

# Funding Strategy Statement

Cardiff and Vale of Glamorgan Pension Fund  
December 2025

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# Purpose of the Fund and the FSS

## Introduction

This is the Funding Strategy Statement (FSS) of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

It has been prepared by Cardiff Council (the Administering Authority) in collaboration with the Fund Actuary, Aon Solutions UK Limited, and after consultation with officers, Committee members and the Fund's employers and is effective from the date of issue of this statement.

The FSS has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and the guidance jointly produced by the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and Ministry of Housing, Communities and Local Government (MHCLG). In addition, the Administering Authority has had regard to the Investment Strategy Statement (ISS), the supplementary statutory guidance issued by MHCLG: "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements", and has also considered the Scheme Advisory Board's "Guide to Employer Flexibilities".

A summary of the roles and responsibilities of the key parties is included as Appendix 6 to this document.

A glossary of terms is included as Appendix 7 to this document.

If you have any queries on the contents of this FSS or require a paper copy of the document, please contact:

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## **Well-being of Future Generations (Wales) Act 2015**

The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations under the Act of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

## Aims and objectives of the FSS

The purpose of the Fund is to collect and invest monies in respect of contributions, transfer values and investment income, and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

The Administering Authority has a fiduciary duty to act in the best interests of the pension fund members and the participating employers. This means the Administering Authority will act in line with relevant legal requirements and make delegated decisions rationally and reasonably, taking into account all affected parties.

The main purpose of the FSS is to document the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS, its focus should at all times be on those actions which are in the best long-term interests of the Fund.

Benefits payable under the Fund are set out in the Regulations. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The aims of the Fund in relation to the funding strategy include:

#### **Solvency and long term cost efficiency**

Securing solvency and long term cost efficiency is a regulatory requirement.

The Fund's solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers.

We set out detail of how the Fund meets these requirements in the section "Key Funding Principles".

The Fund's compliance with these requirements is assessed and reported following each Actuarial Valuation through the Government Actuary's Department independent review of the Actuarial Valuation outcomes and approach under Section 13 of the Public Service Pensions Act.

#### **Management of liabilities and payment of benefits**

The Administering Authority recognises the need to ensure that sufficient funds are available to meet all benefits (including pensions, transfer values, costs, charges and other expenses) as they fall due for payment. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a regular basis to ensure that all cash requirements can be met.

#### **Management of employer liabilities and stability of employer contributions**

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- regular monitoring of the funding position and the outlook for employers' contributions
- appropriate segregation of employers for funding purposes

The Administering Authority aims to manage employers' liabilities effectively through regular review of contributions at triennial Actuarial Valuations and additional contributions for early retirement. At such reviews, regard will be had to the desirability of maintaining stability of employer contributions, subject to the Administering Authority not taking undue risks, and at reasonable cost to the taxpayers and employers.

#### **Link to investment strategy**

The Fund seeks to maximise the returns from investments within reasonable risk parameters.

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice, and is set out in the Investment Strategy Statement (ISS).

### **Risk profile of the Fund**

The Administering Authority takes a risk-based approach to valuing the liabilities, which considers the liability and asset risk when setting the funding assumptions and employer contribution rates.

The Administering Authority considers employer risk by monitoring employer covenant, and allowing for different types of employers when setting funding targets.

This is explained in more detail in the Key Funding Principles section of this FSS.

### **Integrated funding framework**

The FSS together with the Fund's investment strategy and employer covenant monitoring framework ensure an integrated approach to funding strategy and risk management supporting the Fund in meeting the Regulatory funding requirements.

The Fund's governance framework and decision-making processes are set out in the

[Governance Policy Statement](#). The Pensions Committee is responsible for setting the funding strategy as set out in the FSS. Other responsibilities relating to the implementation of the strategy, including ensuring the Actuarial Valuation is completed within the required timescales and in line with the Regulations, are delegated to the officers.

## **Monitoring and review of the FSS**

The Administering Authority undertook its latest substantive review of this FSS in August 2025.

The Administering Authority plans to formally review this FSS as part of each triennial Actuarial Valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will also consider a review of the FSS if it determines that circumstances have changed such that this is appropriate, taking into account the implications for the funding strategy and for meeting the liabilities of employers. Circumstances which might lead to such a review include:

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

If such a review of the FSS were to take place, the Administering Authority will consider:

- the implications for the funding strategy for meeting liabilities of individual employers, and
- any amendments required to the ISS or other Fund documents as a result.

**Employer engagement**

The Administering Authority will consult with employers when proposing to update the FSS. Employers will generally be given at least 28 days to respond to the consultation.

When the FSS is updated, the Administering Authority will also communicate with any individual (or groups of) employers specifically impacted by any changes and in particular will reference any impact on employers on entry or exit from the Fund or in response to change in risk.

The Administering Authority will respond to any employers who provide feedback or comments on FSS consultations, including informing them how/whether their comments have been incorporated into the revised FSS.

# Key Funding Principles

## Funding target

In order to satisfy the regulatory requirement to secure the solvency and long term cost efficiency of the Fund, employer contributions are set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficit. The regulations require that an Actuarial Valuation exercise is carried out every 3 years, in order to set employer contributions.

The funding target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The Fund is deemed to be fully funded when the assets held are equal to 100% of the funding target / liabilities. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficit. The funding level is the assets divided by the funding target / liabilities.

The Fund needs to balance investment returns achieved on the Fund's assets and setting Employer contributions at an appropriate level. Employers' contributions will be set to ensure that 100% of the funding target / liabilities can be met over the long-term using appropriate actuarial assumptions. When setting the assumptions consideration will be given to the returns on the Fund's assets, and the characteristics and circumstances of the employers, including the maturity and potential period to exit if applicable. In setting contributions, the Administering Authority will also have regard to the desirability of maintaining as nearly constant a primary rate as possible.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100% (where the assets are equal to the funding target / liabilities).

## Risk based funding target

The Fund uses a risk-based funding strategy to calculate the funding target / liabilities for most employers, where the Actuarial Valuation is carried out on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk-based approach:

- what the **solvency target** should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the **trajectory period** (how quickly the Administering Authority wants the Fund to get there), and
- the **probability of funding success** (how likely the Administering Authority wants it to be now that the Fund will achieve the Solvency Target by the end of the Trajectory Period).

