Pension Fund Investment Sub-Committee

Date: Monday 6 March 2023
Time: 10.00 am
Venue: Committee Room 2, Shire Hall

Membership
Councillor Christopher Kettle (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Brian Hammersley
Councillor Sarah Millar
Councillor Mandy Tromans

Items on the agenda:

   'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972.'

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Disclaimers

Disclosures of Pecuniary and Non-Pecuniary Interests
Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. Any changes to matters registered or new matters that require to be registered must be notified to the Monitoring Officer as soon as practicable after they arise.

A member attending a meeting where a matter arises in which they have a disclosable pecuniary interest must (unless they have a dispensation):

- Declare the interest if they have not already registered it
- Not participate in any discussion or vote
- Leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests relevant to the agenda should be declared at the commencement of the meeting.

The public reports referred to are available on the Warwickshire Web
https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1

COVID-19 Pandemic
Any member or officer of the Council or any person attending this meeting must inform Democratic Services if within a week of the meeting they discover they have COVID-19 or have been in close proximity to anyone found to have COVID-19.

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Pension Fund Investment Sub-Committee

Friday 3 February 2023

Minutes

Attendance

Committee Members
Councillor Christopher Kettle (Chair)
Councillor Bill Gifford (Vice-Chair)
Councillor Brian Hammersley
Councillor Sarah Millar
Councillor Mandy Tromans

Officers
John Cole, Senior Democratic Services Officer
Jan Cumming, Senior Solicitor and Team Leader, Commercial and Contracts
Jane Farrell, Technical Expert Senior Solicitor, Commercial and Regulatory
Andy Felton, Assistant Director, Finance
Victoria Moffett, Lead Commissioner – Pensions and Investment
Chris Norton, Strategy and Commissioning Manager (Treasury, Pension, Audit and Risk)

Others Present
Anthony Fletcher, Independent Advisor
James Glasgow, Hymans Robertson
Philip Pearson, Hymans Robertson
Bob Swarup, Independent Advisor

1. General

(1) Apologies

There were no apologies.

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

There was none.

(3) Minutes of the Previous Meeting

Resolved:

That the minutes of the meeting held on 12 December 2022 be approved as a correct record and signed by the Chair.

There were no matters arising.

2. Macroeconomic Update

Bob Swarup (Independent Advisor to the Sub-Committee) presented this report which provided a six-monthly update on the wider factors influencing the performance of the Pension Fund from a macroeconomic perspective.

Councillor Millar highlighted the commentary in the report relating to property considerations including pressures resulting from reduced occupier demand and rises in rates. These were areas that the Fund should demonstrate an awareness of. She highlighted the commentary relating to risks to private equity returns presented by protectionism, stating that a shift towards supply chain sovereignty would present a serious concern.

In response to the Chair, Bob Swarup stated that capital value and rent expectations had decreased across property categories over the three months to October 2022, including Prime Industrial. In recent years there had been some speculative building activity. However, the decision by Amazon to close some of its warehouses was an indicator that a saturation point had been reached.

In response to Councillor Hammersley, Bob Swarup advised that changing consumer dynamics had impacted on industrial property values and rent expectations. Rising interest rates had also had an effect.

The Chair highlighted the commentary in the report showing projected global greenhouse gas emissions under different scenarios. The implications for climate change were stark.

Bob Swarup stated that the long-term outlook for climate change remained unclear. For example, a reversal of green commitments had been seen in recent months in Germany. He commented that internationally there was evidence of longer-term objectives to address climate change being curtailed in response to the cost-of-living crisis.

There was discussion of the investment requirements to achieve a global transformation to a low-carbon economy. Bob Swarup advised that the implications for energy supply of Russia's war with Ukraine had prompted many nations to focus more seriously on renewable energy and Environmental, Social, and Governance (ESG) factors. He stated that a more pronounced shift towards electrification and reduced energy consumption was anticipated, particularly in housing.

There was discussion of the trend of continued investment in hydrocarbons. Opportunities continued to be sought in this area despite progress towards net zero carbon. Bob Swarup highlighted the phenomenon of 'green hushing' where companies chose not to publicise details of their carbon targets to avoid scrutiny.

Anthony Fletcher (Independent Advisor to the Sub-Committee) commented that it was likely that central banks would continue to raise interest rates. Inflation at around 3% to 4% was anticipated in 2023/24. He stated that the increased willingness to hold hydrocarbon assets was consistent with decisions taken globally over the past 12 months to retain some emissions-producing energy infrastructure in response to the war in Ukraine.

Resolved:

That the Pension Fund Investment Sub-Committee (PFISC) notes the report.

3. Reports Containing Exempt or Confidential Information

Resolved:

That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

4. Liquidity Fund Selection

The Sub-Committee received a confidential briefing.

5. Infrastructure Manager Selection

The Sub-Committee received a confidential briefing.

6. Protection Assets Review

The Sub-Committee received a confidential briefing.

7. AVC Review

The Sub-Committee received a confidential briefing.

8. Exempt Minutes of the Previous Meeting

Resolved:

That the exempt minutes of the meeting held on 12 December 2022 be confirmed as an accurate record and signed by the Chair.

There were no matters arising.

The meeting rose at 13:04.

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Chair

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Agenda Item 2

Pension Fund Investment Sub-Committee

6 March 2023

Review of the Minutes of the Warwickshire Local Pension Board Meeting of 18 October 2022

Recommendation

That the Pension Fund Investment Sub-Committee notes and comments on the minutes of the Local Pension Board meeting of 18 October 2022.

1. Executive Summary

1.1 Set out at appendix 1 are the minutes of the Local Pension Board meeting of 18 October 2022, for information.

2. Financial Implications

2.1 None

3. Environmental Implications

3.1 None

4. Timescales associated with the decision and next steps

4.1 None

Appendices

1. Appendix 1 – Minutes of the Warwickshire Local Pension Board meeting of 18 October 2022

	Name	**Contact Information**
Report Author	John Cole	johncole@warwickshire.gov.uk Tel: 01926 736118
Assistant Director	Andrew Felton, Assistant Director – Finance	andrewfelton@warwickshire.gov.uk
Strategic Director	Rob Powell, Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin, Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): not applicable
Other members: none

Warwickshire Local Pension Board

Tuesday 18 October 2022

Minutes

Attendance

Committee Members
Jeff Carruthers
Keith Bray (Chair)
Keith Francis
Alan Kidner
Mike Snow

Officers
Andrew Felton, Assistant Director - Finance
Victoria Jenks, Pensions Admin Delivery Lead
Chris Norton, Strategy and Commissioning Manager (Treasury, Pensions, Audit, Risk & Insurance)
Sarah Cowen, Senior Solicitor
Andy Carswell, Democratic Services Officer
Martin Griffiths, Technical Specialist Pensions Fund Policy and Governance

1. Introductions and General Business

(1) Apologies

Apologies were received from Sean McGovern and Victoria Moffett.

