

Scheme Advisory Board

HYBRID MEETING – 25 NOVEMBER 2024

ITEM 11 – PAPER H

COMPLIANCE AND REPORTING COMMITTEE (CRC) Update

Workplan update – summary of workstreams

1. This paper summarises the agreements and the work undertaken by the CRC and its workstream groups since the last Board meeting in July 2024. Following the General Election, the Secretariat briefly paused arranging meetings for ongoing workstreams whilst the new Government's priorities were emerging. This also allowed resources and focus to be placed on completing the Funding Strategy Statement (FSS) guidance.
2. The Board Secretariat wants to thank all volunteers within each CRC workstream for their continued input into each project. In particular, the volunteers from the FSS guidance which has completed its work to update the guidance. This means three guidance documents have been produced from CRC workstreams this year covering; preparing the fund annual report, guidance on the FSS and audit informer document jointly produced with the Institute of Chartered Accountants in England and Wales (ICAEW).
3. This report confirms the position which was set out at the last CRC meeting on the 21 October 2024. At this meeting it was confirmed that both the Annual Report and FSS guidance workstreams are completed and therefore no further meetings will take place at this time. The Secretariat is now prioritising the outcomes of the Knowledge and Skills, Good Governance and Audit workstreams.
4. This paper also proposes that the Board agrees a new workstream to be added to the workplan for the CRC to cover the work required in scoping a new Peer Support Offer, high level details of which are set out in the recently published consultation from the Ministry of Housing, Communities and Local Government (MHCLG) ['LGPS - Fit for the Future'](#).

Audit workstream

5. At the CRC meeting in October, the recommendation made for the separation of pension fund accounts from that of the administering authority's main accounts was discussed. MHCLG officials have previously said it intended to enact this separation once a suitable legislative vehicle was available and there is no reason to think that the change in Government has altered this position. In fact, the King's Speech in July 2024 contained a commitment to bring forward a draft

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Audit Reform and Corporate Governance Bill which would seem to provide a legislative vehicle and the Secretariat believes the Pension Schemes Bill is another option. To highlight that this remains an issue for the scheme, the [Secretariat wrote to the Minister Jim McMahon MP](#) on 12 November 2024 to reconfirm the Board's position.

6. The Board may wish to note that the next audit roundtable meeting is due to take place on 9 December 2024.

Good Governance and Administration workstream

7. In advance of the October CRC meeting, the Secretariat reassessed the Board's original 2021 agreed action plan to check if anything can be taken forward in the absence of a clear Ministerial position (at that time) on the Good Governance project.
8. It was noted by the CRC that the actions set out in the original 2021 action plan as 'SAB immediate actions' were either completed in 2022 or have been partially completed and are awaiting further progress. It was recommended to the CRC that whilst delays continue, the Secretariat would shift the initial focus and resources in the coming months to the knowledge and skills guidance project, updating the Board's Local Pensions Board guidance and developing an LGPS peer support offer by recruiting a new team member.

Funding Strategy Statement (FSS) guidance workstream

9. The Board have received updates in previous meetings on the progress of the FSS workstream which has now reached its conclusion with the new guidance (**Annex A**) ready for Board approval.
10. The new guidance has been shaped using the previous guidance as a template but took into consideration significant feedback from a wider range of perspectives and to reflect the current funding scenarios faced by funds. The guidance received approval at the CRC meeting on 21 October 2024 and at the Chartered Institute of Public Finance and Accountancy (CIPFA) Public Finance Management Board meeting on 7 November 2024.
11. The Board are asked to approve the updated FSS guidance. If approved, MHCLG officials have been asked to obtain Ministerial approval before the end of the year.

Knowledge and Skills workstream

12. Work has progressed within this workstream since the Board last met and at the October 2024 CRC meeting, the Secretariat shared a list of the relevant regulations and guidance covering knowledge and skills for reference. It is acknowledged that guidance on this subject has

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been developed using a piecemeal approach, spread over several documents, sometimes behind a paywall, and therefore not widely accessible for all funds.

13. The last document updated by CIPFA was in 2021, therefore a review of existing documentation is needed to identify content gaps. The CRC agreed for the workstream to commence a review on the changes needed to the existing published guidance documents to create guidance for funds making a Training Policy and for the Secretariat to publish any available data or commentary obtained from fund annual reports in the Scheme Annual Report.

Peer Support Offer workstream (new)

14. The Board is asked to agree that a new CRC workstream is added to the CRC workplan to be discussed at the next committee meeting. If agreed by the Board, a Terms of Reference for this workstream should be drafted for discussion at the CRC meeting in February 2025.
15. The workstream will be tasked with assisting the Secretariat to scope out and develop a LGPS Peer Support Offer. The Secretariat has planned for the expected need to increase its internal resources to input into the development of this offer by creating a new role in the team (Pensions Policy and Support Officer) and have recently undertaken interviews for the post. The successful applicant is set to start within the team on the 2 December 2024.