These three decisions, supported by risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Information about the assumptions used in the calculation of the funding target / liabilities is set out in the section "Main actuarial assumptions".

### Solvency target

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions.

### Trajectory period

The Trajectory Period in relation to an employer is the period between the Actuarial Valuation date and the date on which solvency is targeted to be achieved. The Fund adopts a trajectory period of 25 years as a suitable long-term period.

### **Probability of funding success**

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the trajectory period, has achieved the solvency target. The probability of funding success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

The Administering Authority will not permit contributions to be set following an Actuarial Valuation that have an unacceptably low chance of achieving the solvency target at the end of the relevant trajectory period.

### **Other funding targets**

Details of how funding targets for other employers are derived is set out below in the “Main actuarial assumptions” section.

### **Subsumed liabilities**

If another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficit in respect of the liabilities of an employer exiting the fund, the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer).

Subsumed liabilities will be assessed using actuarial assumptions used for the funding target of the accepting employer.

### **Orphaned liabilities**

Liabilities of former employers in the fund who did not have a subsumption commitment from another employer in the fund are known as orphaned liabilities. Detail of how orphaned liabilities are funded is set out below in the “Main actuarial assumptions” section.

## **Managing risk**

The Administering Authority has an active risk management programme in place. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework. The measures that the Administering Authority has in place to control key risks are summarised in Appendix 1 under the following headings:

- economic
- investment;
- demographic;
- climate risk
- liquidity/maturity
- regulatory/compliance;
- employer data quality
- governance
- orphan liabilities
- employer covenant
- cyber security risk

## **Main actuarial assumptions**

### **Financial assumptions**

The key financial assumptions are the discount rate and the pension increase/revaluation assumption.

### **Pension and pay increase assumptions**

The Scheme provides increases in line with increases in the Consumer Prices Index on the majority of pensions paid. The pension increase assumption is generally set by reference to the Fund Actuary's best estimate of Consumer Prices Index inflation over the long term. The pay increase assumption can then be derived from the CPI assumption, with the pay increase assumption being set as CPI plus 1.0% at the 2025 Actuarial Valuation.

### **Discount rate**

The discount rate, or future investment return assumption, depends on the Funding Target used. The Funding Target used is determined by the type of employer in the Fund, the way any exit valuations will be carried out, and the employer risk/covenant. This is achieved by using different principles to derive the Solvency and Funding Targets for different employers in the Fund, as set out below.

- **Scheduled Bodies and certain other employers of sound covenant**, and those employers with a subsumption guarantee from such an employer: The assumption is based on indefinite investment in a broad range of assets, with reference to the Fund's strategic asset allocation as set out in the ISS. The assumption recognises the need for prudence, and is set such that there is an 82% Probability of Funding Success. The Funding Target for such employers is called the Scheduled and Subsumption Body Funding Target.
- **Admission Bodies**, and certain other employers whose participation is limited: For Admission Bodies and other employers whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the discount rate would be set as for secure scheduled bodies for the period before contributing members are assumed to leave service. For the period after leaving service (or the period contributing members are assumed to have left service), investment in a portfolio of UK Government bonds will normally be assumed and the investment return assumption will be based on the expected yields on those bonds. The Funding Target for such employers is called the Ongoing Orphan Funding Target.
- **Already orphaned liabilities**: For liabilities in respect of former employers in the Fund, for which no individual employer is responsible for funding, the discount rate/investment return assumption will be based on the expected yields on UK Government bonds. The Funding Target for such liabilities is called the Low Risk Funding Target.

### **Demographic assumptions**

Demographic assumptions relate to membership movements or decisions leading to benefit payments or ending of benefit payments, for example rates of mortality, ill health, turnover of staff, marital statistics and promotional increases in pay. How long members and their dependants are assumed to live after retirement (post-retirement mortality) is the key demographic assumption.

The demographic assumptions are reviewed by the Fund Actuary and updated once every three years in agreement with the Administering Authority. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical, desirable or cost effective to set demographic assumptions at an employer specific level.

The post-retirement mortality assumption is set with reference to the Fund's own data on deaths, national mortality statistics, and the experience of other pension funds, including using members' postcodes to allocate them to different socioeconomic groups.

Where practical, the other demographic assumptions are also informed by the actual experience of the Fund's membership. Where this is not practical, other demographic assumptions are set by reference to national statistics and/or a larger sample of pension schemes with similar socio-economic profiles as LGPS members.

The assumptions used in the last valuation are set out in the Actuarial Valuation report: [Cardiff - 2022 actuarial valuation report FINAL](#)

### **Asset shares notionally allocated to employers**

In order to establish contribution rates for individual employers or groups of employers the Fund Actuary notionally subdivides the Fund assets between the employers/groups, as if each employer/group had its own notional asset share within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The notional asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below.

In general, no allowance is made for the timing of contributions and cashflows for each year are assumed to be made halfway through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous Actuarial Valuation.
- Allowance for any known material internal transfers in the Fund, as cashflows will not exist for these transfers. The Fund Actuary will assume an estimated cashflow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department, unless some other approach has been agreed.
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund.
- An overall adjustment to ensure the notional assets attributed to each employer are equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In exceptional circumstances, information available will not allow for such cashflow calculations. In such circumstances another method will be agreed to calculate the notional asset share.

### **Attribution of investment income**

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

For already orphaned liabilities, to the extent that the Administering Authority decides not to match these liabilities with asset holdings of UK Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employers' notional assets.

### **Grouping or pooling and risk sharing arrangements**

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low-cost approach to spreading the risk.

In some circumstances it may be desirable to group or pool a number of similar employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

- reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund, or
- small outsourcings where the outsourcing employer wishes the service provider / contractor to be given either the same contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

The Administering Authority recognises that grouping/pooling of employers can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each Actuarial Valuation and to notify each employer that is grouped that this is the case, and that grouping/pooling of employers will only occur with the consent of the employers involved.

Details of the groups / pools, the participants at the date of writing this Statement and the way they operate are set out in Appendix 5.