(2) Board Members' Disclosures of Interests

The Chair stated that he worked for the Local Authority Pension Fund Forum and also for a firm of American lawyers which had Pension Fund clients although these did not include Warwickshire.

(3) Minutes of the Previous Meeting

The minutes of the meeting held on 12 July 2022 were approved as an accurate record.

Arising from the minutes, the Chair raised a query regarding scheme payments being frozen at £40,000. Vicky Jenks (Pensions Admin Delivery Lead) explained that the value of a particular pension would be calculated at the start and end of each financial year and the difference would be multiplied by 16. If it was greater than £40,000 then the annual allowance had been exceeded.

Regarding the metrics relating to climate change, Chris Norton (Strategy and Commissioning

Manager – Treasury, Pension, Audit and Risk) said these were in place to check against the risks associated with greenwashing; that is, deceptively marketing a product as being environmentally friendly when the opposite was true.

2. Pensions Administration Activity and Performance Update

The item was introduced by Vicky Jenks, who provided members with an update on the work of the administration team. The main project being worked on was the member self-service portal. This year's pension statements had been provided digitally, except for cases where the member had opted in to continue receiving paper copies. All deferred annual benefit statements had now been released; there had been errors in a small number that had not been picked up on, meaning not all of the statements were ready by the deadline. Vicky Jenks said 98 per cent of the active annual benefit statements had been released by 6 August. There were issues with 354 statements as there were queries with the data provided by the employer. Overall there had been a reduction in the number of queries at year's end. The introduction of the iConnect system was credited with helping this. Responding to a point raised by the Chair, Vicky Jenks said takeup to member self service had been quite good. If anyone contacted the Fund with a query they would be directed to the portal and asked to set up an account. Steps were also being taken to promote the portal amongst employers. At the time of the report being published 24 per cent of eligible scheme members had signed up, and it was expected this figure had increased since. It was noted that awareness on pensions was increasing nationally, and a campaign was due to start at the end of the month. Vicky Jenks said the data was being checked on a more regular basis by an increased number of people from different companies, such as the actuary, and it was hoped this would improve the quality of the data.

Responding to a point raised by the Chair, Vicky Jenks said not all of the key performance indicators were on target to be met due to workload priorities. For example the Fund had undergone a valuation this year and resources had needed to be reallocated to this as a priority. However the performance of a number of KPIs were improving and processes were being looked at to see if efficiency could be improved further. Vicky Jenks said the timescales for the KPIs would be available in the annual report. The Chair expressed his concern at the low level of letters being sent that notified dependents of pensionable amounts, which was KPI 9 on the chart in the report appendix.

Regarding breaches, Vicky Jenks said there had been an ongoing control issue with the Birmingham Diocese Academy Trust. This was because it had not been possible to get the required information from them in a timely manner following a change of payroll provider. It was eventually progressed following a conversation with the Trust's chief financial officer. Although six breaches were listed, these were all from the one employer. The Trust was now using iConnect and it was not anticipated there would be any issues in the future. Vicky Jenks said the use of iConnect had also been a contributory factor in the number of amber warnings reducing. The amber warnings would also generally be cleared at the end of each financial year once employers had completed any outstanding financial issues. However there would be some breaches in cases where it was difficult to find a member of staff at the employer to complete the work. There were no specific patterns to the breaches taking place that had been identified.

Regarding McCloud, Vicky Jenks said the response to the government consultation was still awaited. It was expected to be announced before Christmas. New draft regulations were expected to be in place by October 2023. Extra staff had been taken on to enable the Warwickshire Pension

Fund to undertake the required checks to see how many people would be affected by the proposals. Pensioners who would be affected would be contacted, although Martin Griffiths (Technical Specialist, Pension Fund Policy and Governance) said the LGA had indicated for Funds not to contact pension holders unless they really had to.

Members were told there were no outstanding disputes. Responses to two stage one cases had been issued; one was referred to the Ombudsman but was deemed to be out of time for the disputes process. The Fund had not heard anything about the other case. Both cases related to outgoing transfers, which had taken place in 2015.

Vicky Jenks said the team had worked hard to provide the actuary with all of the information needed for the valuation by the end of July, and the feedback showed that the actuary was impressed with the quality of the data. There had been a catchup meeting on this on 4 October, and there were due to be further discussions at the AGM on 4 November.

Members were told that it was now anticipated that the DWP’s pensions dashboard would go live for Warwickshire in September 2024. This would enable pensioners to view all of their pensions in one place. Work was being undertaken by the Warwickshire Pension Fund to ensure the information going forward for inclusion on the dashboard was correct. The dashboard would be rolled out on a gradual basis, with some Pension Funds going live from April 2023. Warwickshire had asked to push back its planned roll-out from April 2024 due to the amount of data to go through.

Alan Kidner asked if the information relating to PAS and payroll should be shared with members, so they could have a clearer picture of what was happening as this had been outsourced. Andy Felton said he was not sure if the Fund had the ability to do this, as payroll for the Warwickshire Pension Fund encompassed more than 200 employers. Vicky Jenks said the payroll team met on a quarterly basis.

Keith Francis said he was comfortable with the report, and the officers had made its contents very clear.

Members thanked officers and noted the contents of the report.

3. Governance Report

Martin Griffiths advised that the report encompassed a number of reports that had previously been considered on an individual basis, such as the risk register and the forward plan. It was noted that the forward plan said Hymans Robertson would be present at the next Board meeting to provide a presentation on the valuation process. There had been no need to update the training schedule since the previous meeting. However places were still available on Hymans Robertson-run knowledge and skills assessment courses if members required them. The Chair said that although the courses were useful, members did not know which questions they were answering incorrectly and how they could further improve their knowledge and understanding.

Martin Griffiths said the risk register had been updated to reflect recent changes in market volatility and lack of control. However there were three items on the register whose risk level had decreased following the successful implementation of mitigation measures. Risks associated with climate change had increased, as the Fund only had a limited influence of global factors affecting climate change. More robust policies had been introduced in relation to governance.

Responding to a query raised by Alan Kidner, Chris Norton said the key performance indicators were reviewed by officers to ensure clarity that the actions were having the desired effect. Members asked if the key performance indicators could be sent to them via email ahead of the next meeting, in addition to a paper copy being provided.

Members noted the contents of the report.

4. Business Plan Report

Chris Norton informed the Board that the business plan consisted of 38 actions for the year, which would relate to the annual pensions report. The majority were on track to be met but some actions had a red or amber rating, and the reasons for these ratings were outlined in the report. It was noted the red ratings related to publication of the Pension Fund accounts. Chris Norton said there were capacity issues with external auditors, who were having difficulty recruiting and retaining staff. He said Warwickshire was not the only Pension Fund affected and this was a national issue. Andy Felton said this would not cause risks to individual pension holders, and when the audits were completed they would remain at a high standard. However it was anticipated that delays to external auditing would remain for a number of years.