Recommendations

- **That the Board notes the progress and report made on each of the workstreams set out above.**
- **For the CRC to set up a new workstream to scope out a Peer Support Offer.**
- **For the Board to approve the FSS guidance and recommend to MHCLG that it is submitted for Ministerial approval.**

Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)

[Date to be added]

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Acknowledgements

This guidance has been 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 consultation with funds, industry experts and other interested stakeholders.

The SAB, CIPFA and MHCLG would like to acknowledge the contribution of those involved in the production of this guidance, in particular the members of the Funding Strategy Statement Working Group within the SAB's Compliance and Reporting Committee.

Introduction

1. The Scheme Advisory Board (SAB), CIPFA and the Ministry for Housing, Community and Local Government (MHCLG) has produced this guidance to support a LGPS administering authority (and also referred to in this guidance as 'the fund') in the preparation and maintenance of the funding strategy statement (FSS).
2. Regulation 58 of the Local Government Pension Scheme Regulations 2013 sets out that administering authorities are required to prepare and maintain an FSS. The corresponding regulations in Scotland and Northern Ireland are:

- Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018
- Regulation 64 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

Annex A of this guidance sets out a full list of regulations, statutory and other guidance which funds should review when preparing the FSS.

3. This revised and updated guidance replaces the previous CIPFA Pensions Panel guidance '*Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme*' issued in October 2016 and October 2012.
4. It is recommended that funds follow this guidance to ensure FSS's are published in a consistent manner across the LGPS. It is also recommended that funds follow the general structure and terminology used in this guidance when setting out their individual fund strategy.

Aims of this guidance

5. This guidance is intended to support funds in creation, reviewing or developing an FSS. The main aims for this guidance are:
 - to set out expectation about how the FSS should be developed and reviewed
 - to provide common understanding and terminology between the different stakeholders as to the types of issues which an FSS needs to address and at what times input may be needed from employers and when notifications and/or engagement will need to be provided to employers and those with financial obligations to the Scheme (i.e. guarantors).
 - to identify and provide guidance on the range of scenarios and events a fund and FSS may need to navigate which should be reflected in a robust FSS whilst allowing for local policies, flexibility, and approaches to be taken in the final published fund strategy.
 - to provide a common structure to the content of a FSS to aid consistency, completeness, and ease of access to users, many of whom may interact with more than one LGPS fund

Purpose of a Funding Strategy Statement

6. The LGPS regulations set out the requirement for an administering authority (the fund) to publish an FSS. In preparing the FSS, the fund may seek input from their actuary, or take other professional advice, to prepare the document. However, the FSS must be owned and adopted by the administering authority ('the fund').
7. The FSS plays an integral role in setting out the fund's approach to managing

long-term funding requirements and funding risk in LGPS whilst enabling stability and sustainability for participating scheme employers.

8. The purpose of a FSS is to:
 - establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities will be met going forward.
 - support the desirability of maintaining as constant and stable primary contribution rate as possible, as defined in Regulation 62(5) of the Local Government Pension Scheme (England and Wales) Regulations 2013 and Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018
 - ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund.
 - explain how the fund balances the interests of different employers.
 - explain how the fund deals with conflicts of interest and references other policies/strategies.
9. The following are key principles for the FSS and should be considered when preparing, reviewing, and revising the FSS:

Process

10. The FSS should include a useful description of the fund's specific decision-making processes, governance framework and local fund policy within administering authorities in relation to how they manage employers' pension costs and risks. This includes giving clarity as to the respective roles within the fund and with whom decision-making responsibilities lie.
11. The FSS should clearly set out the process by which employer contributions are set during the actuarial valuation and monitored during other key employer lifecycle events. It should contain sufficient detail on how funding strategy and associated funding risks are managed in respect of all categories of employers.

Objectives

12. The FSS should make clear the fiduciary duty owed by the fund to scheme members, and employers to administer the scheme competently to keep employer contributions at an affordable level. The FSS should demonstrate due consideration of the impact of funding strategy on employer contributions and the role it plays in enabling long term contribution rate stability.
13. It should also outline how the fund will achieve the statutory aims of securing fund solvency and long-term cost efficiency, whilst achieving a balance with the desire to maintain stability in primary employer contribution rates as much as possible.

How will outcomes for the Scheme be assessed?

14. Under Section 13(4)(c) of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) (as the person appointed by the responsible authority) is required to review each fund's valuation report and advise whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

15. Standard information about each fund's approach to solvency of the pension fund and long-term cost efficiency should be provided in a uniform dashboard format in its valuation report to facilitate comparisons between funds. The latest report for the LGPS funds in England and Wales is [available online](#).

