the transfer is to a scheme offering flexible DC (Defined Contribution) benefits, and the Cash Equivalent Transfer Value (CETV) is £30,000 or more)
- Occupational and Personal Pension Schemes (Disclosure) Regulations 2013 - requires LGPS authorities to provide a formal transfer value statement, with details of the basis of calculation

### Avon Pension Fund Approach

The Member Service Team is responsible for processing interfund and transfer out requests, and for undertaking any necessary checks that may be required.

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## Summary of Findings

### Policies and Procedures

There are no internal policies relating specifically to Transfers Out, as many of the requirements stem from the Regulatory Requirements. We were able to confirm that a range of procedure documents and guidance documents were in place. These included three documents covering Interfund Transfers, and a further eight documents relating to Transfers Out. These documents appeared to be sufficiently detailed and provided a good degree of coverage of key processes and expected controls. Unfortunately, on the day of testing the documents were not found in the central network folder, as we understand they were currently under review by the Training Team. Indeed, at least one document contained notes and queries in the margins indicating it to be a work in progress.



### Monitoring and Reporting

A degree of management oversight of this area was confirmed. The quarterly 'Pension Fund Administration Performance Report' which is presented to both the Pensions Board and Committee includes relevant Key Performance Indicators (KPI's) such as the percentage of transfer out quotes and actuals that have been completed within the scheme's internally set target timescales.

The most recent report from the Pensions Board meeting in December 2025 shows that targets for actual transfers for the preceding twelve months were in most instances met or exceeded, being 100% in most periods. There had however been a dip in the previous quarter, with targets for actual transfers not being met. With regard to target timescales for quotations, these were shown as consistently below target across the previous twelve months.

### ICT Controls

We discussed the high-level controls applied to Altair to ensure that only authorised users are able to amend member records and produce quotations for transfers out.

Password settings for Altair have been configured at the highest level that the software allows. This includes enforcing the use of a minimum number of mixed character types. Minimum password length has been set, as has the number of password attempts before a lock out occurs. It was also stated that access to the system is restricted to managed devices through the use of IP whitelisting. As such, users must also have passed any network authentication controls in order to be able to access the system. Taken together, this can be seen as a form of Multi-Factor-Authentication (MFA), which is seen as good practice by the National Cyber Security Centre (NCSC).

Additionally, evidence of role-based access was provided. This allows for different access levels and abilities to be assigned depending on the nature of the role. Each permission can be set as view/amend/delete. Different teams across APF have different roles available, further subdivided into level 1, 2, and 3, which correspond with the seniority of the role within the team.

The ability to authorise transfers out (prior to processing by payroll) is also controlled within the system; however this is achieved through the task workflows. The correct procedure requires transfers with a value of between £100k and £150k to be approved by a Team Leader, and transfers above this require management approval. We obtained screenshots from the Senior Business Analyst demonstrating that these values are enforced within the system, and our sample testing confirmed these limits have been applied.

Tasks are also configured within the system to enforce separation of duties. A further screenshot was obtained showing how a particular step within the process, in this instance to do with the checking of calculations, could not be done by the same officer that undertook the calculation itself, and again this was borne out by our sample testing and also by a review of system reports which showed that in 100% of cases, checks were undertaken by a different officer to the one preparing the calculation.

We also made enquiries regarding the updating of the system, including patches and any standing data such as GAD factors. Given that the system is fully hosted, updates are typically applied by Heywood on a quarterly basis, and advance notice is provided to APF to minimise any potential disruption. The latest version of Altair, v25.4, was in use at the time of testing.



Infrequently, updates of standing data may need to be applied locally, most recently in January 2024, however there is currently no evidence retained of post update checks and sign off to demonstrate that the changes were verified.

### Staff Training and Induction

The current APF structure includes a Technical Compliance section, which in turn includes a Training Team and Officers. We contacted the Training Team for evidence of induction processes and training provided to Member Services, with the focus on Transfers Out.

A standard induction checklist is in place, and was found to contain 61 separate activities, with timescales ranging from prior to the start date up to several months after the start date. Whilst the activities are much broader in scope and serve as a general introduction to APF, several entries were related to transfers out, such as those covering member services overview and aggregations.