## **Risk sharing / Passthrough**

Risk sharing/passthrough pooling arrangements will be permitted at the discretion of the relevant Scheme Employer and the Administering Authority. The terms of the risk sharing arrangement will be set out in a separate agreement between the employers involved.

With a risk sharing/passthrough pooling arrangement, typically the admission body will pay a fixed contribution rate throughout the contract / participation in the Fund, or pay the contribution rate of the relevant Scheme Employer (which would then be subject to change at each actuarial valuation), and the relevant Scheme Employer would then bear the risk of any deficit (or surplus) emerging during the contract / participation period. Upon eventual exit of the admission body, generally any deficit or surplus would be passed onto the relevant Scheme Employer.

In these cases an employer will be generally be admitted to a Scheme Employer's funding pool (a "Pool") with the liabilities of the Admission Body being allocated to the Pool. No notional asset share will be determined for the employer. Contributions for employers within a Pool will be calculated using appropriate methods and assumptions, considering the circumstances of the employers participating in a Pool in aggregate, in accordance with the principles set out within this Statement.

## **Guarantors**

### **Guarantees from employers participating in the Fund**

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable.

- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may subsume the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action may be to change the funding target for the employer, which could lead to reduced contribution requirements.

### **Guarantees from relevant public bodies and others**

Some employers in the Fund have guarantees from external public bodies.

Guarantees from external bodies will be assessed individually by the Administering Authority, with advice from the Fund Actuary and having received specialist covenant advice if appropriate, to determine the impact on the funding approach for the relevant employers.

## **Link to Investment Strategy Statement**

Funding and investment strategy are closely linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

The Administering Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Investment Strategy Statement (ISS) published under Regulation 7 of the Investment Regulations and the funding policy set out in this FSS.

Funding is defined as the making of advance provision to meet the cost of accruing benefit promises. Members' contributions are set by the Regulations at a rate which covers only part of the cost of accruing benefits. Investment income meets a further part of the cost. Employers pay the balance of the cost of delivering the benefits to the members. Decisions regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made, and if investment returns or income are lower than expected, then higher employer contributions may be needed.

The investment strategy should therefore take account of the liability profile and funding position. The discount rate is calculated based on the strategic asset allocation, and so it is important to consider the consequent changes in funding position and solvency objective when setting investment strategy.

Equally, the funding strategy allows for the investment strategy when setting the discount rate (which is based on expected investment returns on the Fund's long-term investment strategy).

The 2025 Actuarial Valuation is based on the following high-level strategic asset allocation:

<b>Main asset classes</b>	<b>Strategic allocation (used for 2025 valuation)</b>
UK Equities	4.2%
Global Equities	45.8%
Global Government Bonds	8.0%
Global Credit	7.0%
Multi Asset Credit	5.0%
UK Property	5.0%
Global Property	2.5%
Private Equity	7.5%
Private Credit	7.5%
Infrastructure	7.5%

The Administering Authority will examine ways of providing individual employers, at their request and at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities. The implementation of a bespoke investment policy for an individual employer, or group of employers, will be at the Administering Authority's discretion.

The Administering Authority will continue to monitor the suitability of the investment policy in light of the Fund's developing liabilities and finances. The Administering Authority will continue to review the FSS and the ISS to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

See the [Investment Strategy Statement](#) for more information.

## Setting employer contributions

As part of each Actuarial Valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between Actuarial Valuations as permitted by Regulations 64(4) and 64A. Further details of the Administering Authority's policy in relation to reviewing contributions are set out in Appendix 2.

Employer contribution rates are set using the same Funding Target assumptions as for the liabilities.

Employer contributions are made up of primary and secondary contributions, which together make up the total contributions for each employer. The employer contributions are specified in the rates and adjustments certificate included with each Actuarial Valuation, and/or in any updates to the certificate between Actuarial Valuations.

The Actuarial Valuation report also shows a weighted average contribution rate based on the whole Fund payroll; both the average percentage rates payable and a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

### Primary contributions

For open employers (i.e. those who still admit new members) the Projected Unit method is used in the Actuarial Valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the primary contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period, over and above members' own contributions.

For employers who no longer admit new members (closed employers), the Attained Age valuation method is normally used. This means that the primary contribution rate is derived as the average cost of benefits accruing to members (over and above their own contributions) over the period until they die, leave the Fund or retire.

### Secondary contributions

Where an employer has a surplus or a deficit, a positive or negative adjustment to the primary contribution rate is needed to arrive at the total contributions each employer is required to pay (this requirement is modified where a "surplus buffer", as described in the section on Removal of surplus, is in operation). This adjustment is called the secondary contribution. The secondary rate may be expressed as a lump sum payment or as a percentage of payroll.

### Recovery Periods

The recovery period is the time period over which the secondary contribution is payable.

The recovery period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority, and having regard to representations from the employer where appropriate, taking into consideration the following:

- The aim to keep employer contribution rates stable
- The need to maintain solvency, which is consistent with a desire to set deficit recovery periods as short as possible
- The covenant of the employer, and any guarantee or subsumption agreement from another employer in the Fund
- The expected period of participation in the Fund of the employer
- Representations received from the employer and any Scheme Employer or guarantor
- The risk associated with adopting a recovery period for recovery of deficit (rather than requiring immediate payment), which increases as longer deficit recovery periods are chosen. The risk is that, by adopting this approach, relatively little action is taken to restore full funding between Actuarial Valuations.

In particular:

- The Administering Authority has agreed with the Fund Actuary a maximum deficit recovery period of 20 years for employers which are assessed by the Administering Authority as being a long-term secure employer.
- The Administering Authority's policy is to agree Recovery Periods to recover any deficit with each employer which are typically shorter where possible within this framework. At the 2025 Actuarial Valuation, the default deficit recovery period is 14 years.
- Where there is a deficit for employers over successive valuations, the aim will be to set the recovery period in successive valuations so that the existing deficit continues to target the same date of recovery, whilst new emerging deficits are recovered as set out in this section, and balancing this with the desire for stability in employer contribution.
- The Administering Authority and Fund Actuary would be unlikely to agree to a Recovery Period longer than the remaining term of participation.
- For employers that are closed to new entrants and do not have a fixed term of participation, the recovery period will generally be set to be the future working lifetime of the remaining active members.
- For any employers that have entered into a deferred debt agreement, the recovery period will generally be set equal to the remaining period of the deferred debt agreement.

