Cambridgeshire
Pension Fund

Funding strategy statement

West Northamptonshire Council

Cambridgeshire County Council

Administered in partnership

Contents

1. Welcome to Cambridgeshire Pension Fund's Funding strategy statement

This document sets out the Funding strategy statement (FSS) for Cambridgeshire Pension Fund.

The Cambridgeshire Pension Fund is administered by Cambridgeshire County Council, known as the administering authority. Cambridgeshire County Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 31 March 2023.

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

1.1 What is the Cambridgeshire Pension Fund?

The Cambridgeshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at 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.

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.

Designated 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 here.

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 statement 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 Cambridgeshire 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 total contributions are calculated and set by the Fund actuary and are expressed in two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – any adjustment to the primary contribution rate (such as additional contributions to repair any deficits)

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 (as detailed in Appendix D). 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

Contribution rate calculation for individual pooled employers

Type of employer	Local authorities, police, fire	Colleges & universities	Academies	CABs – individual open to new entrants	CABs – individual closed to new entrants	Designated employers – individual & pooled	TABs* (all)
Funding target **	Ongoing	Ongoing	Ongoing	Ongoing	Low risk exit basis	Ongoing but may move to low risk exit basis	Ongoing assuming fixed term contract in the Fund
Minimum likelihood of success	70%	75%	70%	80%	50%	70%	55% (however can depend on outstanding contract term)
Maximum time zone horizon	20 years	15 years	20 years	15 or 10 years (with or without a guarantor respectively	Average future working lifetime	15 years	Outstanding contract term (or average future working lifetime if less)
Primary rate approach^	See footnote below	See footnote below	See footnote below	See footnote below	See footnote below	See footnote below	See footnote below
Secondary rate	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	% of payroll	Monetary amount
Stabilised contribution rate?	Yes	No	Yes	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over 15 years	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority	Reduce contributions by spreading the surplus over 15 years	Reduce contributions by spreading the surplus over the time horizon
Maximum phasing of contribution changes	Covered by stabilisation arrangement	3 years	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years (for time horizon if less)

* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority. The Fund's policy on pass-through arrangements is currently being updated and will be available in due course.

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

^ 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.

2.3 Making contributions 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 keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Current stabilisation approach

Type of employer	Councils, police	Academies
Base contribution rate	Actual 2022/23 rate shown in rates and adjustments certificate	Maximum rate of 26%
2023/24 rate*	Varies for individual stabilised employers and pools**	27%
Maximum contribution increase per year	+2% of pay**	+1% of pay***
Maximum contribution decrease per year	-2% of pay**	-1% of pay***

*Where total contribution rate levels remain the same over 22/23 and 23/24, the split in total contribution rate between primary and secondary elements is likely to change from 1 April 2023 compared to the split during the 2022/23 year, this is due to the recalculation of primary rates, in accordance with LGPS Regulatory requirements.

**The contribution rate modelling exercise carried out in 2022 for stabilised employers has determined the total maximum and minimum contribution changes permitted for each affected employer (and hence the total contribution rates to apply from 1 April 2023) and has been discussed with each affected employer.

***Any reduction in total contribution rate is limited such that the total contribution rate is no lower than the primary rate calculated for that particular academy. Where an academy's total contribution rate exceeds the base contribution rate shown above, the academy has the option to pay the base rate in each of the years instead.

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

The administering authority has a policy of aiming to secure the stabilised rates for two years (as opposed to one year) after each future valuation date, to provide sufficient advance notice to such employers regarding possible changes in their contribution rates. This is subject to conditions not making it unsafe to do so.

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 currently being updated and will be available in due course.

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 Funding 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.

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.

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 based on their own Funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Resolution bodies** – sharing experience for contribution rate purposes to smooth the effects of costly but rare events like deaths in service.
- **Locally Maintained Schools** – generally pool with their Funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority decision

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 outcomes such as 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. However, in general, this is most appropriate for the Fund's large, secure employers with stable active membership.

Further details are set out in the Fund's prepayment policy which is currently being updated and will be available in due course.

3. What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on no 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 in line with guidance issued by the Government Actuary's Department and the Fund-specific actuarial factors which are 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:

Major employing bodies and academies	- up to 3 years
CABs and designating employers	- up to 3 years
TABs	- payable immediately.

3.2 Pension costs – early retirement on ill health grounds

If a member retires early because of ill-health, this gives rise to a Funding strain, which may be a large sum.

The Fund operates cost-sharing to spread ill-heath early retirement strain costs across all active employers.

When a member retires on ill-health early retirement, the strain cost is spread across active employers in proportion to their active membership numbers. The retiring member's employer's asset share is credited with the strain cost amount.