The Chair asked if the Board could have sight of an external audit report next time one became available. He said the views and feedback of the Board could be of assistance to the Pension Fund Sub Committee. Andy Felton said these could be shared once they were made public, otherwise they would have to be treated as an exempt item.

Members noted the contents of the report.

5. Investment update

Chris Norton introduced the item by stating there were issues with market volatility at the moment. The funding level had increased over the quarter ending 30 June from 104 per cent to 122 per cent, due to volatility relating to inflation and interest rates. Despite this, operational cashflows were broadly neutral and there was little stress being put on investments. Longer-term investments continued to remain better than the benchmark, remaining at between 0.5 and one per cent.

Regarding stewardship, members were advised that the Pension Fund Investment Sub Committee had agreed to award two private mandates to two different fund managers. The investment structure would be looked at by the Committee at its December meeting. The cashflow amounts were noted, with uncertainty over whether any cash would be taken out of any of the funds – and if it was, to what extent – being highlighted as a risk. Greater cashflow could be generated if more was invested into private markets, but there was a struggle to do this. Climate change continued to be the most significant risk affecting investments and the work of the Pension Fund.

Chris Norton said the Fund was looking to recruit a new investment analyst to the investment and governance team, as well as a senior accountant. Chris Norton said Dev Singh would be leaving the Fund and thanked him for all of his work.

Responding to a question from Jeff Carruthers, Chris Norton said the Fund was in a position to be able to manage short-term issues. If inflation was going to continue to remain a longer-term risk, then this would be more difficult to manage and plan for. The same issues were not anticipated in the private sector, but the Fund had never hedged significant amounts in these markets.

The Chair noted that Hymans were used as both actuary and investment advisor and said there had been some debate as to whether there should be a degree of separation between actuary and advisor, although he stated his belief it was beneficial to have the same firm in both roles. Chris Norton said representatives of Hymans received all the paperwork relating to the various pensions committees and would attend special interest meetings. Regarding the use of two different firms in relation to stewardship, the Chair said it was important they both voted in the same way as this would benefit the Pension Fund.

Members noted the contents of the report.

6. Any Other Business

Members noted the contents of the minutes of the most recent meetings of the Pension Fund Investment Sub Committee and the Staff and Pensions Committee, which had been circulated after publication of the meeting agenda. There were no comments made on their contents. The Chair noted that the Sub Committee would often have exempt papers, and stated that other Pension Boards would also have access to them although others would not. He suggested consideration be given to whether it would be appropriate for the Board to have access to the exempt papers.

The Chair stated he had been sent a three-page paper from Hymans Robertson about its investment strategy. He said it was a well written report and advised members to try reading it if possible.

The meeting rose at 1.00pm

……………………………
Chair

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Agenda Item 3

Pension Fund Investment Sub-Committee

6 March 2023

Governance Report

Recommendations

That the Pension Fund Investment Sub-Committee:

1. Considers and comments on the items, contained within this Governance Paper, and
2. Approves the new Risk Policy.

1. Executive Summary

1.1 This report summarises the main governance issues currently affecting the Warwickshire Pension Fund. These areas include the Forward Plan, Risk Monitoring, updated Polices and Training.

2. Financial Implications

2.1 There are no financial implications arising directly from this report. Where changes to policies are recommended, any implications arising from those changes are covered in the body of the report.

3. Environmental Implications

3.1 As stated in previous Governance Reports, Climate Risk is still a key risk on the Fund's Risk Register and is considered regularly by the Fund.

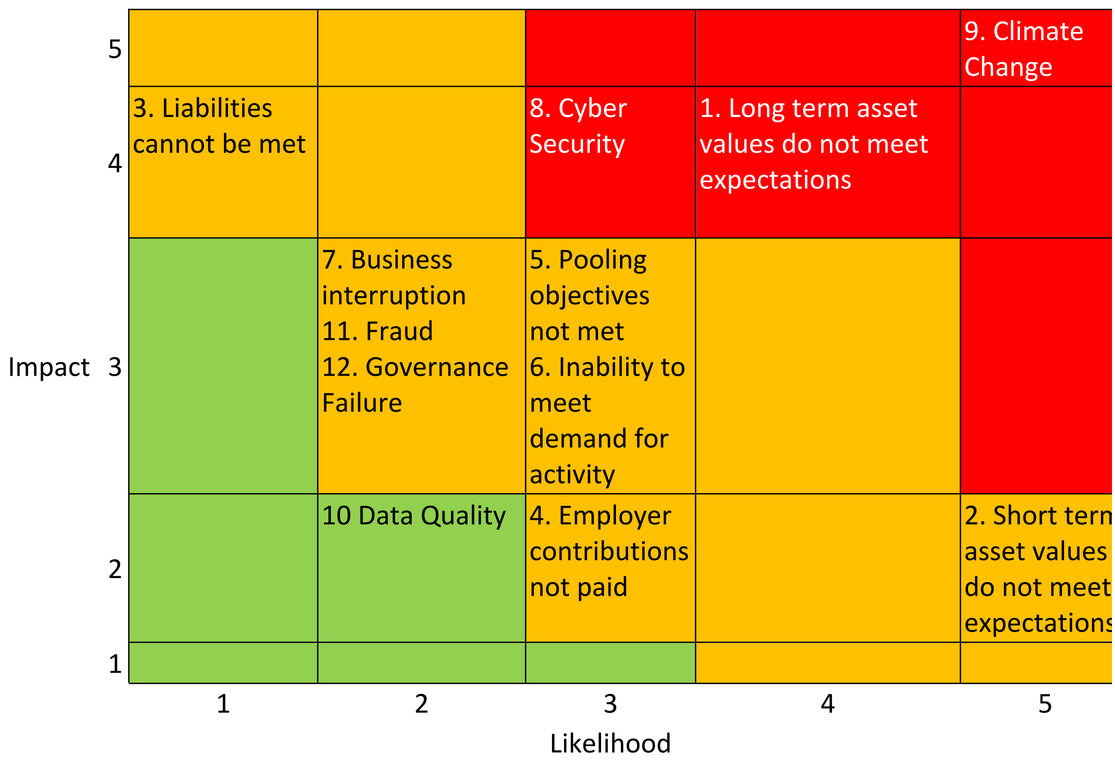
4. Supporting Information

Forward Plan

4.1 The purpose of including the Forward Plan in this report is to provide an updated position for the Pension Fund Investment Sub-Committee rolled forward to cover the year ahead. The Plan is set out in Appendix 1 and the Sub-Committee's comments are welcomed.

Risk Monitoring

4.2 This section provides an update on the key risks facing the Fund and the management actions necessary to address them. The full risk register will be provided every June going forward. At our most recent review we considered that additional notes needed to be added to the register and one risk (that of Cyber Security) needed to be amended. This was as a result of the change in the likelihood score given to the rating by the Fund. Please see the Net Risk chart and following comments, below.