### **Removal of surplus**

Consistent with a desire to keep employer contribution rates as stable as possible, and the requirement to maintain solvency for the Fund, the surplus allowed for in the calculation of the secondary contribution shall generally only apply to surplus in respect of an employer funding level above a certain threshold or "surplus buffer", which will be 110% at the 2025 valuation. The Administering Authority will generally review this threshold level every three years in conjunction with the actuarial valuation and may amend the threshold or disapply this element of the strategy if it considers it appropriate to do so, having regard to the overall desirability of stability of contributions, and balancing fairness to participating employers and funding risks.

The period over which any surplus is removed will generally be set in line with the Recovery Periods section above.

### **Phasing in of contribution rates**

Consistent with a desire to keep employer contribution rates as stable as possible, the Administering Authority will consider, at each Actuarial Valuation, whether new contribution

rates should be payable immediately, or reached by a series of steps over future years (this could be an increase or decrease in employer contribution rates).

The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that for employers increasing their contributions, generally no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps or unequal steps may be permitted at the Administering Authority's discretion, but the total number of steps is unlikely to exceed six steps. Where contributions are being stepped down, no limit will be set to phasing in contribution rates.

### **Fund maturity**

To protect the Fund, and individual employers, from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require monetary secondary contributions from employers in respect of any disclosed funding deficit.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficit may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring monetary contributions rather than percentages of payroll.

Where an employer is assessed to be in surplus and total contributions are to be set below the primary rate this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount (subject to a minimum overall contribution rate of zero).

### **Grouped/Pooled employers**

The assets and liabilities for employers will allow for any assets and liabilities the employer has agreed to subsume relating to employers who have exited or have been taken over / merged as a result of reorganisation. This will include employers who have exited and had a subsumption guarantee from another employer.

Where employers are grouped or pooled for funding purposes, employer contributions will be set allowing for the grouping/pooling. Details of the groups / pools, the participants at the date of writing this Statement and the way they operate are set out in Appendix 5.

### **Passthrough/risk shared employers**

Where a risk sharing arrangement is in place, employers should refer to the wording of their specific arrangement.

### **Additional contributions**

Employers will have to pay additional contributions to the Fund when granting additional member benefits:

- Awards of additional pension
- Retirement before normal retirement age on unreduced benefits (e.g. on redundancy), commonly called "strain costs"

### **Conflicts of interest**

The Administering Authority has a clear and transparent process for identifying, assessing and managing potential conflicts of interest set out in their conflicts of interest policy [\[redacted\]](#). In relation to funding, the following measures are in place:

- Maintenance of a log of interests and declarations of Committee members in key meetings
- The Committee agreeing high-level principles of funding strategy, and actuarial assumptions which apply to all employers, rather than making decisions on individual employer rates. The Fund Actuary will calculate resulting employer rates based on those high-level decisions around risk appetite and objectives
- The actuarial team advising the Fund does not provide actuarial advice to participating employers, with agreed conflict of interest protocols
- The Fund Actuary is subject to professional standards which requires them to only certify contribution rates which are sufficiently prudent and in line with the Regulatory requirements
- There is central oversight of the valuation process and whether it meets the requirements of solvency and long-term cost efficiency from the Government Actuary's Department review under Section 13 of the Public Service Pensions Act.

## Monitoring employer covenant

The Administering Authority monitors employer risk/covenant.

- For tax raising bodies, covenant is taken to be high
- For other employers, a risk assessment is carried out as set out below
- For employers with a guarantee or subsumption commitment from another employer in the Fund, the covenant of the guarantor is considered.

### Employer risk assessment

The Administering Authority assesses employer risk in advance of each triennial Actuarial Valuation. This consists of looking at various metrics such as the type of employer, funding sources, any guarantees, and the expected length of participation.

For some employers, a more detailed risk or covenant assessment may be considered appropriate. In such cases, the Administering Authority will request advice from a covenant specialist.

## Link to Administration Strategy

Employers must comply with the Fund's administration strategy [Pension-Administration-Strategy-FINAL.docx](#), and have regard to other relevant policies published on the Fund's website.

In particular, employers should note that it is important to provide accurate and timely data to the Administering Authority, so that the funding strategy can be implemented correctly.

The Administering Authority expects all employers in the Fund to take into consideration the effect of their behaviours on the Fund, for example when considering:

- Discretions policies
- Outsourcing decisions

All employers need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, or other decisions which will or may materially affect the employer's Fund membership.

Employers considering outsourcing any services should advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

# Employer events

## Joining the Fund

Some employers are entitled to join the Fund under Schedule 2 of the LGPS 2013 Regulations. Other employers may apply to the Administering Authority for admission, and if admitted they will become an Admission Body in the Fund.

### Initial notional asset transfer

When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. The Fund Actuary will calculate the funding target and hence the notional asset transfer at the new employer's commencement date.

When a new Admission Body starts in the Fund, they will usually start as fully funded (i.e. the notional asset transfer is set equal to the funding target). This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

Another option for the initial notional asset transfer is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. This approach would normally apply to new Scheduled Bodies.

Where an employer has a passthrough arrangement, no initial asset transfer occurs as the original employer retains responsibility for funding the past service pension liabilities in respect of the transferring members.

## Employer contributions

### Initial contribution rate

When a new employer joins the Fund, the Fund Actuary determines the initial employer contribution rate payable from the new employer's commencement date. When setting the employer contribution rate the following elements will be taken into consideration:

- Any past service or inherited liabilities.
- Whether the new employer is open or closed to new entrants.
- For Admission Bodies, whether the admission agreement is fixed term or not, and the period of any fixed term contract period.
- Whether they are joining an existing employer group / pool
- Other relevant circumstances.

### Review of contributions

The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers and may be increased or reduced.

The Administering Authority also monitors the position and may amend contributions between triennial Actuarial Valuations as permitted by Regulations 64(4) and 64A. The Fund's policy on contribution reviews is set out in Appendix 2.