Roles

16. Participating employers need to fully understand their obligations and responsibilities to the fund. The FSS should provide information on how and when it will communicate, employer contribution rates and funding risks with scheme employers and other pension fund stakeholders and include those involved in the governance and management of the LGPS at a local and national level. See annex B for a list of roles and responsibilities of key parties to the FSS.

Presentation

17. The FSS should be written in plain English and provide explanations of key terminology and definitions.
18. To preserve the flow and readability of the FSS, any separate policies on specific funding matters referred to in the FSS should be annexes to have all relevant funding information in one place for the reader. However, if including all separate policies as annexes becomes impractical, then these should be clearly signposted within the FSS with the relevant hyperlinks to the external documents. For other fund policies, such as the fund's Risk Register, Investment Strategy Statement/Statement of Investment Principles and the Pension Administration Strategy, the relevant hyperlinks or signposting should be included in the FSS.

Engagement and publication

19. The regulations application in England, Wales, Northern Ireland, and Scotland set out the consultation requirements. A key activity when reviewing and developing the FSS is the communication and engagement activities with the appropriate persons during the consultation period and allowing suitable timescales for all

employers and any other relevant stakeholders (e.g., guarantors) to participate. This section of this guidance provides best practice guidance for funds to consider when undertaking a consultation exercise and best practice engagement principles to ensure all key stakeholders with interest in the FSS are considered.

20. Funds should identify who the key parties are who input to or may have interest in the funding issues of the pension fund and who are key stakeholders to the FSS. When revisions are made to the FSS, an engagement plan should be created on how the fund plans to engage in meaningful dialogue and engage with employers and other parties as appropriate, such as their guarantors. Any specific engagement should also be considered and planned if changes are made to the fund's policy or methodology as to how certain large employers (or groups of employers) are treated. For example, as The Department for Education provides the guarantee for LGPS liabilities in the event of an academy trust closure, funds should consider consulting with the Department for Education on any significant proposed changes to the FSS affecting academies.
21. Process oversight is a key role for the Local Pensions Board in the creation of the FSS and is in line with the duty to assist in the oversight of governance and administration. Practically, this could mean sharing the consultation engagement plan with the Board, so they can input their understanding of how best to engage with the groups they represent.
22. Scheme employers and their guarantors are likely to be the main parties that funds need to engage with, and funds should already maintain accurate and up to date contacts of the main contacts of employers and other interested parties. Funds should ensure they have appropriate permissions and authority to share information, particularly between an employer and guarantor. In preparing the fund's wider engagement plan, funds may wish to consider how the groups of stakeholders will be communicated with during the consultation process, taking into consideration the role and responsibilities of the stakeholder.

FSS consultation principles for funds to consider

- Consultations should be clear and concise, using plain English and avoiding acronyms, where possible. It should be clear what the consultation is asking for views on and the areas which are pre-determined.
 - The FSS consultations should be informative, and consultees need to have enough information to properly understand the issues and sufficient time to prepare informed responses. Ensuring a timetable is widely shared and available in advance, to enable parties to engage at an appropriate time, is recommended.
23. To be meaningful the consultation and any further engagement should provide sufficient detail about:

- The policies adopted within or alongside the FSS, such as policies on employer exits
- How and by when representations should be made back to the fund
- What the next steps in the process will be and how the outcome of the consultation will be communicated.

24. The length of the consultation period and timescale to consider responses should be proportionate and reasonable to the extent of changes being made. Funds should give enough time for consultees to consider the issues before replying. Practically, this could mean if the consultation spans a holiday period, consider how this may affect consultees and if this can be mitigated – particularly in respect of schools and organisations with quarterly governance meeting cycles.

25. The consultation methods chosen should consider the different types of consultees and consider if it would be appropriate to establish or consult through employer forums. Different approaches may be taken for different types or groups of employers, where this is justifiable. Noting that size, structure, resources, and governance structures at participating employers will vary greatly therefore engagement plans should consider any differing approaches with certain employer profiles.

After the consultation process

26. Funds should be able to explain when seeking approval of the FSS how the consultation responses received have been taken account of in the final draft. The fund should consider the effectiveness of the engagement plan for the FSS through measuring the effectiveness of engagement and may wish to survey employers and relevant others on the process.

27. The revised FSS should be completed and approved by the pensions committee (or equivalent) prior to the completion of each actuarial valuation. Once approved, the following forms of publication/dissemination should be considered (this list is not definitive):

- publication via the fund's website and other digital platforms
- link to the document sent to each employer main contact
- add to the agenda for employer or fund annual meetings
- copy to members of the local pension board
- copy to employee/pensioner representatives
- copy to relevant advisers and investment pool
- make hard copy available on request.

