

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 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

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.

Objective 1. 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.

Objective 2. 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.

Formulating the Funding Strategy

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:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and employers including Mandatory Scheme Employers, Resolution and Admitted Bodies
- 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
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

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).

Equity Protection - The Fund has implemented protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).

Liability Driven Investments (LDI) - The Fund has implemented an LDI strategy in order to hedge part of the Fund's assets against changes in liabilities for one or more employers.

Lower risk investment strategy: This strategy predominately uses corporate bond investment assets and is expected to reduce funding volatility for employers within it. In these circumstances, the discount rate is directly linked to the yields on the corporate bonds within the strategy. In addition, the strategy has exposure to the Liability Driven Investment ("LDI") portfolio (see [Glossary](#) for further details). The implementation of a strategy constructed on this basis will better match the overall changes in the liabilities of those employers included in the strategy. All other things

equal, this in turn would result in greater stability of the deficit and therefore the contributions for these employers.

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

Identification of Risks and Counter-Measures

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

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

Financial risks and mitigations

The financial risks are as follows:-

- Economic outlook moves and invalidates assumptions
- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly more than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

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.

Mitigations for financial risks

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of the risk management framework will help to reduce the key financial risks over time.

The 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.

Demographic risks and mitigations

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows (and hence liquidity risk) and shortening of liability durations.

Mitigations for demographic risks

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.

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.

Governance and Employer risks and mitigations

Governance and employer risks are as follows:-

- 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
- 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
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or a bond which is not adequate, leaving remaining employers to fund the benefits.
- A material deterioration in employer short-term affordability or longer term viability.

Mitigations for Governance and Employer risks

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.

Regulatory risks and mitigations

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for Academies 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.
- 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

Mitigations for Regulatory risks

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.

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.

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.

Comment

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.

Comment

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.

Comment

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.

Comment

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.

Table 2:1: The 2025 valuation financial assumptions

Financial Assumptions	2025 Valuation Assumptions	Descriptions
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	2025 Valuation Assumptions	Descriptions
Investment return / discount rate 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.
Inflation (Consumer Prices Index)	3.10% p.a. (includes an adjustment of 0.20%p.a. for	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

Financial Assumptions	2025 Valuation Assumptions	Descriptions
Lower Risk Strategy	a very mature employer)	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.
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 for the Higher Risk Strategy. This includes allowance for promotional increases.
Salary increases (long-term) Lower Risk Strategy	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the appropriate CPI inflation assumption as described above for the Lower Risk Strategy. This includes allowance for promotional increases.
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, based on affordability grounds, at an employer's request. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.
Pension Increases and Deferred Revaluation	Assumed to be in line with the appropriate	Pension increases cannot be negative as pensions cannot be reduced. At the 2025 valuation, an adjustment has been made to the

Financial Assumptions	2025 Valuation Assumptions	Descriptions
	strategy CPI inflation assumption above	liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.
Indexation of CARE benefits	Assumed to be in line with the appropriate strategy CPI inflation assumption above	For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).
McCloud	Allowance made	A reasonable estimate for the potential cost of McCloud has been included within the 2025 valuation results for each employer. This has been calculated based on the actual data provided for the 2025 valuation and in line with national guidance.

Demographic assumptions

Mortality/Life Expectancy

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

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2024 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2024 projections and a long term improvement trend of 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:

Table 2.2: Male life expectancies at age 65 based on the 2022 and 2025 assumptions:

Membership Category	2022	2025
Pensioners	22.5	22.0
Actives aged 45 now	24.1	23.1
Deferreds aged 45 now	23.5	22.2

Table 2:3: Female life expectancies at age 65 based on the 2022 and 2025 assumptions:

Membership Category	2022	2025
Pensioners	24.4	24.5
Actives aged 45 now	26.7	26.0
Deferreds aged 45 now	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 table shows that whilst life expectancy continues to improve, the rate of improvement is slowing down versus what was assumed in 2022. Back then, the assumption was that a male pensioner currently aged 65 would live to 87.5 and a male active aged 45 now would live to 89.1.

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).