### Contributions for grouped/pooled employers

Where an employer is joining a group or pool of employers, they will be set a contribution rate in line with the rate the other members of the group/pool are paying.

## Bonds and other securitisation

Schedule 2 Part 3 Paragraph 6 of the Regulations creates a requirement for a new admission body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of a body admitted under Schedule 2 Part 3 Paragraph 1(d)(i) of the Regulations) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of admission bodies admitted under Schedule 2 Part 3 Paragraph 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists to protect the relevant Scheme Employer on default of the admission body. As such, it is the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.
- In the case of admission bodies admitted under Schedule 2 Part 3 Paragraph 1(e) of the Regulations, or under Paragraph 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- Where the employer is admitted under a passthrough arrangement, no bond is generally required, as long as both the Fund and the relevant Scheme Employer agree that it is not required.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

## Exit of an employer from the Fund

Where an employer exits the Fund, an exit valuation will be carried out by the Fund Actuary in accordance with Regulation 64.

The Funding Target used for the exit valuation will depend on the circumstances on exit and/or the type of employer exiting the Fund.

The exit valuation may reveal either a surplus or a deficit, and how these are dealt with is set out below.

Further detail is set out in Appendix 3.

## Exit payments

Where the exit valuation reveals a deficit, the exiting employer will be expected to make good the funding position revealed in the exit valuation.

The Administering Authority's policy is that generally any deficit that exists at exit of an employer will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 4.

## Exit credits

Where the exit valuation discloses a surplus in the Fund in respect of the exiting employer, an exit credit may be due to the employer.

As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the Fund as an admission body, any guarantor, Scheme Employer or subsuming employer where applicable, of:

- The fact that the exit valuation shows a surplus;
- That the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer
- To request that each party provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

The Administering Authority will then make a determination of the amount of the exit credit (if any) payable to the exiting employer.

More detail on the exit credit process is set out in Appendix 3.

## Deferred Employers

In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer.

For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Further details of the Administering Authority's policy for deferred debt agreements are set out in Appendix 4.

## Suspension notices

Regulation 64(2A) permits the suspension of the requirement to carry out an exit valuation for a period of up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice.

Whilst under a suspension notice, the employer must continue to pay any certified secondary contributions as if it were an ongoing employer. The Fund Actuary will recalculate contributions

due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the employer will be treated as an exiting employer as at the date the suspension notice expires.

### **Partial terminations**

A partial termination occurs where an employer exits the Fund in respect of non-active members only. In general, the Administering Authority does not permit partial terminations. Any requests from employers will be considered on a case-by-case basis.

### **Bulk transfers**

A bulk transfer occurs when more than 2 or more members transfer to another registered pension scheme under Regulation 98, or where 10 or more members transfer to or from another LGPS fund under Regulation 103(3).

The steps that are normally involved in a bulk transfer are as follows:

- The actuaries of the two funds/schemes agree the membership and data of the members transferring.
- The actuary of the original fund/scheme proposes a basis for a transfer payment, usually set out in an “actuary’s letter”. Where this is under Regulation 98, this will also cover the service credits to be granted.
- The actuaries of the two funds/schemes, together with the funds and the relevant employers, negotiate and agree the final basis for the transfer payment, and a final actuary’s letter is produced and signed.
- Example calculations are carried out and agreed between the actuaries.
- A payment date is agreed, and final payment is made.

# Appendix 1: Key Risks

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible.

The Administering Authority has an active risk management programme in place. The Administering Authority will ensure that funding risks are included within their risk register as appropriate. The risks most likely to impact on the funding strategy and measures that the Administering Authority has in place to control those risks are summarised below.

## Economic risk

Economic risks can affect both assets and liabilities.

The main risks affecting the liabilities include interest rates and price inflation. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

Interest rates, inflation, and wider macro-economic risks can also affect the assets held. In addition, the assets may not be affected in the same way as the liabilities. Investment risk is covered in more detail below.

If significant funding changes become apparent between Actuarial Valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review.

## Investment risk

This covers items such as the performance of financial markets and the Fund's investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority invests a substantial proportion of the Fund in assets which are expected to offer higher long-term rates of return on average, but can be more volatile. This short-term volatility in returns can result in volatility in funding positions and employer contributions.

The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, as set out in the ISS.

Producing low volatility in employer contributions would require material investment in “matching” assets for the liabilities, i.e. investing in very secure assets that behave in a similar way to the liabilities as economic conditions alter (e.g. long-dated index-linked gilt investments). However, a matched strategy could increase employer contributions from their current levels.

The Fund Actuary sets the discount rate by taking into account expected returns and volatility of each asset class in the long-term investment strategy. This can help mitigate the risk in that movements in asset values typically impact expected returns on those asset classes, and liabilities should move in a similar way to the assets, helping to manage the impact on the funding position.

The Administering Authority or the Asset Pool reviews each investment manager’s performance regularly. The Administering Authority also regularly considers the asset allocation of the Fund annually by carrying out an asset allocation review. The Administering Authority also regularly reviews the effect of market movements on the Fund’s overall funding position.

### **Demographic risk**

The main demographic risks that may affect the liabilities include life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each Actuarial Valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions used to calculate the liabilities to allow for observed or anticipated changes.

If significant liability changes become apparent between Actuarial Valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next Actuarial Valuation and consider whether any bonds in place for Admission Bodies require review.

Where it appears likely to the Administering Authority that for an employer the amount of the liabilities arising or likely to arise has changed significantly since the last Actuarial Valuation, the Administering Authority may consider revising an employer’s contributions as permitted by Regulation 64A in line with the Administering Authority’s policy.

### **Climate risk**

The systemic risks posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities for investors. The Administering Authority keeps the effect of climate change on future investment returns under review and will commission advice from the Fund Actuary on the potential effect on funding as required.

The impact on financial markets and life expectancy / morbidity will also impact the value placed on the liabilities, which can also significantly change the funding level and any surplus or deficit, and the resulting employer contributions.