Climate Change - Greater progress is now being made in engagement with further resources within the Fund allocated. However, the risk is a global issue and whilst we continue to discuss this area in greater detail with the managers who implement our Climate Risk Policy there remains significant work required to deal with the issue.

Long Term Market Risk – This area remains as a high risk despite actions taken to mitigate it. It is important to note that the Fund anticipates long-term risk on a relatively prudent basis to reduce the risk of underperforming. Mitigation actions are considered and remain in place, and the Fund regularly reviews its Strategic Asset Allocation and monitors changes with managers at regular meetings.

Cyber Security – This has become a new red risk, following the most recent review. Although the Fund has a dedicated Policy, regular training, and reviews issues at regular management meetings the global cyber risk continues to grow and adapt and the Fund must remain vigilant to new threats.

In addition to the risks highlighted above as ‘Red’ risks, the quarterly risk meeting also discussed the risk of higher pension payments due to the recent 10.1% CPI rise affecting the Fund’s cashflow. However it is felt that this risk has been mitigated through additional cashflow analysis and monitoring and no change needed to be made to the register as a consequence.

Other risks discussed included those arising from the increased costs of living. It is possible that this may increase the prevalence of scams targeting pensioners. This has been tackled through additional warnings on the Fund website as well as providing training to relevant pensions colleagues to ensure precautions are taken.

As discussed in the February 2023 PFISC, interest rates are expected to continue to rise in the near term, with inflation expectations falling, this may lead to real interest rates (those that include inflation) stabilising towards the end of 2023.

Policies

4.3 Our revised Climate Risk Policy has been created by Hymans Robertson for the Fund, following a workshop and discussion with members and officers. This will be presented to this committee under its own paper.

4.4 Our new Risk Management Policy (Appendix 2), explaining how the Fund approaches risk has also been brought to this meeting for approval.

4.5 The Training Policy has been reviewed by Officers and it is felt that no changes are required to this document.

4.6 The final version of the Funding Strategy Statement has been prepared by Hymans Robertson following a full consultation with our Stakeholders. This will be covered in its own paper later in this meeting.

Training

4.7 The results of the Hymans ‘Knowledge and Skills Assessment’ have now been released and shared with both the Committees and the Local Pension Board.

4.8 The results from this Assessment form the basis of our Training Plan for the next twelve months.

4.9 The number of completed assessments returned to Hymans Robertson was somewhat disappointing and Warwickshire Pension Fund was second to bottom on the number of completed returns, with some Funds obtaining a 100% return from both the Local Pension Board and Committees. Following the publication of the Scheme Advisory Board Good Governance Review later this year it is expected that completion of such an Assessment and the attendance at training session may be made mandatory.Fund Officers in the meantime would appreciate the support of Sub-Committee members in attending training sessions and completing the Knowledge and Skills Assessment and Hymans online training.

4.10 Officers would like to support both the Board and Sub-Committee in achieving this goal and meeting scheme governance requirements. Any suggestions for future training topics and how best to deliver such training would be welcomed by Officers.

4.11 The current Training Plan can be found in Appendix 3. This illustrates the training currently planned up until June 2023. At our next meeting our plan for training beyond this point will be made available.

5. Timescales associated with the decision and next steps

5.1 None

Appendices

Appendix 1 – Forward Plan
Appendix 2 – Risk Management Policy
Appendix 3 – Training Plan

	Name	Contact Information
Report Author	Martin Griffiths, Victoria Moffett, Chris Norton	martingriffiths@warwickshire.gov.uk, victoriamoffett@warwickshire.gov.uk, chrisnorton@warwickshire.gov.uk
Assistant Director	Andy Felton, Assistant Director for Finance	andrewfelton@warwickshire.gov.uk
Strategic Director	Rob Powell, Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin, Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): n/a
Other members: Councillor Christopher Kettle and Councillor Bill Gifford

APPENDIX 1

Pension Fund Investment Sub-Committee

Forward Plan

Standing items

Forward Plan
Risk Monitoring
General Investment Activity Update
Investment Fund Performance
LGPS Pooling Update
Local Pension Board Minutes of Meeting

Specific items

12 June 2023	11 September 2023	1 1December 2023	4 March 2024
			National Knowledge and Skills Assessment

Manager Presentations (Regular Border to Coast Partnership Presentations)

12 June 2023	11 September 2023	11 December 2023	4 March 2024

Manager Presentations, now made outside the PFISC Meetings

Training Schedule can be found in Appendix 3

Policy Reviews by the Pensions and Investment Sub-Committee

12 June 2023	**11 September 2023**	**11 December 2023**	**4 March 2024**
Voting and Stewardship Policy	ESG Policy	Accounting Policy	Training Policy
Investment Strategy Statement			Risk Management Review & Policy
			Climate Risk Policy
			Funding Strategy Statement

Policy Reviews by the Staff and Pensions Committee

12 June 2023	**11 September 2023**	**11 December 2023**	**4 March 2024**
Breaches Policy	Administration Strategy	Cyber Security Policy	Fraud Prevention Policy
Communications Policy	Admission and Termination Policy	Conflicts of Interest Policy	Business Continuity Plan
Data Retention Policy	Governance Compliance Statement Policy *		Internal Disputes Resolution Procedure Review
			Fund Discretions
			Governance Process *
			Business Plan

- **Review will take place this year on the release of SAB Good Governance Review**

The review of other Policies may move between quarters to meet legal and regulatory needs

Warwickshire Pension Fund Risk Policy

March 2023

Introduction

This is the Risk Management Policy for the Warwickshire Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by Warwickshire County Council ("the Administering Authority").

Risk management is central to the management of the Pension Fund, as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Investment Strategy Statement. It is an essential element of good governance in the LGPS. The Fund will aim to comply with the CIPFA Managing Risk publication and the Pensions Act and Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Risk Management Policy details the risk management strategy for the Fund, including the following key areas:

- The Fund's attitudes to, and appetite for, risk;
- Aims;
- Risk measurement and management; and
- Responsibility.

The Fund's attitudes to, and appetite for, risk

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance;
- improve financial management of the Fund;
- better manage change programmes and projects;
- minimise the risk and effect of adverse conditions on the Fund;
- identify and maximise opportunities that might arise;
- minimise threats; and
- support innovation and continual improvement in a changing environment.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund, at a strategic and operational level.

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Some risks can be mitigated by putting in place a simple control process whereas other risks will remain at a high level, despite any mitigating controls being put in place. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives, considering the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;

- adopt a system that will enable the Fund to anticipate and respond positively to emerging risks; and

- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided.