Each new starter also has a one-month plan to supplement the induction checklist. The plan details various activities by day and week that are to be covered.

We confirmed that the above induction records were in place for two recent starters on the Member Services team. Some gaps were noted however such as missing dates/no use of the check boxes on the checklist, and similarly some dates absent from the month one plan, which reduces somewhat the assurance provided by these documents.

The Training Team also provided a summary of professional and in-house training provided to Member Services in relation to Transfers Out. We found this to provide good evidence of ongoing training, support and development of staff overall. From April 2022 until December 2025, 22 staff were shown as having attended courses run by the LGA, with a further 4 booked to attend courses in Spring 2026. The summary shows formal qualifications were also held, 12 staff with the Chartered Institute of Payroll Professionals (CIPP) and a further 4 due to complete qualifications with the LGA. In each case these qualifications are understood to contain modules on Transfers Out, including discussions of pension scam risks.

The summary also shows numerous instances of training sessions being provided in house with a focus on Transfers Out, each session typically covering one of the related task flows within the Altair system. Whilst these internal sessions did appear to be up to date for many staff, two instances were noted where the records suggest additional training is currently outstanding and needed.

### Pension Scams

The risk of pension scams has significantly increased in recent years and there are dangers for scheme members and officers alike who must be alerted to these risks and ensure they are managed effectively. This is a particular concern within the realm of Transfers Out, where scheme members may fall foul of criminal organisations who are seeking to gain access to their funds. Information published on The Pensions Regulator website indicates that 'in 2024, losses from pension fraud totalled £17.5 million, with an average loss of approximately £34,000 per individual.' These are of course only the confirmed losses, as with most types of fraud, the true figures are almost certainly much higher, as many cases of fraud tend to go unreported.



We found that APF have a good degree of processes in place to help mitigate potential pension scams. Whilst not prominent on the homepage, the website nevertheless contained a page containing information on pension scams, which contained a good amount of information.

Members requesting a quotation are provided with a standard leaflet warning of pension scam risks, and should they choose to proceed with a transfer they are required to complete and return a 'member questionnaire', which includes several questions designed to trigger red flag warnings that would then require further investigation by APF.

Standard procedures also require that, prior to a transfer, background checks are undertaken by APF and evidenced. These include a check with the Financial Conduct Authority (FCA) website register, as well as Companies House. These checks apply to both receiving schemes, and any independent financial advisors that may have been used by the member. Our sample testing confirmed these checks had been undertaken and evidenced, however the quality of the supporting evidence could in some cases be improved.

Regarding independent financial advice, this is mandatory for all transfers (other than interfund) of over £30k, however we were somewhat surprised to find the requirement only meant that the advisor had to be independent of APF, not independent of the receiving scheme. This came to light during our walkthrough of a high value transfer to a defined contributions scheme, where the advisor relied on by the member was employed by the same group of companies as the receiving scheme. Nevertheless, all necessary checks by APF had been conducted and evidence retained, so compliance with regulatory requirements had been met. Due to the size of the transfer in this case, there was also evidence of an additional telephone call made to the member by a Senior Pensions Officer, as a final check.

Overall, then, we found that there are good processes in place, driven largely by regulatory requirements.

One aspect that may be improved further is in the production of an overarching fraud risk assessment for APF, as this does not currently exist. The driver for this particular recommendation is the recently introduced corporate criminal offence of 'failure to prevent fraud,' which forms part of the Economic Crime and Corporate Transparency Act 2023. This applies to all public sector organisations and the supporting guidance states that having a suitable fraud risk assessment in place would be seen as one of the key pieces of evidence for mitigating allegations of failure to prevent fraud.

### Timeliness of Processing

APF have established Key Performance Indicators (KPI's) which include timescales for providing transfer quotations and for processing of the transfer itself. These are reported to the Pension Board and Committee periodically. Across the previous twelve months, targets for processing of transfers were generally met, however the targets for provision of quotations were generally not met. In the case of member 46424, which was the subject of our interfund walkthrough, we noted that although a request for information had been made in July 2024, it was not until this was chased in June 2025 that the information was provided.