At the 2022 Actuarial Valuation the Fund Actuary carried out scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period, and similar analysis will be carried out at the 2025 Actuarial Valuation. The analysis carried out will be in line with the key principles document agreed by the actuarial firms providing advice to LGPS funds and approved by the Government Actuary’s Department, the Ministry for Housing, Communities and Local Government and the England and Wales LGPS Scheme Advisory Board.

### **Liquidity and maturity risk**

Changes to the LGPS may impact upon the maturity profile of the Fund and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the Fund
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The Fund recognises that permitting the funding target to be achieved over a period (the recovery period) rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

The Fund's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 20 years.

For closed employers the Recovery Period will only be permitted to exceed the future working lifetime of the active members as calculated by the Fund Actuary in exceptional circumstances. This limits the exposure of the Fund to potential adverse consequences which can arise due to increasing volatility of contribution requirements for the closed employer as membership declines.

### Regulatory/compliance risk

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

There are a number of uncertainties associated with the benefit structure at the time this FSS was last updated, in particular:

- The outcome of the cost management process as at 31 March 2024.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. At the time of writing this statement, draft Regulations (The Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2025) are under consultation and include changes to reflect the ruling.
- The impact of the McCloud underpin to 2014-2022 pensions for those who joined the LGPS before 1 April 2012, particularly where full data is not yet available.
- The court judgement in Virgin Media v NTL Pensions Trustees may have some implications for the LGPS.

In determining how these uncertainties should be allowed for in employer contributions the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

For the purposes of the 2025 Actuarial Valuation, an appropriate allowance will be made in respect of the McCloud remedy based on data provided in respect of individual members.

An approximate allowance will also be made for the purposes of the 2025 Actuarial Valuation to allow for the potential additional liabilities arising from the Goodwin case.

### **Employer data quality risk**

Actuarial calculations such as triennial Actuarial Valuations, employer contribution rates, and exit valuations, rely on accurate data being supplied.

Where data quality is low, there is a risk that these calculations are not as accurate, which could lead to employer contributions and/or exit payments being set too high or too low.

The Fund Actuary carries out data validation to assess the quality of the data in advance of each triennial Actuarial Valuation. Where required, the Fund Actuary and the Administering Authority will agree an approach for data that is not of the highest quality. For example, this may take the form of estimating missing data items from other available items of data.

### **Governance risk**

This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large-scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between the Administering Authority and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

### **Orphaned liability risk**

This risk arises from the risk of employers leaving the Fund and leaving orphaned liabilities. In addition there is also a risk that deficits might arise in respect of already orphaned liabilities.

Funding targets are set to target the assumed exit position, to reduce the risk of deficits arising on exit.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficit arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficit. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally UK Government fixed interest and index linked bonds.

### **Employer covenant risk**

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities where employers are unable to meet their obligations to the Fund.

The Fund has a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer and other pension fund stakeholders.

The Administering Authority monitors employer payments and expects employers to engage with the Fund where their circumstances have changed, noting that contributions can be reviewed between triennial Actuarial Valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy as set out in Appendix 2 are met.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the FSS.

The Administering Authority monitors employer covenant as set out earlier in the FSS.

## Cyber Security risk

Cyber attacks are a threat to the data held and systems operated by the Administering Authority and key external partners, including the Fund Actuary and software providers. Funding could be impacted by a loss of assets, or indirectly if a loss of data makes liability calculations more difficult or uncertain.

The systems operated by the Administering Authority form part of those of the wider council. The Administering Authority works closely with the council IT team to ensure robust systems and safeguards are in place to mitigate the risks of a successful cyber attack. The Administering Authority also ensures that cyber security is addressed through service contracts with relevant third parties where appropriate, and engages with key external partners to ensure they have appropriate cyber security safeguards.

## Appendix 2: Employer contribution reviews

The Regulations require a triennial actuarial valuation of the Fund. As part of each actuarial valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise 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 the Scheme employer or employers to meet the obligations of employers in the Scheme;
- it appears likely to the Administering Authority the Scheme employer will become an exiting employer; or
- the Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example due to the restructuring of an employer, a significant outsourcing or transfer of staff, the loss of a significant contract, closure to new entrants, material redundancies, significant pay awards, or other significant changes to the membership due to ill-health retirements or voluntary withdrawals;
- the materiality of any change in the employer's membership or liabilities, taking account of the Fund Actuary's view of how this might affect its funding position, primary or secondary contribution rate;
- whether, having taken advice from the Fund Actuary, the Administering Authority believes a change in funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund;
- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund;
- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pension Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time.

For an employer where contributions may be reviewed under Regulation 64(4), the following circumstances may trigger a review, which may be informal as well as a full interim valuation (this is not intended to be a comprehensive list):

- a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies, the relevant scheme employer;

- a material change in circumstances, such as the date of exit becoming known, the employer closing the scheme to new entrants, material membership movements or material financial information coming to light.

For an employer whose participation is expected to cease within the next 3 years, the Administering Authority will monitor developments and may request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies which may lead to a revised contribution schedule for the employer.

Where contributions are being reviewed for an employer with links to another employer in the Fund, particularly where this is a formal organisational or contractual link, e.g. a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk and impact of the contribution review on those other employer(s), taking advice from the Fund actuary as required.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related employers with a view to seeking their agreement to this approach.

In many cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

In any event, in all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related employer in the Fund and the proximity to the next formal valuation.

The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also consider the timing of contribution changes following the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12-month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate as part of the valuation.

Where the request for a review comes from the employer, before submitting their request, the employer should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. In addition, employers should adhere to the notifiable events framework as set out in the Pension Administration Strategy. Employers should be aware that all advisory fees, including actuarial, legal and any other costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

## Appendix 3: Employer exits

Where an employer exits the Fund, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In certain cases, the Administering Authority may be prepared to agree payment over a period of time as permitted under Regulation 64B. The Administering Authority's policy in relation to spreading of exit debt is set out in Appendix 4.

When calculating the liabilities in the Fund in respect of the exiting employer, an increase will be applied to these liabilities to allow for the potential increase in benefits due to the McCloud judgement and any other benefit uncertainties, as advised by the Fund Actuary.

### Grouped/pooled employers

Employers that participate in a group/pool and exit the Fund, cease to participate in that group/pool.