The main strategic risk to the Fund is failing to meet its primary objective of having sufficient funds to meet its liabilities when they become due for payment. This particular risk is managed through the Funding Strategy, which models the likelihood of a range of possible outcomes occurring and the way in which the contribution rate strategy and the investment strategy combine to deliver those outcomes (the particular method used by the Fund’s Actuary is sometimes referred to as stochastic modelling, but there are others). The primary reason for the high variability (risk) in outcomes derives from the high proportion of the Fund invested in growth assets, in particular equities. However, in the long term this is expected to deliver returns that are commensurate with the risk and this helps to keep employer contributions lower than they would otherwise be. It also relies upon the strong covenant of the major employing bodies in the Fund which allows for a long-term perspective to be taken.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However, it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

Aims

In relation to understanding and monitoring risk, the Administering Authority aims to:

- raise awareness of the need for risk management by all those connected with the management and administration of the Fund (including Officers, Pensions Committee Members and the Local Pensions Board);
- integrate risk management into the culture and day-to-day activities of the Fund;
- anticipate and respond positively to change and emerging risks;
- minimise the probability of negative outcomes for the Fund and its stakeholders;
- identify control and review sources of assurance already in place to mitigate against risk and highlight areas requiring improvement; and
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk.

Risk measurement and management

Identifying Risks

Risks to the Fund are identified in a number of ways:

- Monitoring performance against the Fund’s Annual Business Plan;
- Recommendation and findings of auditors and other professional advisors;
- Feedback from Local Pensions Board, employers and other stakeholders;
- Meetings of senior officers and staff involved in the management of the Fund; and
- Meetings with other organisations, regional and national associations, and professional groups.

Risks are regularly reported to the Pensions Investment Sub-Committee and Local Pension Board as part of routine quarterly reporting. There is a separate Risk Register, which has been developed to categorise risk across a number of areas. These include but are not limited to

- Funding
- Administration
- Governance
- Investment

The Pension Fund has a set of high-level objectives which cover all key aspects of the Fund under each of these areas. The greatest risks to the Fund are therefore those associated with not meeting the high-level objectives. The risk register details the risks associated with not achieving the Fund's objectives. This ensures a comprehensive coverage of all areas of the Fund.

Each of the risks has been given an impact score and a likelihood score before any controls are applied. These have then been combined to give an overall pre-control risk score, which has been assigned a **Red – Amber - Green (RAG) rating**.

Controls that are currently in place to mitigate risks, together with additional sources of assurance are listed and these are then considered to give a post control impact and likelihood score. Again, these have been combined to give an overall post control risk score which has been assigned a RAG rating.

Management and reporting of the Risk Management

Officers review emerging risks quarterly These reviews allow current controls to be assessed and analysed to ensure they are still in place and relevant. It also gives the opportunity to identify areas for improvement and additional controls required. New emerging risks are also discussed at these reviews and added into the Risk register.

At the quarterly meetings, Officers drill down into the detailed risks and gain an understanding of the controls in place and the various sources of assurance. Any areas of concern are brought to the attention of the Pensions Investment Sub-Committee at their next meeting.

It is important to recognise that some of the greatest risks faced by the Pension Fund arise from change. The consideration of emerging risks will also form part of the Pensions Investment Sub-Committee's review.

In addition to looking at the risks on the Risk Register, the Pensions Investment Sub-Committee reviews the Fund's risk management process. They will also report on any suggested improvements and areas of concern in the risk management of the Fund.

Risks associated with specific areas of the Fund are discussed as part of relevant Officers regular team meetings. Emerging risks in particular are highlighted as part of this process.

The Administering Authority's Internal Audit Service review the Fund's processes, including Governance, Administration and Investments, considering the associated risks and analysing the controls in place. They give an opinion to Officers of the Fund as to the effectiveness of current controls and advise on any improvements required.

Responsibility

This Risk Management Policy applies to all members of the Pensions Investment Sub-Committee and the Local Pensions Board. It also applies to the designated Director, S151 Officer and all other Officers involved in the management of the Fund.

Advisers to the Fund are expected to be aware of this Policy, and assist the Officers, Committee and Local Board members as required, in meeting the objectives of this Policy.

Review

This Policy will be reviewed every two years or more frequently if required.

Training Plan for Warwickshire Pension Fund und 2022-2024

Month of Delivery	Title of Training & Date of Delivery	Delivered to:	Deliveted by:	Reason for Training
Apr-22				
May-22	Pension Administration - 6th May (Completed)	Committee / Board / Officers	Vicky Jenks / Martin Griffiths	Identified by Knowledge and Skills Assessment
Jun-22	Equities and carbon Workshop - 6th June (Completed)	Committee / Board / Officers	Hymans Robertson	Proposed changes to the Fund's equity portfolio
Jul-22	Valuation and Section 13 - 18 July (Completed)	Committee / Board/ Officers	Hymans Robertson	Outcome of valuation
Aug-22	Property Workshop - 9th August (Completed)	Committee / Board/ Officers	Hymans Robertson	Proposed changes to property portfolio
Sep-22				
Oct-22				
Nov-22	Annual Meeting - 4th November (Completed)	Committee / Board / Officers	Hymans Robertson / Border to Coast / Officers	General Update
	BCPP Fixed Income Products (Completed)	Committee/ Board/ Officers	Border to Coast	Pre Meeting - Update
Dec-22	Protection Portfolio Workshop- 1st December (Completed)	Committee/ Board/ Officers	Hymans Robertson	General Update
Jan-23	General LGPS Overview (In person) - 31st January This will include a specific Investment Overview	Committee / Board / Officers	Anthony & Bob (Fund Advisers)	Identified in Knowledge and Skills Assessment
Feb-23				
Mar-23				
Apr-23	Good Governance and Regulators Code of Practice (TBC) This will include the Role of the Committee	Committee / Board/ Officers	Hymans Robertson/ Officers	Identified in Knowledge and Skills Assessment
May-23				
Jun-23				

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Pension Fund Investment Sub-Committee

6 March 2023

Funding Strategy Statement and Valuation

Recommendation

That the Pension Fund Investment Sub Committee approves the final version of the Funding Strategy Statement, attached as Appendix 1.

1. Executive Summary

1.1 It is a requirement for local authority pension funds to carry out a valuation. The purpose of the valuation is to review the financial position of the Fund and to set employer contribution rates and is effectively the Fund's triennial budgeting exercise.

1.2 The actuary (Hymans Robertson) estimates the amount of assets that will be required to meet the benefit payments owed to members as they fall due. Separate calculations are carried out to identify the expected cost of members' benefits in respect of scheme membership completed before the valuation date (past service) and that which is expected to be calculated after the valuation date (future service).

1.3 A funding ratio is calculated by the actuary which compares the value of the assets and the past service liabilities at the date of the valuation. This ratio provides a check against the aim of meeting the longer-term funding level target.

1.4 The purpose of the Funding Strategy Statement, as set out by the Department for Communities and Local Government in 2003, is to 'establish a clear and transparent fund-specific funding strategy which will identify how employers' pension liabilities are best met going forward.' This can only be determined following the conclusion of the valuation itself.

1.5 Together with the release of the Draft Rates and Adjustment certificates to all fund employers, a consultation was held with all the Fund's Stakeholders to ask for their thoughts and feedback on the Fund Strategy Statement.