Statutory timescales also apply in relation to transfers out, and cover the provision and acceptance of quotations, and the payment of transfers. Where transfers do not occur within the statutory timescales, scheme administrators are required to pay interest or generate a revised calculation. In a fairly recent case, where the payment occurred in April 2025, an incorrect amount was paid to



the receiving scheme due to a failure in recalculating, which was only brought to light by the receiving scheme. Within our test sample of Transfers Out, it was evidence that recalculations had occurred in most instances, although evidence of a revised calculation was not provided by the end of testing for member 161598.

### Quotation Calculations

Calculations involve many variables and rely on the use of appropriate multipliers, known as GAD Factors, which are published on LGA website.

For a sample of cases, we used the published GAD factors together with Artificial Intelligence (AI) tools to conduct a reasonableness check of the calculations within the quotations. This did not identify any issues within the sample. One query was generated involving interpolated factors, which the Team Leader was able to resolve by providing manual calculations demonstrating how interpolated factor was determined, which we could then trace back to the published data.

### Data Retention Policy

A policy is published on the APF website, which clearly states the overall retention periods for member records. In most instances, these records will be retained for at least the lifespan of the member/pensioner, however where entitlement to benefits ends, such as following a complete Transfer Out, the retention period is then fifteen years.

The ability to delete expired member records is impeded to some degree by system limitations, which APF mitigate by stating that the data will instead be 'put beyond use.'



## Positive Observations

- Procedure and guidance documents are in place as an aid to staff when processing Transfers Out.
- There are clear separations of duty which ensure that CETV quotations are independently checked and verified by a Senior Pensions Officer.
- A tiered approach has been adopted for the authorisation of Transfers Out, with any transfer between £100k and £150k requiring Team Leader approval, and transfers above this amount requiring Manager approval.
- Processes are in place for conducting due diligence and verification checks relating to the status of independent financial advisors, as well as any non-club pension providers.
- When conducting due diligence checks, officers use official sources such as gov.uk websites for these checks.
- When communicating with third party organisations, officers use contact details published on official sources such as gov.uk websites.
- The level of due diligence checks scales with risk, with interfund transfers being the lowest risk, club transfers somewhat higher risk, and non-club transfers the highest risk.
- A Training Team is in place which co-ordinates and oversees the training of APF staff, including Member Services.
- A structured and documented approach to staff induction is in place.
- Relevant officers have completed qualifications from different bodies which include modules covering Transfers Out.
- Whilst not always met, Key Performance Indicators have been set and are regularly monitored and reported.
- The Altair system is updated quarterly by Heywood, including any relevant standing data and patches.
- Unauthorised changes to member data is restricted.
- Password settings are at the highest level allowed by the system and role profiles provide tailored access.

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**Weaknesses and areas for improvement identified during the course of the audit review are captured in the report Action Plan.**

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**Action Plan - Medium Priority Findings**

Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b>Key Performance Indicators</b>                      APF have established internal KPI's for transfer out quotations and actuals which revolve around processing at least 80% of cases within a fixed time period.</p> <p>The most recent data from the Pensions Board meeting in December 2025, shows that performance for actual transfers is good overall, reaching 100% in most months, although there has been a dip to below the target in last quarter.</p> <p>Quotations however have consistently missed the 80% target, with scores ranging from lows of 8.8% to highs of 52%.</p> <p>We note that the KPI's are somewhat aspirational when compared with statutory timescales.</p>	<p>Failure to achieve KPI's may result in reputational damage or customer dissatisfaction.</p>	<p>APF should attempt to improve KPI performance, in particular for transfer out quotations.</p> <p>Consideration might also be given to relaxing the KPI requirement slightly.</p>	<p>Agreed.</p> <p>Transfers out are prioritised along with other KPI tasks.</p> <p>Every effort will be made to meet the KPIs in line with other business needs</p>
<p><b>Responsible Officer</b></p>	<p>RC, Member Services Manager</p>	<p><b>Target Implementation Date</b></p>	<p>December 2026</p>