28. To be useful and accessible the FSS once completed should contain:

- a contents list (hyperlinked to relevant sections)

- page numbers
- signposting to relevant other policies
- officer/fund contact details for further queries
- relevant date the FSS was agreed and by who
- when the FSS will next be routinely reviewed

29. The FSS should be made available on the fund's website, with hard copies available upon request. When publishing the FSS on a public sector body website, additional steps may be needed to ensure it complies with the relevant accessibility regulations.

Key sections to be included in a Funding Strategy Statement (FSS)

30. It is recommended that funds follow the structure suggested in this guidance. Any connecting policies the fund has should be signposted and linked in the sections in this structure. A checklist is provided at Annex C, to help funds when compiling their FSS covers all the areas that it needs address.

A. Purpose of the fund and the FSS

Aims and objectives of the FSS

31. So that all parties to the FSS share a common understanding, the FSS should set out clearly the aims and purpose of the fund, in the context of fiduciary duty and requirement to pay pension benefits according to the LGPS and wider regulations.

32. In this section, the FSS should cover the main aims and objectives of the fund in relation to long term benefit funding, how these are measured and how risks are managed. It should cover:

- how the fund aims to achieve fund solvency and long-term cost efficiency
- how the fund ensures that benefits can be paid to all members and dependents throughout their retirement
- management of employers' liabilities effectively and ensure that sufficient assets are available to meet all liabilities as they fall due
- how it approaches and takes into account the desirability of activities to enable primary contribution rates to be kept as stable as possible and (subject to the fund not taking undue risks) at reasonable cost to taxpayers
- how the fund approaches and considers the risk profile of the fund and employers
- how the fund aims to develop the FSS in response to employer engagement and range of risk appetite
- how the fund seeks returns on investment within reasonable risk parameters.

Monitoring and review of the FSS

33. As well as being reviewed before the completion of the actuarial valuation, monitoring the FSS in the inter-valuation period or undertaking an annual 'check' may be appropriate. The FSS should clearly set out the circumstances when the fund would review the FSS.

34. Examples of when a review might be appropriate in circumstances are:

- material changes to the scheme benefit structure or regulations (e.g. HM Treasury-led)
- 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
- if there have been significant changes to the fund membership and/or fund maturity profile
- if there have been significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from MHCLG/GAD.

35. In undertaking such reviews, the fund should consider:

- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP) or other key fund documents.
- communicating with the individual (or groups) of employers specifically impacted by any changes and specifically any impact on employers on entry or exit from the fund or in response to change in risk

B. Key funding principles

36. This section of the FSS should explain in principle how the aims and purposes set out in the previous section are to be achieved.

37. This section should provide a framework within which an employer (or other interested body) can understand the fund's approach to achieving its funding targets and how the funding framework is established, set, and monitored.

Funding target

38. Regulations require each fund to secure fund solvency and long-term cost efficiency (see glossary for definitions).
39. The FSS should state that securing the solvency and long-term cost efficiency is a regulatory requirement. The FSS should explain that employer contribution rates are required under regulations to be set by an actuarial valuation exercise. The FSS must set out how it meets the desirability of maintaining as nearly constant a primary rate as possible.
40. The FSS should provide high-level commentary to explain how the fund balances contributions, reliance on investment return and noting that relevant funding periods will vary by maturity and timeframe to exit. It should cover that there may be deficit or surplus periods and how funding may differ according to employer type and circumstances (covenant and outlook for participation).
41. The FSS needs to set out how the fund takes employers profiles into consideration, giving insight and understanding of how their funding outcomes and requirements could change, together with any options the fund may explore with them to aid in managing funding over time and how specific employer types may be categorised for funding purposes.

Managing risk

42. Funding risks should be considered as part of the fund's overarching risk management framework and strategy, contained in their risk register and risk management policy as appropriate. The FSS should only identify and explore in greater depth those risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. The FSS should reference other sources (i.e. the fund's risk register) where recent developments are reported. The funding-specific risks that this should include are:

- Economic
- Investment
- Demographic
- Climate risk*
- Liquidity/Maturity
- Regulatory/compliance
- Employer data quality
- Governance
- Orphan liabilities
- Long – term employer covenant alongside shorter-term affordability

Paragraphs 55 and 56 in this guidance specifically covers employer covenant.

*It is expected that funds will have recognised and considered the funding issues associated with climate change as a material systemic risk and means that funds will need to keep the management and governance of climate risk under review. Funds should set out in the FSS their current approach to assessing the potential impact of climate risk on the funding strategy and outlook. Specifically, the FSS should be clear on the approach to assessing the potential impact of climate risk, how this is used in decision making, risk management and links with other management strategies. This guidance recognises that this is an evolving area, and changes are likely in the regulatory landscape and developing actuarial practice in the future.