1.6 There was only one point raised during this consultation period, by an Academy Trust regarding the assumptions and mechanisms for dealing with pass-through arrangements. Pass-through arrangements can be used when a scheme employer outsources a service.

1.7 A pass-through allows the contractor providing the service for the Trust, to pay contributions at the same rate as the Trust, therefore a bespoke rate is not required. However, Funds can have a different approach as to how the pass-through rate is calculated. For Trusts, this can be difficult to administer when a Trust has schools in more than one Fund.

1.8 Funds generally use a consistent approach to calculate rates but will have different 'local' factors to take account of and differing appetites to risk when looking at what assumptions can be used.

1.9 The Funding Strategy Statement is attached at Appendix 1 and will be introduced and explained by Hymans Robertson (the Fund’s advisors) within their presentation to the meeting.

1.10 The Pension Fund Investment Sub-Committee is requested to approve the Funding Strategy Statement.

2. Financial Implications

2.1 The fund has an investment strategy and funding strategy specifically designed to sustainably manage the financial position of the Fund to ensure a high probability of the Fund being able to pay future pension liabilities for Members.

3. Environmental Implications

3.1 None

4. Supporting Information

4.1 None

5. Timescales associated with the decision and next steps

5.1 None

Appendices

1. Appendix 1 Funding Strategy Statement

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The report was circulated to the following members prior to publication:

Local Member(s): not applicable
Other members: Cllrs Kettle and Gifford

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HYMANS ROBERTSON

Warwickshire Pension Fund
Funding Strategy Statement
February 2023

WARWICKSHIRE
pension fund

Contents

Warwickshire Pension Fund – Funding Strategy Statement

Appendices

1 Welcome to Warwickshire Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Warwickshire Pension Fund.

The Warwickshire Pension Fund is administered by Warwickshire County Council, known as the administering authority. Warwickshire County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1st February 2023.

There's a regulatory requirement for Warwickshire County Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A.Appendix A. If you have any queries about the FSS, please contact: wpfinvestments@warwickshire.gov.uk

1.1 What is the Warwickshire Pension Fund?

The Warwickshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org.www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy statement at https://warwickshirepensionfund.org.uk/investments

The funding and investment strategies are closely linked. 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 fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Warwickshire pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			Designating employers	CABs		TABs*
Sub-type	**Local authorities, police**	**Academies**	**Colleges**	**Parish & town councils**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	67.5%	80%	70%	80%	80%	70%
Maximum time horizon	19 years	19 years	19 years	19 years	19 years	19 years or average future working	Outstanding contract term

Type of employer	Scheduled bodies			Designating employers	CABs		TABs*
Sub-type	Local authorities, police	Academies	Colleges	Parish & town councils	Open to new entrants	Closed to new entrants	(all)
						lifetime, if less	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon						
Secondary rate	Monetary amount	% of payroll	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll or monetary amount
Stabilised contribution rate?	Yes	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement		Contributions kept at primary rate	Contributions kept at primary rate	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement		None	None	None	None	None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

*** See Appendix D for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which either

- keeps contribution variations within a pre-determined range from year-to-year, or
- dampens contribution rate volatility over time by operating a corridor approach for the likelihood of success

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the fund's local authorities and police body and academy schools. For authorities and police, the fund sets pre-determined ranges for contribution variations.

Table 2: contribution variations for authorities and police

Type of employer	"Standard" authority & police	"Mature" authority
Maximum contribution increase per year	+0.75% of pay	+2.0% of pay
Maximum contribution decrease per year	-0.75% of pay	-1.0% of pay

Currently, mature authorities are Nuneaton & Bedworth Borough Council and Stratford-upon-Avon District Council.

For academy schools, the fund operates a corridor approach for the likelihood of success. When setting contributions, if the likelihood of success for an academy school's current contribution rate is within +/-2.5% of 70% (ie between 67.5% and 72.5%) then the contribution rate will remain unchanged. If the likelihood of success is outside the corridor then the rate will be adjusted.

Table 3: corridor approach for academy schools

Likelihood of success of current rate	Impact on contribution rate
Between 67.5% and 72.5%	No change
Below 67.5%	Increased to rate with a 67.5% likelihood of succees
Above 72.5%	Decreased to rate with a 72.5% likelihood of success

Stabilisation criteria, authority classification and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in Appendix E. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are usually based on their own funding position rather than the pool average. Cessation terms also usually apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Schools** – generally pooled with Warwickshire County Council, although there may be exceptions for specialist or independent schools.

- **Small WCC-related contractors** – where deemed appropriate, generally pooled with Warwickshire County Council.
- **Parish and town councils** – all parish and town councils
- **Multi-academy trusts** – all individual academies within the same multi-academy trust are pooled for contribution rate setting purposes.
- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the fund's prepayment policy detailed in Appendix F.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread if the administering authority agrees:

Precepting employers	- up to 5 years
All other employers	- payable immediately

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, this may result in a funding strain, which could be a large sum. Employer contribution rates include an allowance for potential ill health funding strain but this may be insufficient to cover the actual strain cost. This is more likely to be the case for smaller employers in the fund (eg academies and admission bodies) due to the size of their payroll compared to the magnitude of strain costs.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed annually by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see Section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See Section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The contribution rate payable by the new academy will depend on whether the academy is part of a multi-academy trust (MAT) that already participates in the fund.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's full policy on academy participation is detailed in Appendix G.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. However, the Fund's policy is to require all new admission bodies to be set up with a pass-through arrangement. The Fund's policy on pass-through is detailed in Appendix H.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually parish and town councils. Contribution rates will be set using the same approach as other designated employers in the fund. For parish and town councils the contribution rate will be set in line with the Parish and Town Council pool rate.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of 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.

For further information on new admissions, please refer to the fund's admissions and terminations policy at https://warwickshirepensionfund.org.uk/employers

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won’t pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won’t grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is in Appendix I.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the admission agreement that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms or the employer is participating under a pass-through agreement.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund will recharge costs of administering cessations including actuary and other cessation expenses as appropriate. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund. Costs will be charged even if the cessation does not go ahead.

The cessation policy is in Appendix J.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The fund's approach to exit credits is detailed in the cessation policy in Appendix J.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA)
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The fund's approach to employer flexibility on exit is detailed in the cessation policy in Appendix J.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers may be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at successive formal valuations.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers on a pro-rata basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a* ***clear and transparent fund-specific strategy*** *identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible***
- *ensure the fund meets its* ***solvency and long-term cost efficiency*** *objectives*
- *take a* ***prudent longer-term view*** *of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and discussing key aspects. Any policy changes from the previous versions of the FSS were highlighted to employers during this process.

A3 How is the FSS published?

The FSS is emailed to participating employers, Investment Sub-Committee members, Fund advisors and Local Pension Board who have employee and pensioner representatives. Copies are freely available on request and also on the fund's website.