Where an exit valuation is carried out for an employer that participates in a group/pool, the Fund Actuary would identify the notional asset share for the employer at the last Actuarial Valuation, and calculate the funding position of the employer at the exit date as though they left the group/pool at the date of the last valuation.

### Exit Credits

Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months of the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.

In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

- (a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus);
- (b) the proportion of the surplus which has arisen because of the value of the employer's contributions;
- (c) any representations 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, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place. It should be noted that this is not an exhaustive list.

In particular the Administering Authority will not generally pay an exit credit larger than the total of the exiting employer's contributions paid into the Fund, less any costs incurred by the Administering Authority in relation to the exit.

## Appeals

Any appeal against the Administering Authority's decision regarding exit credits must be made in writing to the Pensions Manager within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

- deviation from the published policy or process by the Administering Authority, or
- any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

# Appendix 4: Policy on spreading of exit payments and deferred debt agreements

## Spreading of exit payments

The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment. However, the Administering Authority may allow phased exit payments as permitted under Regulation 64B.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage with the employer to consider its application and determine whether spreading the exit payment is appropriate and the terms which should apply.

In determining whether to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be up to 3 years but longer periods may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that this may not be possible until after the employer has exited the Fund. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternatively, monthly payments may be required, or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period, the annual payments due, any other costs payable including actuarial and legal costs and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been

denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

The Administering Authority will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pension Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

### **Deferred debt agreements (DDAs)**

Under Regulation 64(7A) of the Regulations, an administering authority may enter into a written agreement with an exiting employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate.

The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- The materiality of the employer and any exit deficit in terms of the Fund as a whole;
- The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser;
- The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit;
- Whether an up-front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply. As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. It is expected that DDAs will be monitored on an annual basis unless circumstances dictate otherwise. Monitoring may be more frequent as the end of the period of the DDA approaches.

The matters which the Administering Authority will reflect in the DDA include:

- An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;
- A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;
- A provision that the DDA will terminate on the first date on which one of the following events occurs-
  - the deferred employer enrolls new active members;
  - the period specified, or as varied, elapses;
  - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
  - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
  - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.
- The responsibilities of the deferred employer;
- The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund;
- Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred 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; and
- Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. All fees

must be paid up front and cannot be added to any secondary contributions payable under the DDA.

It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pension Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

## Appendix 5: Groups / Pooling

Where employers participate in a specific group (set out below), all funding risks are shared between employers in the group. Employers in each group/pool pay a single contribution rate.

There are two main groups of small employers in the Fund pooled together for funding and contribution purposes.

### 1. The Town and Community Councils Group.

Currently all the employers participating within the group pay the same percentage of pay contribution rate.

### 2. The Colleges Group.

Currently the employers participating within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions. If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

In addition, there are a number of service providers or other employers pooled with either Cardiff Council or Vale of Glamorgan Council for contractual or commercial reasons.

Full details of the groups / pools, the participants at the date of writing this Statement and the way they operate is set out below.

#### Town and Community Councils Group

The active participants of the Group, at the date of writing this Statement, are:

- Cowbridge Town Council
- Llantwit Major Town Council
- Penarth Town Council
- Barry Town Council
- Radyr & Morganstown Community Council
- Lisvane Community Council
- Wenvoe Community Council
- Penllyn Community Council
- Pentyrch Community Council
- St Fagans Community Council
- Peterston Super Ely Community Council
- Old Mellons Community Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the liabilities of the group:

- Barry Memorial Hall
- Dinas Powys Community Council
- Sully Community Council

Currently the active participants of the group pay the same percentage of pay contribution rate which includes a contribution towards the deficiency or surplus of the group.

If a Town or Community Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer to make an exit payment or receive any exit credit unless the exiting employer has a material impact on other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Similarly, there will not be an expectation that an employer with a suspension notice will make any contributions during the suspension period unless it has a material impact on other employers in the Group.

#### Colleges Group

The active participants, at the date of writing this Statement, are:

- St David Catholic College
- Cardiff and Vale College (including former liabilities relating to Coleg Glan Hafren and Barry College)
- Cardiff Metropolitan University (including former liabilities relating to University of Wales Institute, Cardiff)

The contribution rate is a common primary (future service) contribution rate and a contribution to the group's deficiency expressed as a monetary amount (generally calculated in proportion to the employer's payroll at the valuation date but another approach could be used in the future if the Administering Authority felt it was appropriate). If the Colleges Group is assessed to have a surplus the employers participating within the group will pay the same percentage of pay contribution rate, allowing for the removal of any surplus as appropriate.

If a College or University has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

An exit valuation will be calculated for an exiting employer based on its share of the group's assets (as determined by the Administering Authority based on advice provided by the Fund Actuary).

#### Cardiff Council Pooling Group

The Cardiff Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Cardiff Council
- Former employees of:
  - Cardiff Corporation
  - Cardiff City Council and
  - South Glamorgan County Council (72.37% only)
- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
  - Cardiff Bus
  - Race Equality First
  - Cardiff & Co
  - App Cleaning Limited (St Teilo's School)
  - GLL
  - A&R Cleaning (Lansdowne School)
  - Grangetown Prim Cleaning (App)
  - Circle IT (Eastern High School)
  - Glen Cleaning (Eastern High School)
  - A&R Cleaning (Gabalfa Primary School)
  - A&R Cleaning (Greenway Primary School)

- A&R Cleaning (Trowbridge Primary School)
- A&R Cleaning (Whitchurch Primary School)
- Cardiff Institute for the Blind
- Cardiff Gypsy & Traveller Project
- Supaclean Ltd
- New Theatre Cardiff Limited
- A&R Cleaning (All Saints Primary)
- A&R Cleaning (St Patrick School)
- Compass CS – WHS
- A&R Cleaning (Glan Morfa)
- Aramark Whitchurch
- Aramark Corpus Christie HS

#### Vale of Glamorgan Council Pooling Group

The Vale of Glamorgan Council Group, at the date of writing this Statement, contains liabilities in respect of:

- Current and former employees of Vale of Glamorgan Council
- Former employees of South Glamorgan County Council (27.63% only)
- Employers who have been pooled with as a result of, or subsumed following cessation of, outsourcing of services or restructuring exercises:
  - St Cyres School
  - National Trust
  - Glen Cleaning Barry Comp
  - Glen Cleaning (Llandough Primary)
  - Circle IT (Cowbridge)
  - Glen Cleaning (Gladstone Primary School)
  - A&R Cleaning (High Street School Barry)
  - A&R Cleaning (Ysgol Y Ddraig)
  - A&R Cleaning (Ysgol Gwaun Y Nant)
  - AQS Ysgol Bro Morgannwg
  - A&R Cleaning (Gladstone Primary)
  - Mrs Bucket - Stanwell

#### Sport Wales Pooling Group

The Sport Wales Group, at the date of writing this Statement, contains liabilities in respect of:

- Sport Wales
- Legacy Leisure Plas Menai

## Appendix 6: Roles and responsibilities

The efficient and effective management of the Fund can only be achieved if all parties are aware of and exercise their statutory duties and responsibilities conscientiously and diligently.

The primary parties to the FSS are the Administering Authority, the Fund Actuary and the Employers.

The **Administering Authority (the Fund)** is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- have an escalation policy in situations where employers fail to meet their obligations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the relevant regulations
- ensure that cash is available to meet liabilities as and when they fall due
- ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- manage the Actuarial Valuation process in consultation with the Fund's Actuary
- prepare and maintain an FSS and associated funding policies and ISS, after proper consultation with interested parties
- monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly
- establish a policy around exit payments and payment of exit credits/debits in relation to employer exits, and around revising employer contributions between Actuarial Valuations
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer
- enable the Local Pension Board to review the Actuarial Valuation and FSS review process as set out in their terms of reference
- support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice

The individual **employer** is required to:

- ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- pay all ongoing contributions, including employer contributions determined by the Fund Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date

- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the Administering Authority promptly of all changes to active membership that affect future funding
- pay any exit payments on ceasing participation in the Fund in a timely manner

The **Fund Actuary** should:

- prepare Actuarial Valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions agreed with the Administering Authority and having regard to the FSS and the LGPS Regulations
- provide advice so the Fund can agree the necessary assumptions for the Actuarial Valuation
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- provide advice and exit valuations to the fund so that it can make decisions on the exit of employers from the fund, and assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B
- provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
- assist the fund in assessing whether employer contributions need to be revised between Actuarial Valuations as permitted or required by the LGPS Regulations
- ensure that the fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund
- identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

# Appendix 7: Glossary

## **Actuarial Valuation**

An assessment by the Fund Actuary of the Funding Level of the Fund and recommended employer contributions. The assessment of the Funding Level is based on calculating the Past Service Liabilities and comparing this to the value of the assets held in the Fund. Actuarial Valuations take place every three years (triennial).

## **Administering Authority**

Cardiff Council is the Administering Authority to the Fund.

## **Admission Agreement / Admission Body**

A written agreement which provides for a body to participate in the Fund as a scheme employer. An admission body is an employer admitted to the Fund under an admission agreement.

## **Assumptions**

Assumptions about the future need to be made by the Fund Actuary in order to calculate how much money the Fund needs at the Valuation Date to pay for the benefits that have been earned up to the Valuation Date. These assumptions are estimates of future experience for example, pay growth, longevity of pensioners, inflation, and investment returns.

## **Code of Practice**

The Pensions Regulator's General Code of Practice.

## **Deficit**

If the assets are lower than the liabilities, then a deficit exists. The deficit is the difference between the Past Service Liabilities and the assets.

## **Employer Covenant**

The extent of the employer's legal obligation and financial ability to support its liabilities in the Fund now and in the future.

## **Fund**

The Cardiff and Vale of Glamorgan Pension Fund.

## **Fund Actuary**

An actuary appointed by the Administering Authority to provide advice to the Fund, including carrying out Actuarial Valuations.

## **Funding Level**

The funding level is the value of assets divided by the value of the liabilities.

## **Fund Valuation Date**

The effective date of the triennial fund Actuarial Valuation.

## **Guarantee / guarantor**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor may mean that the fund can consider the employer's covenant to be as strong as its guarantor's.

## **LGPS Regulations**

The statutory regulations setting out the contributions payable to, and the benefits payable from, the Local Government Pension Scheme and how the Funds are to be administered. These

include the Local Government Pension Scheme Regulations 2013 and various transitional regulations.

### **Local Pension Board**

The board established to assist the administering authority as the Scheme Manager for each fund.

### **Long-term cost efficiency**

The notes to the Public Service Pensions Act 2013 state that long-term cost efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

### **Non-statutory guidance**

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents.

### **Notifiable events**

Events which the employer should make the administering authority aware of.

### **Past service liabilities**

This is the cost or present value of the benefits to which members are entitled based on benefits built up to/in payment at the date of calculation, assessed using the agreed assumptions. It generally allows for projected future increases to pay or pension as appropriate through to retirement or date of leaving service.

### **Pensions Committee**

A committee or sub-committee to which an administering authority has delegated its pension function.

### **Pensions Administration Strategy**

A statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.

### **Primary rate of the employers' contribution**

The primary rate for each employer is that employer's future service contribution rate, which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any

employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by the administering authority), the actuarial method chosen and/or the employer's covenant.

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

#### **Rates and adjustments certificate**

A certificate required at each actuarial valuation by the Regulations, setting out the primary and secondary contributions payable by employers for the 3 years from the 1 April that falls in the calendar year following the Fund Valuation Date.

#### **Secondary rate of the employers' contribution**

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the Fund Valuation Date falls. The secondary rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are required to pay is the sum of the primary and secondary rates.

The actuary should also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the Actuarial Valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to show a single rate of contributions expected to be received by the Fund over each of the three years that can be readily compared with other funds and reconciled with actual receipts.

#### **Solvency**

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a Funding Level for the Fund of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of Fund employers, or a material reduction in the capacity of Fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the Fund will be able to pay scheme benefits as they fall due.

#### **Surplus**

If the assets are higher than the Past Service Liabilities, then a surplus exists. The surplus is the difference between the assets and the Past Service Liabilities.