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M1



Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b>Counter Fraud Risk Assessments</b>                      Under the Economic Crime and Corporate Transparency Act 2023, a new offence of 'Failure to prevent fraud' was introduced, with the official guidance stating that risk assessments were one of the six principles necessary to demonstrate good governance.</p> <p>Whilst APF internal procedures and guidance undoubtedly include actions that will help to prevent fraud and scams, we are not aware of any specific counter fraud risk assessment undertaken by APF. Similarly, we did not find any reference to fraud risks within the risk register reported to the Board in December 2025.</p>	<p>In the event of a fraud occurring, APF may not be able to fully demonstrate that all reasonable steps had been taken with regard to prevention.</p>	<p>APF should consider undertaking and documenting a fraud risk assessment and including fraud risk within the risk register.</p>	<p>Agreed.</p> <p>APF will seek further guidance on counter fraud regulations.</p>
<p><b>Responsible Officer</b></p>	<p>CM, Governance and Risk Advisor</p>	<p><b>Target Implementation Date</b></p>	<p>December 2026</p>



	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p style="text-align: center;"><b>M3</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 288</p>	<p><b><u>Supporting Evidence for Scam Checks</u></b> Transfer out for member 52956.</p> <p>The scans provided as supporting evidence for the Financial Conduct Authority and Companies House checks were of such poor quality as to be mostly illegible.</p>	<p>Ability to demonstrate the appropriate checks had been completed is compromised.</p>	<p>Management and the Training Team should ensure that those gathering supporting evidence for retention are reminded that this should be clear and legible.</p>	<p>Agreed.</p> <p>Refresher training and procedure guides to be re-issued to team to ensure all supporting evidence is clear.</p>
	<p><b>Responsible Officer</b></p>	<p>PR, Member Services Team Leader</p>	<p><b>Target Implementation Date</b></p>	<p>April 2026</p>

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p style="text-align: center;"><b>M4</b></p>	<p><b><u>Transfer Quotations</u></b> A club transfer was paid in April 2025 to the Civil Service Pension. The amount transferred was based on a quote that was more than six months old, and as such the guarantee period had expired.</p> <p>The error was identified by the receiving scheme and a new calculation and adjustment payment followed; however this</p>	<p>Members pensions may be negatively affected.</p>	<p>APF should ensure that all staff are suitably aware of the expiry period for quotes and that these are actively checked prior to transfer.</p>	<p>Agreed.</p> <p>Refresher training and procedure guides to be re-issued to team to ensure there is a clear understanding of expiry periods for transfer calculations.</p>



Page 289	<p>illustrates that even with separation of duties and quality checks in place, errors can be made.</p> <p>A less astute receiving scheme would have been less likely to have picked up on this error.</p> <p>Our sample testing also included the transfer for member 161598. In this instance the only quote provided to us was dated 23 January 2025 (relevant date), but the payroll instruction for payment did not occur until 11 August 2025, more than six months later.</p>			
	<b>Responsible Officer</b>	PR, Member Services Team Leader	<b>Target Implementation Date</b>	April 2026

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<b>M5</b>	<p><b><u>System Data – Post Update Checks</u></b></p> <p>Altair is a hosted system and most standing data, such as GAD factors, are updated by Heywood during scheduled quarterly system updates. In</p>	<p>Standing data may be incorrect, leading to unreliable pension calculations.</p>	<p>Where local updates of standing data occur, post update checks should be conducted, signed off, and retained.</p>	<p>Agreed.</p> <p>The number of data points updated can be significant in some cases. Where this is the case, we can sample/dip test the new data points as necessary.</p>



	<p>some instances, it is necessary to process an update of standing data locally, the last occurrence being in January 2024.</p> <p>Where this occurs, there is currently no record retained of post update checks/sign off, as evidence that the standing data has updated correctly.</p>			<p>We will retain evidence of these checks, including the date, completing officer, and sign off by a Team Lead or higher.</p>
	<p><b>Responsible Officer</b></p>	<p>MW, Senior Business Analyst</p>	<p><b>Target Implementation Date</b></p>	<p>Immediate</p>