The FSS is published at https://warwickshirepensionfund.org.uk/employers/current-employers

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any material amendments will be consulted on, agreed by the fund's Investment Sub-Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation athttps://warwickshirepensionfund.org.uk/employers/current-employers

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available at https://warwickshirepensionfund.org.uk/scheme/scheme-1/6

Details of the key fund-specific risks and controls are set out in the risk register which is available in the Pensions Investment Sub Committee papers, which are published online

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Parish and Town councils	Tax-raising or government-backed, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues after regular scheduled DfE review
Colleges & Universities	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs
Admission bodies (including TABs & CABs)	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has included climate scenario stress testing in the contribution modelling exercise for the precepting employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework and a separate Climate Risk Policy, both of which were last agreed by the Pension Fund Investment Sub-Committee in 2021.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns												
		Index Linked Gilts (long)	UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infra-structure Equity	Absolute Return Bonds (inv grade)	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	Corp Medium A	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	-3.1%	-0.4%	-1.2%	-0.6%	-2.5%	0.7%	0.9%	-0.4%	2.7%	-0.1%	1.6%	-1.7%	1.1%
	50th %'ile	-0.7%	5.7%	9.4%	4.4%	5.8%	5.9%	2.3%	5.8%	6.0%	1.6%	3.3%	-0.5%	2.5%
	84th %'ile	2.0%	11.6%	20.1%	9.5%	14.4%	11.2%	3.7%	11.9%	9.2%	3.2%	4.9%	0.7%	4.3%
20 years	16th %'ile	-2.6%	1.7%	2.4%	1.4%	0.1%	2.6%	1.4%	1.8%	4.3%	1.1%	1.2%	-0.7%	1.3%
	50th %'ile	-0.9%	6.2%	10.0%	5.0%	6.3%	6.5%	2.9%	6.3%	6.8%	2.1%	2.7%	1.1%	3.2%
	84th %'ile	0.8%	10.6%	17.6%	8.9%	12.8%	10.6%	4.6%	11.1%	9.2%	3.2%	4.3%	2.7%	5.7%
40 years	16th %'ile	-1.1%	3.2%	4.7%	2.6%	2.1%	3.9%	1.6%	3.4%	5.5%	2.0%	0.9%	-0.6%	1.1%
	50th %'ile	0.3%	6.7%	10.3%	5.5%	6.8%	7.0%	3.3%	6.8%	7.7%	3.1%	2.2%	1.3%	3.3%
	84th %'ile	1.9%	10.2%	16.1%	8.8%	11.7%	10.3%	5.4%	10.4%	10.0%	4.4%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	9%	18%	30%	15%	26%	15%	3%	18%	10%	7%	3%		

ESS assumptions are calibrated at each month end. Contribution rate assessments carried out after 31 March 2022 will use the most up to date calibration of the ESS at the date the employer joins the fund.

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.7%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Equal to the margin used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.0% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 75% likelihood that the fund's assets will achieve future investment returns of 4.0% over the 19 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recent mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of maximum tax-free cash
50:50 option	1.0% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Employers with no guarantor

Where there is no suitable guarantor or risk-sharing arrangement, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with no further outperformance margin. This yield was 1.7% pa on 31 March 2022.
- The CPI assumption is based on the weighted average of CPI for the next 20 years from Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Employers with a guarantor

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the funding basis used to calculate contribution rates will apply to derive financial and demographic assumptions (typically either contractor exit basis or the ongoing basis).

If the cessation event is trigged by the admission agreement being terminated early by the contractor, then the low-risk exit basis will apply.

Appendix E – Policy on contribution reviews

Effective date of policy	1st February 2023
Date approved	TBC
Version	1.0
Next review	No later than 31 March 2026

Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

E1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

E2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

E3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64(4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

E4 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustments certificate.

E5 Policy

E5.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years or before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

E5.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

E5.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

E5.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

E5.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

E6 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix F – Policy on prepayment of contributions

Effective date of policy	1st February 2023
Date approved	TBC
Version	1.0
Next review	No later than 31 March 2026

Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

F1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

F2 Background

In recent years, some LGPS employers have requested to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

F3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 9 – outlines the contribution rates payable by active members

F4 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the fund over the period of prepayment. The rate of discount rate will be confirmed by the fund actuary.
- The fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

F5 Policy

F5.1 Eligibility and periods covered

The fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, the prepayment of contributions is only appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

F5.2 Request and timing

Prior to making any prepayment, employers are required to inform the fund in writing of their wish to prepay employer contributions and to request details of the amount required by the fund to meet the scheduled future contribution.

This request should be received by the fund no later than 2 months of the start of the period for which the prepayment is in respect of.

The fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made prior to the beginning of the appropriate R&A period.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

F5.3 Calculation

The fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section F5.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the fund actuary's estimation of payroll for the prepayment period.

F5.4 Sufficiency check

Where contributions expressed as a percentage of pay are being prepaid, the fund actuary will carry out an **annual** assessment to check that sufficient contributions have been paid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of the employer's active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer. It may however be used to offset against any future top-up payments required. This will be at the discretion of the administering authority.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

F5.5 Documentation and auditor approval

The fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The fund will not accept any responsibility for the accounting implications of any prepayment agreement.

F5.6 Costs

Employers entering into a prepayment agreement may be required to meet the cost of administering such an arrangement, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

F5.7 Risks

Employers enter into prepayment agreements on the expectation that the fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a lower return than that which can be generated by the employer. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the fund actuary at the next triennial valuation (as per the normal course of events).

F6 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

Appendix G – Policy on academy funding

Effective date of policy	1st February 2023
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Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

G1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

G2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the fund's discretion, however guidance on how the fund will apply this discretion is set out within this policy.

G3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

G4 Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding council, MATs and individual academies.
- Where the academy is part of a MAT that participates in the fund, the academy's assets and liabilities will be calculated individually but will, for the purposes of setting contribution rates, be combined with those of the other academies in the MAT.

- academies must consult with the fund prior to carrying out any outsourcing activity.
- the fund will generally not consider receiving additional academies into the fund as part of a consolidation exercise.

G5 Policies

G5.1 Admission to the fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion
New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate
The contribution rate payable by the new academy will depend on whether the academy is part of a multi-academy trust (MAT) that already participates in the fund.

Academy status	Contribution rate payable
Single academy trust	• Based on academy's membership and funding strategy set out in section 2 of the FSS OR • Rate equal to the average academy rate for the fund (details below)
Part of an existing MAT	As per the MAT's certified rate (subject to any necessary adjustment – see G5.2 below)

The average academy rate for the fund is

- 2023/24: 22.5% of pay
- 2024/25: 22.5% of pay
- 2025/26: 22.5% of pay

G5.2 Multi-academy trusts

Asset tracking
The Fund's current policy is to individually track the asset shares of each academy within the fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate.