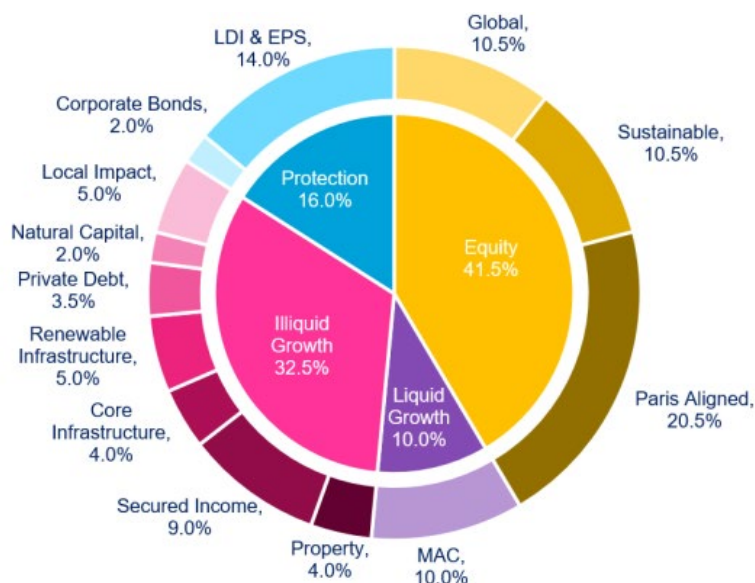
If investment returns or income are lower than expected, the Fund may need to set higher contributions from employers to ensure benefits can be paid. Therefore, the investment returns required by the funding strategy, as set out in this FSS, must be compatible with the investment policy as set out in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

Chart 2.1: The strategic asset allocation of the Fund as at 31 March 2025

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 formally 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

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 the Fund website here. 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:

Table A.1: When an asset allocation will be determined

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.

“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.

Table A.2: Frequently Asked Questions

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 are done so on a notional basis for contribution assessment purposes only 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: • The past service liabilities of the membership associated with the employer on entry, • 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). 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

Question	Answer
	contribution rate may be implemented for an employer which will then be reassessed at the next actuarial valuation.
4. When will an employer's asset share be formally reassessed?	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.
5. What are the key factors that will determine the asset share in between actuarial valuation assessments?	The key factors impacting on asset allocations from one valuation to the next will be: • Investment returns • Contributions paid • Net Benefit Payments • Changes in underlying membership data • Changes in underlying Fund policy
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)?	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.
7. How are assets calculated when an employer leaves the Fund and ceases participation?	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 be undertaken if an employer and the Fund enter into a Deferred Debt Agreement and does not cease participation at that point.

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

Appendix B - Demographic Assumptions

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

Life expectancy assumptions

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

Table B.1: Post retirement Life Expectancy Assumptions

Current Status	Retirement Types	Mortality Table
Annuitant	Normal Health	97% S4PMA CMI 2024 [1.5%] 90% S4PFA_M CMI 2024 [1.5%]
Annuitant	Defendant	117% S4PMA CMI 2024 [1.5%] 103% S4PFA_M CMI 2024 [1.5%]
Annuitant	Ill Health	101% S4IMA CMI 2024 [1.5%] 109% S4IFA CMI 2024 [1.5%]
Active	Normal Health	104% S4PMA CMI 2024 [1.5%] 93% S4PFA_M CMI 2024 [1.5%]
Active	Ill Health	155% S4IMA CMI 2024 [1.5%] 170% S4IFA_M CMI 2024 [1.5%]
Deferred	All	116% S4PMA CMI 2024 [1.5%] 102% S4PFA_M CMI 2024 [1.5%]
Future Dependant (from current non pensioners)	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

Table B.2: 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
Other Demographics	Following an analysis of Fund experience carried out by the Actuary: • The incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. • 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. • The proportion of ill health early retirements falling into each tier category has been updated to reflect the latest analysis. • The pre retirement mortality tables have been updated to reflect the Fund's membership profile. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 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.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

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

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Appendix C – Deficit Recovery Plans

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

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

Employer Deficit Recovery Plans– Key Principles

The average recovery period for the Fund as a whole is 12 years at this valuation which is one year shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

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

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

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

The key principles when considering deficit recovery for different types of employer are as set out in the table below. Employers have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish.

Table C.1: Derivation of deficit recovery periods for different types of employer

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)
Tax-raising bodies, Academies and Further Education Employers	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
Non tax-raising bodies and Employers without a guarantee (including Higher Education employers)	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		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

Employer Type	Recovery Period (2022)	Default Recovery Period (2025)
outsourcing Scheme employer)		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. 31st July 2026 or 31st August 2026), the Fund can, at the employer's request before 28th 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.