The details of the Fund's policy are currently being updated and will be available in due course

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.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

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.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

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 contribution 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 join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Newly established academies do not transfer active members from a locally maintained 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 new academy's contribution rate (where not joining an existing MAT) is based on the current Funding strategy (set out in section 2) and the transferring membership. However, as an alternative, academies can opt to pay the stabilised rate of contributions as set out in section 2.3.

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 currently being updated and will be available in due course.

5.3 New admission bodies as a result 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.

There is flexibility for outsourcing when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement. However, in general, the Funding arrangements are set up as one of the following two options:

i) Pass-through admissions

The Fund offers flexibility in the way that letting employers can deal with the pension risk associated with contractors. Further information is set out within the Fund's pass-through policy which is currently being updated and will be available in due course.

(ii) Other admissions

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs. New contractors will then 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.

5.4 Other new employers

There may be other circumstances that lead to a new admission or designating 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 are usually town and parish councils. Where this is the case, contribution rates will be set using the same approach as other designated employers in the Fund.

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.

The Fund's Admission bodies, scheme employers and bulk transfer policy is available here.

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

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

- where an entire employer is transferring, the Fund will pay bulk transfers equal to the asset share of the transferring employer, regardless of whether the value of the liabilities of the transferring members is higher or lower than the asset share
- 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 Fund's Admission bodies, scheme employers and bulk transfer policy is available here.

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 agreement obligations 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

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in section 7.3). 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 a cessation?

When an employer ceases, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities of the exiting employer to determine whether a deficit or surplus exists.

When an employer ceases participation in the Fund with no guarantor, the LGPS Regulations suggest that any future deficit arising should be met via increased contributions from all other employers in the fund. The administering authority therefore must protect the interests of the remaining Fund employers when an employer ceases. The actuary aims to protect remaining employers from the risk of future loss within the cessation valuation. For example the Funding target adopted for the cessation calculation is below. There is further information in Appendix D and the cessation policy.

However, when carrying out the cessation valuation, the administering authority recognises the balance between protecting the fund and the potential for being overly prudent. In addition, the fund acknowledges the long-term and uncertain nature of pension funding. Therefore, for those employers exiting the Fund with no guarantor, when considering the amount of assets a ceasing employer must leave behind in the Fund to pay for its members' benefits, the fund will consider an upper and lower amount (or "corridor"). In other words, an employer will be deemed to have a deficit if the assets are below the lower amount and a surplus if the assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employers assets fall within the "corridor").

When a TAB ceases participation in the fund with a guarantee from another Scheme employer, when considering the amount of assets a ceasing employer must leave behind in the Fund to pay for its member's benefits, the Fund will use the same approach to calculate the liabilities (and hence initial assets) as used on entry to the Fund.

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 actuary charges a fee for cessation valuations and there may be other cessation expenses. 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.

The Fund's Cessations policy is available here.

7.3 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 debt spreading arrangement
- deferred to a later date based on market conditions at that time, if an exiting employer enters into a deferred debt arrangement: it stays in the Fund and pays contributions until the cessation debt can be fully paid. Payments are reassessed at each formal valuation.

The Fund's Cessations policy is available here.

7.4 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 will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis at the formal valuation
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 at the formal valuation.

7.5 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities then an exit credit may be payable – the administering authority can decide how much (if anything) 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 Cessations policy is available here.

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-efficient 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 invitation to attend an open employers' forum. The administering authority should consult on actual Funding policy and methodologies, before preparing and issuing a draft. The draft should include an estimate of the impact of any variations from the previous Funding strategy.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Emailed to participating employers and employee and pensioner representatives
- Published on the Fund's website here
- Copies are freely available on request

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 amendments will be consulted on, agreed by the Pensions 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 Statement of investment principles, 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 here.

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, governance, covenant and climate risks.

A summary of the key Fund-specific risks and controls is set out below. For more details, please see the Fund's risk register.

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole Fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the Funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in bonds may also help to mitigate this risk. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery	Consider phasing to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.
Fund assets don't deliver the anticipated returns due to climate change	This is addressed via the Fund's risk register; further information can be found here

C3 Demographic risks

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund actuary's experience and access to over 50 LGPS Funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non-ill-health retirements following each individual decision. The Fund operates cost-sharing to spread ill-heath early retirement strain costs across all active employers.
Reductions in payroll cause insufficient deficit recovery payments.	Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

C5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards.

Risk	Control
	The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored, and steps are taken if active membership decreases.
An employer ceases to exist with insufficient Funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a Funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 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.