When considering funding issues related to climate change, funds should also have regard to the key principles document for preparing climate scenario analysis, which has been drafted by the actuarial firms who act as fund actuary for the LGPS funds and approved by GAD, MHCLG and SAB. The key principles document relating to each actuarial valuation is included in the relevant Section 13 report as published by GAD. The key principles document will be reviewed in advance of every future actuarial valuation. For the latest copy of the key principles, funds should speak with their fund actuary.

43. The FSS should explicitly recognise the funding risks presented by the changing maturity profile of the fund and employers individually also, including its impact on future investment strategy, and bear this in mind when it comes to determining employer contribution rates and funding target.

Main actuarial assumptions

44. A summary of the fund's methodology used to determine and monitor the actuarial assumptions used at the valuation should be provided in the FSS with further detail in an annex or signposted, if appropriate. The methodological approaches and assumptions specified in the FSS should include:

- Financial assumptions (discount rate, inflation, salary growth etc)
- Demographic assumptions (life expectancy, ill health retirements, future dependents benefits etc)
- The methodology by which employer assets are determined and tracked over time
- How high-level employer profile issues are addressed – covenant e.g. risks in relation to types of employer and how the fund has taken into consideration guarantees from relevant public bodies or others
- Actuarial methods for open/closed employers e.g. projected unit method or attained age method
- Approaches to employer pooling and risk sharing arrangements.

Links to the Investment Strategy Statement (ISS) or Statement of Investment Principles (SIP)

45. The FSS must explain that funding and investment strategies are closely linked. It

should set out that after employer and employee contributions, investment returns are the third key pillar of LGPS funding. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy).

46. It should be made clear that if investment returns or income are lower than expected the fund may need to set higher contributions from employers to ensure benefits can be paid. Hence the required investment returns to meet the aspirations set out in the FSS must be compatible with the investment policy as set out in the SIP/ISS, and this should be confirmed and explained in the FSS.
47. In formulating a fund's overall investment strategy, account should be taken of the liability profile and funding position in relation to the liabilities of the fund assessed on an appropriate and prudent basis. The FSS should state the extent to which the solvency objective is embedded in the strategic asset allocation and linked directly to the SIP/ISS, and the risks of different strategies.
48. The FSS should provide information on the development of the FSS and ISS/SIP and how they interlink. If a fund has multiple or segmented investment and/or funding strategies this should be explained. Where these exist, the FSS should focus on how the funding approach applies to types of employers. Full details of the investment strategies would usually be covered in the ISS/SIP not the FSS and the FSS should signpost any other policies in place.
49. The FSS should provide a confirmation of asset classes and allocation from the recent ISS/SIP (signposting the ISS for a full explanation). The FSS should explain how funding requirements have been considered in setting the strategic asset allocation, reflecting appetite for investment risk.

How employer contributions are calculated

50. The FSS must in this section set out the general approach by which:
 - employer contribution rates are calculated
 - groups and specific employer profiles are treated
 - employer covenant has been taken into consideration.
51. In the FSS, funds must explain how their general approach applies to employers or cohorts/types/groups of employers. Parity of treatment is important and means treating like cases alike. However, that does not necessarily mean treating all employers the same, as different employers have different covenant, liability profile and outlook for participation which the fund will need to consider. This is why it is important to explain how a consistent approach has been taken to differing circumstances. The FSS should provide assurance around consistency in process, approach and decision making for employer circumstances.

Primary rate of the employers' contribution

52. The FSS must clearly explain the methodology and process of calculating the primary rate for employers. The primary rate 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 primary rate should also include that employer's share of administration costs and any "insurance" arrangements in place where applicable. The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates – this should be explained in the FSS.
53. The funding strategy adopted (including any risk-sharing arrangements operated by the fund), the actuarial method chosen and how different employers' covenant and guarantor arrangements are considered should be covered in this section.

Secondary rate of the employers' contribution

54. The FSS must set out and explain the fund's approach to setting secondary contributions. The secondary rate is a positive or negative adjustment to the primary rate to arrive at the total rate each employer is required to pay. The secondary rate may be expressed as a lump sum payment or as a percentage of payroll for each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate must be specified in the rates and adjustments certificate. For any employer, the contributions they are required to pay is the sum of the primary and secondary rates.
55. Scheme employers may propose to funds that they accept assets other than cash in lieu of lump sum payments. Where this is the case, funds should take specialist advice, obtain its own independent valuation of the asset, and fully consider the risks, additional complexity and ongoing monitoring and governance obligations that such arrangements require, and carefully balance these against the benefits they may provide. Funds would need to be satisfied that such an arrangement is consistent with the statutory requirement to consider long-term cost efficiency in funding requirements.
56. Funds should assess and manage any conflict of interest between the scheme employer and themselves that may arise, or be perceived to arise, from such an arrangement. Particular caution should be exercised, and separation of decision making must be considered, where the administering authority and the scheme employer proposing this arrangement are the same entity. Administering authorities should also ensure that any such arrangements are compliant with local authority capital requirements, which specify that pension contributions should be met via revenue rather than capital accounts, and the restrictions on employer related investments in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended).