**Action Plan - Low Priority Findings**

Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p><b>Procedures and Guidance</b>                      As at the time of the testing, there was only one procedure document available to staff in the designated network folder.</p> <p>It was indicated that the bulk of the documents were currently under review.</p> <p>Copies of procedures such as the 'Interfund Out Processing Guide' contained multiple comments in the margins, also indicating they were currently a work in progress.</p> <p>A further observation regarding procedures was that these did not typically contain document control information such as:                      Version number                      Date                      Author                      Approver</p>	<p>Lack of access to procedures, or lack of certainty regarding versioning, may lead to inconsistent or incorrect application.</p>	<p>The procedure and guidance documents should be promptly reviewed and returned to the central folder to ensure they are available to staff.</p> <p>These documents should include a simple table or other method for version control information.</p>	<p>Agreed</p> <p>To complete the review of all transfer out guides and get these approved and signed off.</p>
<p><b>Responsible Officer</b></p>	<p>APF Training Team</p>	<p><b>Target Implementation Date</b></p>	<p>September 2026</p>

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	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
L2  Page 292	<b>McCloud Remedy</b> We note from the Pension Fund Administration Performance Report taken to the Pension Board on 3 June 2025 that, with regard to the McCloud remedy, APF have finished processing certain types of transfer out cases such as non-club and interfund, but there are more complex cases still to be resolved, including for instance club transfers.	Member data is not fully reliable.	APF should continue work on updating affected member records, to ensure that the McCloud remedy is fully integrated and accounted for.	Agreed.  APF, with the full support of the Pension Board, have decided to exercise its discretion to make a determination in respect of McCloud. This will give the fund until 31 August 2026 to complete all remaining remedy cases.
	<b>Responsible Officer</b>	CN, Pensions Operations Manager	<b>Target Implementation Date</b>	August 2026

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
L3	<b>Induction Evidence</b> Induction spreadsheet summaries were provided for two recent starters in Member Services. Whilst these included standard checklists and schedules, the documents did not make it clear whether all activities had been completed, for example:	This may reduce the level of assurance provided by the documents that all induction activities were completed.	APF should ensure that induction records make it clear whether all activities were completed as planned.	Agreed.  To review the process of completion of these and follow up with admin team leaders for relevant sign off as needed.



<p>Checkboxes alongside the checklists had not been used. Dates for the completion of activities had not always been recorded (in some instances these were recorded on one example but not the other).</p>			
<p><b>Responsible Officer</b></p>	<p>APF Training Team</p>	<p><b>Target Implementation Date</b></p>	<p>June 2026</p>

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
<p>Page 293</p> <p>L4</p>	<p><b>Training Gaps</b> Based on a summary spreadsheet of staff training activity, although there is a good amount of both formal and on-the-job training provided, the data suggests that not all staff were fully up to date.</p> <p>For example, CH and KL both had gaps showing in their training.</p> <p>Furthermore, our sample of cases included two where uncertainty or errors had occurred, potentially as a result of inexperience.</p> <p>Member 192957: Incorrect</p>	<p>This may increase the risk of errors occurring or inconsistent practices being applied.</p>	<p>The Training Team and Line Managers should ensure all training is fully up to date.</p> <p>All relevant staff have a thorough awareness of rules relating to aggregations and where necessary independent technical advice is sought at an early stage.</p> <p>Where the member has expressed uncertainty, APF should consider contacting them for further discussion or to advise as necessary.</p>	<p>Agreed.</p> <p>APF training team will create a simple competency matrix spreadsheet that will encompass learning from the initial induction sessions through to the more detailed training. This will show when training has taken place and where training gaps are. Senior Officers and Team leaders from the admin teams should be checking work and feeding into the training team where further knowledge is needed based on error rates.</p>



Page 294	<p>handling of prior benefits with a separate Scheme Administrator resulted in funds having to be returned.</p> <p>Member 198264: Incorrect discharge forms were issued, which, based on the supporting evidence, was avoidable.</p> <p>We note these cases were resolved at the time.</p>			
	<b>Responsible Officer</b>	APF Training Team	<b>Target Implementation Date</b>	June 2026