Contribution rate
Typically, the fund will calculate a contribution for the MAT pool (which is effectively an average rate of all the underlying individual academies in the MAT). This pooled rate will then be paid by all academies within the MAT.

If an academy is joining an existing pooled MAT (within the fund), in general, the transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the fund, a new contribution rate may be calculated by the fund actuary to allow for impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

G5.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will usually pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation.

Alternatively, as set out in the fund's contribution review policy in Appendix E and as per Regulation 64 A (1)(b)(iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

G5.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity. No cessation assessment or payment will be required.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in G5.2 above.
- In all other circumstances a cessation valuation will occur as set out in section 7 of the FSS and, following payment of any cessation debt or settlement of any exit credit, section 7.5 of the FSS would then apply going forward.

G5.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund.

Where a direction has been granted the fund does not generally accept academy consolidations into the fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

G5.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions and pass-through policy.

In all cases, it is necessary for the academy (or MAT) to seek approval from Department for Education/Education and Skills Funding Agency before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members). The fund requires proof of the DfE/ESFA's approval before it admits the new contractor to the fund.

Where a local authority school outsources to another organisation and subsequently converts to an academy (or joins a MAT), any outsourced contracts at the point of conversion will be treated by the fund as having been let by the academy. The obligation to pay for transferring members benefits will revert to the academy (or MAT) at the end of the contract. The terms of the admission agreement and contribution rate payable by the outsourced body may be affected in this instance. In particular, if the academy (or MAT) cannot obtain approval from the Department for Education/Education and Skills Funding Agency to provide a guarantee to the Fund for the outsourcing, it is likely a bond will be required and the contribution rate will be reassessed. In such instances, the Fund would not be willing to agree to a pass-through (as defined in Appendix H) admission agreement.

G5.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

G6 Related Policies

The fund's approach to admitting new academies into the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?". Other policies that apply are the:

- Contribution review policy (Appendix E)
- Bulk transfer policy (Appendix I)
- Cessation policy (Appendix J)

Appendix H – Policy on pass-through

Effective date of policy	1st February 2023
Date approved	TBC
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Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

H1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors / admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors / admission bodies into the fund.

H2 Background

Employees outsourced from local authorities, police authorities or from academy schools (regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the academy school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

H3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

H4 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- Pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, police authorities, and academy schools ("the letting authority").
- The contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's primary contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be required from the fund to the contractor (or letting authority).
- The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- Pass-through will only be applicable for outsourcings from academies where they can evidence that approval to act as guarantor has been sought from and approved by the Department for Education/Education and Skills Funding Agency
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

H5 Policy and process

H5.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority must always be notified that an outsourcing has taken place, regardless of the number of members involved.

H5.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate, and not affected by the (generally more volatile) changes in past service funding level.

H5.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and that no cessation debt or exit credit is payable to or from the fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is agreed between the letting authority and the contractor, and typically is as follows:

Risks	**Letting authority**	**Contractor/ Admitted body**
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *		✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	

Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

** These elements would be picked up at the next triennial valuation, if the contractor is still active in the fund at that time, and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

H5.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

H5.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority (but is under no obligation to accept the request).

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

H5.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing should be aware of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in section H5.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and - its legal advisors.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

H5.7 Costs

The letting authority will be required to meet the costs associated with administering the implementation of a pass-through admission agreement, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

H6 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 7 – What happens when an employer leaves the fund?"

Other policies that apply are the:

- Cessation policy (Appendix J)

Appendix I – Policy on bulk transfers

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Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

I1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repaying? this; and
- Bulk transfers received by the fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

I2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

I3 Guidance and regulatory framework

I3.1 Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.

- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.

- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.

- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

I3.2 Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and

- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

I3.3 Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

I3.4 Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), and who are not subject to the requirements of the Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

I4 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
    - the use of cessation assumptions where unsecured liabilities are being left behind;
    - where a subset of an employer's membership is transferring (in or out), the fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
    - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increases in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

I5 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the Administering Authority's associated policies.

I5.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring:** CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's). **All members transferring (i.e. all actives, deferred and pensioners):** Receive all assets attributable to the membership within the transferring scheme.	The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Pension credits will be awarded to the transferring members on a day-for-day basis.
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached: **Actives only transferring (i.e. remaining members left behind):** CETV in accordance with GAD guidance using the Fund's actual returns for roll-up to date of payment (rather than the interest applied for standard CETV's). **All actives transferring (i.e. deferred and pensioner members left behind):** Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's low-risk exit assumptions. The residual assets will then be transferred to the receiving scheme.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement. Discretion exists to amend this to reflect specific circumstances of the situation.

		All members transferring (i.e. all actives, deferred and pensioners): Transfer all assets attributable to the membership to the receiving scheme.	

I5.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

I5.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

I6 Practicalities and process

I6.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

I6.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in funding, for example where the deterioration in funding is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

I6.3 Consent

Where required within the Regulations, for any bulk transfer the administering authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

I6.4 Approval process

The fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.

I6.5 Non-negotiable

It should be noted that, as far as possible, the fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

I6.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

I7 Related Policies

None

Appendix J – Policy on cessations

Effective date of policy	1st February 2023
Date approved	TBC
Version	1.0
Next review	No later than 31 March 2026

Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in section J5).

J1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

J2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

J3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:

a) Notify its intention to make a determination to-
    (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.

- Regulation 64 (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
    a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
    b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
    c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
    d) Any other relevant factors

- Regulation 64 (2A) & (2B) – the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.

- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

J4 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section J5.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

J5 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see section J5.2 below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see section J5.3 below).

J5.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police	Low risk basis[1]	Shared between other fund employers
Colleges	Low risk basis	Shared between other fund employers

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Academies[2]	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis / contractor exit basis[3]	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis[4]	Shared between other fund employers (if no guarantor exists)

[1] Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2] Further details about academy cessations are set out in the fund's policy on academies (see Appendix G).

[3] Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

[4] Typically, the fund will not levy a cessation exit payment on Parish or Town Councils (if in deficit). Given this approach, the fund would not pay out an exit credit if such an employer was in surplus at cessation.

J5.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge. The rate of interest will be set by the administering authority having taken advice from the fund actuary.
- The fund will only consider written requests within 28 days of the employer receiving confirmation of the amount of exit payment due. The exiting employer would be required to provide the fund with detailed financial information to support its request.

- The fund would take into account the amount of any security offered and seek actuarial, covenant and/or legal advice in all cases.
- The fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing (including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and/or legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.

- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

J5.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme (Amendment) Regulations 2020].

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the administering authority made by the exiting employer, guarantor, ceding scheme employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. No exit credit will normally be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.

ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.

iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the administering authority, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

J6 Practicalities and process

J6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (as much notice as possible is required and at least 3 months notice is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

J6.2 Responsibilities of the administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
    - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
    - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
    - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

J6.3 Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

J6.4 Responsibilities of the fund actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

J7 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

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Agenda Item 6

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Agenda Item 7

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Agenda Item 9

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