Table D.1: Surplus Reserves and Minimum Run Off Periods

Employer type	Surplus Reserve	Minimum run-off period
Councils and other public bodies (including designating employers such as town and parish councils)	105% ¹	12 years
Academies and Further Education employers	105% ¹	12 years
Non tax-raising bodies and Employers without a guarantee (including Higher Education employers)	Lower of Termination Reserve ² and 105%	12 years
Exiting Employer	Termination Reserve ²	Recovered over remaining period to exit

Employer type	Surplus Reserve	Minimum run-off period
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. ¹	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. ³
Employers who are on the lower risk strategy	No surplus reserve unless funding for termination, in which case it will be the termination reserve ² (see above)	12 years

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.

1. "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.
2. 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.

3. 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.
4. 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.
5. For employers that do not have a financial year end of 31 March 2026 (e.g. 31st July 2026 or 31st August 2026), the Fund can, at the employer's request before 28th 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).
6. 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.
7. 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.
8. 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

Entry to the Fund

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

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

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

LGPS Regulations 2013: Schedule 2 Part 3, Paragraph 8

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

The Fund is protected from any losses arising from the failure of a commercial organisation to whom a service is outsourced through the application of Regulation 64(3)(a) so that the provision in paragraph 8 which requires the outsourcing scheme employer to provide a guarantee in such cases is effectively superfluous.

Outsourcing employers can protect themselves from the failure of one of its contractors by requiring the contractor to put in place a bond under the terms of paragraph 7 of Schedule 2, Part 3 of the Regulations.

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

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

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

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

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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:

Table G.1: Assumptions and approach used to assess the amount of exit payments/credits.

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

	Employers with no guarantor in the Fund / only a guarantee of the exit debt	Employers with a guarantor
	formally reassessed at the next valuation.	
Ill-health retirements	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.	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.
McCloud	A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.	A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.
Additional Costs	The exit valuation costs on the Fund's website and any additional costs incurred will be identified and notified to both exiting employer and outsourcing employer and included in the exit valuation. These costs will be paid by the exiting employer unless the outsourcing scheme	The exit valuation costs on the Fund's website and any additional costs incurred will be identified and notified to both exiting employer and guarantor and included in the exit valuation. These costs will be paid by the exiting employer unless the guarantor directs

	Employers with no guarantor in the Fund / only a guarantee of the exit debt	Employers with a guarantor
	employer directs otherwise, in which case the costs will be borne by the outsourcing scheme employer. Where the outsourcing employer 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 outsourcing employer can agree an alternative approach at the Fund's absolute discretion. A reasonable allowance for the capital value of future expenses will also be made in relation to 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. 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.	otherwise, in which case the costs will be borne by the 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. A reasonable allowance for the capital value of future expenses will also be made in relation to 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.

	Employers with no guarantor in the Fund / only a guarantee of the exit debt	Employers with a guarantor
Default policy once the termination certificate has been provided	In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). In the case of a deficit - the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.	The guarantor or successor body will subsume the assets and liabilities of the employing body within the Fund under the default policy, subject to any deficit being made good by the exiting employer or any surplus being paid to the exiting employer where this is a requirement under the terms of any relevant contract. See further information below for cases where risk sharing applies and / or there is a dispute between the interested parties.

General comment

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 the Fund website here. 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

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 3rd 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 Administering Authority should:

- operate the Fund
- collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- have an escalation policy in situations where employers fail to meet their obligations
- pay from the Fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's Actuary
- prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- establish a policy around exit payments and payment of exit credits/debts in relation to employer exits
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer,
- enable the Local Pension Board (LPB) to review the valuation and FSS review process as set out in their terms of reference; and

- 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.

The Individual Employer should:

- 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
- 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)
- 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.
- notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund.
- understand the pensions impacts of any changes to their organisational structure and service delivery model.
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context
- comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving / transferring employer).

The Fund Actuary should:

- 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

- provide advice so the Fund can set the necessary assumptions for the valuation
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.
- 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

The Guarantor should:

- notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination.
- provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations.
- be aware of all guarantees that are currently in place
- work with the Fund and the employer in the context of the guarantee
- receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

The Pensions Committee

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

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 Judgement: 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 Arrangements: 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 offset 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 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 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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