Payment of additional contributions

57. The FSS should set out when employers may need to make other payments to the fund in respect of member benefits, for example in relation to

- awards of additional pension
- strain costs arising from retirement before normal retirement age on unreduced benefits
- strain costs arising from early retirement on ill-health grounds.

58. The FSS should set out when payments need to be paid as a single lump sum, if they can be deferred or rolled into the next valuation, and whether any “insurance” type arrangements are available for death in service or ill health retirements.

Actuarial valuation

59. The regulatory requirement for an actuarial valuation should be explained in the FSS. The FSS must be reviewed formally at least every three years and in advance of the completion of the actuarial valuation with typically the final FSS agreed within 12 months of the valuation date.

60. For employers reading the FSS, it should be explained to aid understanding that the valuation exercise will establish contribution rates for all employers contributing to the fund for the following three years. The FSS should cover a high-level commentary on the typical contents of the fund’s valuation report. For example, the employer contribution rates 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 facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates within the fund and reconciled with actual receipts.

Review of employer contributions between valuations

61. The regulations permit administering authorities to review an employer’s contribution rate where there has been a significant change to the liabilities or covenant value of that employer. Funds may review the contributions of an employer where there has been a significant change to the liabilities of that employer, for example, if there has been a bulk transfer in, or out.

62. An example of a significant change in covenant would include a material change in an employer’s immediate financial strength (evidence should be available to justify such a view). Generally, local authorities and other tax-backed employers are not subject to change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate. Even in the event of a section 114 notice being issued, authorities must honour existing contracts and

meet statutory duties, including paying employer pension contributions. Changes in funding values due to market movements are not of themselves usually sufficient to trigger a review and are best managed through the triennial valuation process.

63. The FSS should set out the fund's approach to reviewing contribution rates between valuations and it is recommended that the FSS should include the fund's policy for contribution reviews and if the fund does allow interim reviews, the FSS (or separate policy) should include explaining the process for reviewing contributions and should give examples of appropriate trigger points and events for such a review. Where the decision is taken not to allow interim contribution reviews under the Employer Contribution Flexibilities then the FSS should state this alongside a rationale for the approach taken.

Fund approach to managing surpluses and deficits

64. The funding position of each fund is different: some have surpluses, some are still experiencing deficits, and some will shift between surplus and deficit positions over time. The funding position of individual employers will also differ and change over time.
65. The FSS should explain the fund's particular response to being in deficit or surplus and recognise that this may differ for groups of employers within a single fund (according to employer type and circumstances). For example, the FSS should explain the approach to setting contribution rates for certain groups of employers in surplus or deficit. There are references in this guidance to deficit recovery and surplus management, but it is understood that other terminology may be used by funds or their actuary. When other terminology is used, so it can be understood by each fund's employers and other interested stakeholders, the definitions must be clearly explained in the FSS.
66. The FSS should enable employers to understand how their funding outcomes and contributions might change over time, together with any tailored options the administering authority may offer to manage these changes over time. The FSS should set out how the costs of tailored approaches might be met and how they fit with their overall risk management approach (covered below). Tailored approaches are more likely to be appropriate where there is a critical mass of employers targeting a particular strategy (e.g. admitted bodies looking to de-risk a path to exit the fund). Funds will need to consider their own circumstances, those of their employers and their members – and be ready to provide a clear justification for their approach.
67. The LGPS regulations allow funds to set secondary contribution rates, which can help deliver contribution stability, and it should be explained that the smoothing of contributions, where fluctuations are caused by market movements, can work both ways – reflecting a fund's deficit or surplus position.

68. Funding time horizons should be set with regard to the level of risk inherent in the funding plan, e.g. take credit for a higher level of future investment returns to smooth contribution increases. Such action should only be taken where it is prudentially appropriate, a proper assessment of the risks has been undertaken and where the use of such an approach is properly disclosed.
69. As with the disclosure requirements on assumptions, funds should be clear on the level of risk inherent in, for example, the length of deficit recovery periods or surplus management assumed in the FSS, and on the circumstances where such an approach would no longer be appropriate.
70. Funds should aim not to continually extend deficit recovery periods at each and subsequent actuarial valuations. Over time and given stable market conditions, funds should aim to maintain the levels of contributions and/or reduce deficit recovery periods whilst balancing the desire for stability in contributions, in particular, for ongoing employers.