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
L5	<p><b><u>Supporting Evidence for Scam Checks</u></b> Non-club transfer out for member 65969.</p> <p>Supporting evidence for the Financial Conduct Authority (FCA) checks consisted of screenshots, but these did not provide any indication of whether the company was authorised to manage pensions and to give advice relating to the transfer of pensions, the</p>	<p>Lack of robust supporting evidence could be seen as an indicator that due diligence checks were not thorough.</p>	<p>Screenshots supporting independent checks should clearly show that the receiving scheme is authorised to conduct specific activities in relation to pensions.</p>	<p>Agreed.</p> <p>Refresher training and procedure guides to be re-issued to team to ensure there is a clear understanding of the need for clear screenshots and evidence.</p>



Page 295	<p>latter being relevant due to the independent financial advice being provided to the member by an employee of the receiving scheme.</p> <p>Our own online search using the FCA website was able to find these details.</p> <p><a href="#">Firm details   FCA</a></p>			
	<b>Responsible Officer</b>	PR, Member Services Team Leader	<b>Target Implementation Date</b>	April 2026

	Identified Weakness	Potential Implication	Recommendation	Agreed Actions
L6	<p><b><u>System Report Data Quality</u></b> There appeared to be some data quality issues relating to the Transfer Out Deferred Quote Export system report provided.</p> <p>For example, member 187636, a quotation was produced and checked in August 2025, yet the TV_QUOTE_SENT date was shown as March 2022.</p>	Unreliable data can impede analysis and decision making.	APF should identify the cause of the data discrepancies and take action to ensure that the data is fully up to date and reliable.	<p>Agreed.</p> <p>Improved reporting has been developed in SQL/SSRS and has already been implemented.</p>



	<p>In total there were 78 entries within the report where the TV_QUOTE_SENT date was earlier than the BTVOQ - Case Created date.</p> <p>This suggests that either data within the system, or the reporting functionality, is not fully reliable.</p>			
	<p><b>Responsible Officer</b></p>	MW, Senior Business Analyst	<p><b>Target Implementation Date</b></p>	Immediate

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## Guide to Assurance Ratings

Assurance Rating	Opinion
Level 5 Full Assurance	The systems of internal control are excellent with a number of strengths evident. No weaknesses have been identified, and full assurance can be provided.g
Level 4 Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided.
Level 3 Reasonable Assurance	The systems of internal control are satisfactory, and reasonable assurance can be provided. However, there are a number of areas which require improvement.
Level 2 Limited Assurance	The systems of internal control are weak and only limited assurance can be provided. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 No Assurance	The systems of internal control are poor, and no assurance can be provided. There are fundamental weaknesses, and urgent action is necessary to reduce the high levels of risk exposure.

## Report Distribution

This report has been shared with key audit clients and service area management. You may wish to further share this report with colleagues directly involved in this area and any other interested parties.

## Acknowledgements

Internal Audit thank management and service staff for the cooperation and assistance throughout this audit review.

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Specialist Professional Services

# Draft Internal Audit Plan 2026/27

March 2026

Prepared by:

Peter Cann, Head of Audit & Assurance

Pat Jenkins, Audit Manager

Prepared for:

**Avon  
Pension  
Fund**





	Planned Audit Reviews 2026/27	Indicative Quarter
1	Risk Management	Q1
2	Pension Dashboard - Data Readiness: Phase 1	Q2
3	Cyber Security - Staff Training & Awareness, inc. Boards	Q3
4	Cyber Security - Malware & Ransomware: APF Response	Q4
5	LPPI - Review of Control Environment	Q4
6	Follow Up Reviews on 2025/26 Audits	All



**Access to Information Arrangements**

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

Information Compliance Ref: LGA-2820117
Meeting / Decision: Avon Pension Fund Committee
Date: Friday 27 <sup>th</sup> March 2026
Author: Matt Betts
<b>Exempt Report Title:</b> Pooling Changes

The report 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 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 contains 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).

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
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-2820097
Meeting / Decision: Avon Pension Fund Committee
Date: Friday 27 <sup>th</sup> March 2026
Author: Matt Betts
<b>Exempt Report Title:</b> Investment Strategy Review Progress Update
<b>List of attachments to this report:</b> <b>Exempt Appendix 1 – LPPI Investment Strategy Discussion</b>

The exempt report and appendix above 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 exempt 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 contains 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  
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