C7 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the Funding strategy. The Fund included climate scenario stress testing in the contribution modelling exercise for the Council 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.

Further changes on how the Fund manages climate risks is set out in the Fund's climate action plan here.

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.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (Medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt yield (RPI)	17 year govt bond
10 Years	16th %ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-0.6%	-0.1%	2.4%	-1.7%	1.1%
	50th %ile	1.8%	0.2%	1.1%	5.7%	5.6%	4.4%	1.6%	4.1%	-0.5%	2.5%
	84th %ile	2.9%	2.4%	2.4%	11.6%	11.7%	9.5%	3.2%	5.7%	0.7%	4.3%
20 Years	16th %ile	1.0%	-1.5%	0.7%	1.7%	1.5%	1.4%	1.1%	1.6%	-0.7%	1.3%
	50th %ile	2.4%	0.1%	1.5%	6.2%	6.1%	5.0%	2.1%	3.1%	1.0%	3.2%
	84th %ile	4.0%	1.9%	2.2%	10.6%	10.8%	8.9%	3.2%	4.7%	2.7%	5.7%
40 Years	16th %ile	1.2%	-0.3%	1.5%	3.2%	3.1%	2.6%	2.0%	1.1%	-0.6%	1.1%
	50th %ile	2.9%	1.2%	2.3%	6.7%	6.5%	5.5%	3.1%	2.4%	1.3%	3.3%
	84th %ile	4.9%	3.1%	3.5%	10.2%	10.2%	8.8%	4.4%	3.9%	3.2%	6.1%
Volatility	**(5 yr)**	2%	7%	6%	18%	19%	15%	7%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate (for setting contribution rates)

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 employers approaching exit	2.0%
Low-risk exit basis	Employers approaching cessation (See D5 – below)	TBC%

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

For the purpose of calculating the ongoing Funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 70% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.2% applies. This is based on a there being a 70% likelihood that the Fund's assets will achieve future investment returns of 4.2% over the 20 years following the 2022 valuation date.

If an employer is Funded on the low risk exit basis, a lower discount rate may apply – see section D5 below.

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 0.5% 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 recently 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. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% 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 FT & PT	Withdrawals FT	Withdrawals PT	Ill-health tier 1 FT	Ill-health tier 1 PT	Ill-health tier 2 FT	Ill-health tier 2 PT
20	105	0.17	525.60	1000.00	0.00	0.00	0.00	0.00
25	117	0.17	347.18	724.98	0.00	0.00	0.00	0.00
30	131	0.20	246.33	514.31	0.00	0.00	0.00	0.00
35	144	0.24	192.46	401.80	0.10	0.07	0.02	0.01
40	150	0.41	154.95	323.39	0.16	0.12	0.03	0.02
45	157	0.68	145.55	303.70	0.35	0.27	0.07	0.05
50	162	1.09	119.98	250.06	0.90	0.68	0.23	0.17
55	162	1.70	94.48	197.01	3.54	2.65	0.51	0.38
60	162	3.06	84.21	175.52	6.23	4.67	0.44	0.33

Females **Incidence per 1000 active members per year**

Age	Salary scale	Death before retirement FT & PT	Withdrawals FT	Withdrawals PT	Ill-health tier 1 FT	Ill-health tier 1 PT	Ill-health tier 2 FT	Ill-health tier 2 PT
20	105	0.10	475.77	677.69	0.00	0.00	0.00	0.00
25	117	0.10	320.14	455.94	0.10	0.07	0.02	0.01
30	131	0.14	268.35	382.14	0.13	0.10	0.03	0.02
35	144	0.24	231.61	329.70	0.26	0.19	0.05	0.04

Age	Salary scale	Death before retirement FT & PT	Withdrawals FT	Withdrawals PT	Ill-health tier 1 FT	Ill-health tier 1 PT	Ill-health tier 2 FT	Ill-health tier 2 PT
40	150	0.38	192.77	274.31	0.39	0.29	0.08	0.06
45	157	0.62	179.89	255.94	0.52	0.39	0.10	0.08
50	162	0.90	151.66	215.54	0.97	0.73	0.24	0.18
55	162	1.19	113.17	161.00	3.59	2.69	0.52	0.39
60	162	1.52	91.20	129.59	5.71	4.28	0.54	0.40

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

The financial assumptions underlying the exit basis are explained below:

- The discount rate used for calculating the exit position will be lower, on a low-risk basis than the ongoing Funding basis, specifically additional prudence will be applied to the assumption. This will be applied via a higher likelihood that the Fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.
- 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
- When the "corridor" approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. As above, these two values will be based on the likelihood of the fund's assets achieving certain future investment returns over the 20 years.