Employer covenant

71. The FSS should explain how the fund assesses and keeps employer covenant under review, as appropriate for the employer type. The FSS should clearly set out the risk assessment methodology and criteria by which the fund will assess the long-term financial health of employers, and how this will be monitored. This could mean reviewing the financial position of the employer, including from published documents like annual reports/accounts, audit opinions and relevant regulator's reports. For private sector bodies, it may also be necessary to look at profitability, credit rating and cashflow.
72. The FSS should also set out how the fund assesses covenant risk. For example, how they will use publicly available information, the circumstances when additional information may be requested from the employer, the types of information that may be requested and how such information will be kept up to date. The FSS should also specify the types of event or changes in circumstances that employers will be obliged to notify the fund about. The FSS should also set out the process that applies if there is assessed to be a significant change in covenant.

Guarantors

73. The FSS should outline (where applicable) how specific funding issues in relation to treatment, responsibilities, and interaction with a guarantor are managed during key funding activities. Annex B outlines the key roles and responsibilities of key parties to the FSS, including guarantors. It may be useful for the FSS to clearly reference the specific treatment of employers with or without a guarantor during key funding events.
74. Specifically, the presence of a guarantee and the impact this has on the funding treatment of the employer's covenant in the fund should be outlined in the FSS

for key employer events such as joining, ongoing-monitoring, notifiable events or exiting the fund. Particularly when employers are exiting the fund, the FSS should outline the assumptions used and how it considers the existence of, guarantor type and any other relevant factors in actuarial calculations. The FSS should explain the different guarantor types (e.g. subsuming, guarantor of last resort etc).

75. Under normal circumstances, it is expected that funds would consult with the guarantor on the proposed changes, if they significantly increase the risk of costs provided under the original guarantee.

Admission bodies

76. Under the LGPS regulations, an administering authority must assess the risk a proposed new admission body poses to the fund should the admission body become insolvent or go out of business.
77. After considering the level of risk, the administering authority may decide that the admission body must provide security, such as a guarantee from the letting employer, an indemnity, or a bond. This security must cover some or all the:
- strain costs of any early retirements if employees are made redundant when a contract ends prematurely
 - allowance for the risk of assets performing less well than expected
 - allowance for the risk of liabilities being greater than expected
 - allowance for the possible non-payment of employer and member contributions
 - admission body's existing deficit.
78. Where a fund has adopted a policy setting out its approach to these matters, this should be included in the FSS as an annex or clearly signposted in the FSS.
79. Some scheduled scheme employers may also use "pass-through" arrangements to facilitate the making of an admission agreement with a body which is providing services to it by taking on pension liabilities as part of the underlying commercial agreement between the employer and service provider. It is recommended that funds capture for all new admissions the treatment on termination, so there is no dispute when the time comes for exit. Where a fund has a specific policy in relation to how such pass-through arrangements are treated then this should be included in the FSS, such as clarity on when and how they apply and the employer responsibilities under the arrangement. The FSS should also recognise, where a pass-through arrangement for an Academy trust outsourcing is used, then this is covered by the Department for Education Guarantee.
80. When considering the application of FSS principles to non-local-authority employers such as admission bodies (who have no local tax-raising powers), funds will need to balance carefully:

- the need to set appropriate employer contribution levels, deficit recovery or surplus unwinding periods
- the underlying investment strategy of the assets backing the liabilities of these employers
- the financial standing of those employers (and where applicable, the parent company or any guarantor) and:
 - their ability to meet the cost of current membership
 - their longer-term commitment to fund any deficit, including any potential deficit at exit; and
 - their ability to provide an indemnity or bond
- the short- and long-term effects of unstable contribution rates on the non-local-authority employer in terms of its financial viability.

Links to administration strategy

81. Funds should keep a separate pension administration strategy which outlines the responsibilities, performance and procedures for employers and the fund. The FSS should emphasise the need for compliance with the fund's pension administration strategy and reference any related requirements which, if not adhered to, could have a material effect on the employer's liabilities in the fund. The FSS should mention throughout any events when the fund may consider it appropriate to use updated membership data, the importance of data quality and how it monitors compliance with the regulations. One specific area which may be covered in the FSS, is whether pre-payment of contributions is permitted, and under which circumstances. The appropriate links to the fund's administration strategy should also be provided and referenced.

C. Employer events

82. This section of the FSS should set out the key events which could impact an employer's and the fund's funding circumstances. It should summarise the fund's approach to policy and process for dealing with any possible outcomes from those events. The appropriate signposting to separate policies should be clear in the FSS where these are available or used (i.e. termination policies).

Joining the fund and employer contribution rate setting and monitoring

83. All Scheme employers (as defined under Schedule 2 Part 1 of the LGPS 2013 Regulations) are entitled to join the fund under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Other Scheme Employers (specifically those defined under Schedule 2 Part 2 of the Regulations) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. The FSS should outline the process

and the funding calculations which apply to new employers joining the fund. The FSS should outline how the contribution rate is assessed and calculated and how this applies to certain groups or types of employers (such as Academies, Multi-Academy Trusts, or Admitted Bodies).

84. Some funds operate funding pools/groups for similar types of employers. There are many reasons why funds may choose to do this, such as employer contribution rates can be volatile for smaller employers and/or more sensitive to individual membership changes but also it may help with operational finance and budget/recharging within groups of employers.
85. Where employers are grouped in recognition of them sharing common characteristics (for example, size of membership, closed, similar financing base, etc), the FSS should set out what risks are shared within this group.
86. The FSS should also explain the basis on which such groupings are created and how decisions are taken on participation. For example, whether different employers in a pool maintain their individual funding positions, how these are tracked by the fund actuary and whether individual contribution rates are equalised or variable according to employer funding level. Pooled employers should also be identified in the rates and adjustments certificate. The FSS should also set out how assets are identified in the event of a pooled employer ceasing participation in the pool or fund.

Preparing for exit and events which may trigger termination

87. The FSS should also set out the fund's policy in the annex or clearly signpost to any separate policy on employers leaving the fund and the events which trigger or allow an exit from the fund.
88. While each case needs to be treated on its own merits, funds should include in their FSS a statement of principles to be followed in relation to process and the calculations involved with employer exits. That statement should explain how it intends to balance the interests of the fund, the scheme members, the interests of the exiting employer and the interests of the remaining employers. The FSS should clearly outline the justification and principles which would contribute to decisions around employer exits. Although, the FSS cannot be too prescriptive, the FSS should outline the decision-making process to allow the document to be a practical aid to employers on the decision-making process which is followed. If the fund has a separate policy on exiting, then this should be clearly signposted in the FSS.
89. The FSS should also set out in general terms the termination assumptions basis on which surpluses or deficits will be calculated. Where the fund has a discretion in decisions on the level of exit payment to be paid, the FSS should set out the factors that may be considered and the process to be followed in exercising that discretion. Funds may wish to note that some helpful advice was given in the judgment of the High Court at paragraph 161 in the case of Enterprise Managed

Service Ltd & Anor, R (On the Application Of) v Secretary of State for the Ministry of Housing, Communities and Local Government [2021] EWHC 1436 (Admin) (27 May 2021).

90. Although approaches to exit credits may vary by employer type and case specific factors the FSS should be clear on the decision-making principles and process to be considered. In terms of process, the FSS should state how and when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

Deferred debt agreements or debt spreading arrangements

91. Having regard to the [statutory guidance](#) and [Scheme Advisory Board guidance](#) on these matters, funds should include in their FSS a policy that sets out:
- the circumstances in which it considers it to be appropriate to offer these kinds of arrangements
 - what information needs to be provided by employers wishing to apply for such an arrangement (including any engagement with guarantors)
 - the process by which decisions on applications will be arrived at (ideally giving an indicative timescale for the making of decisions)
 - how any such arrangements will be reviewed and the kinds of circumstances that might lead to their termination (ideally giving examples)
 - how decisions by the administering authority can be discussed and reconsidered
 - how the costs of considering and entering such arrangements will be met.
 - The FSS should also set out if the fund has chosen not to use such arrangements and along with the rationale for that decision.

Suspension notices

92. The FSS should also explain whether and in what circumstances the fund would consider using its discretion under Regulation 64(2A) to issue a suspension notice and suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is likely to take on one or more active members within the period specified in the suspension notice. The FSS should also set out what happens if the conditions in a suspension notice are not met and the circumstances when a suspension notice can be withdrawn.

Partial terminations

93. Some employers may propose “partial termination” to funds. This is where an employer exits the fund for deferred and pensioner members but seeks to remain a participating employer for active members. The objective is to lock in current liability values for deferred and pensioner members but would also mean that there is no recourse to that employer if those estimates prove too low in future

aside from its (much lower) share of the orphan liabilities. If that happens, as with other “orphan liabilities”, the extra costs become the responsibility of all employers in the fund.

94. Funds should satisfy themselves as to whether such an approach is consistent with the regulations and will need to consider whether it would be the most appropriate way to help an employer manage risk, as well as whether it is consistent with the interests of other employers, in the fund. Where a fund is prepared to accept partial terminations (in principle but considered on a case-by-case basis), it should set out clearly the basis on which they will manage this scenario in the FSS, or as a separate policy signposted from the FSS. That policy should explain how such an arrangement protects the interests of the fund, the interests of other employers in the fund. The FSS must state the need for professional actuarial and legal advice in these circumstances and how the costs incurred for this will be met. There should also be full documented consideration of the range of risks, and appropriate due diligence.

Bulk transfers (both to or from the LGPS)

95. The LGPS regulations provide the framework if a fund employer has a bulk transfer of staff, however the FSS should outline the general over-riding principles, processes and responsibilities applied.

ANNEX A - Regulations, statutory guidance, and best practice publications

There are a wide range of regulations and guidance which may be relevant to the administering authority in developing its FSS and considering the context of the diversity of its employer base and the funding and risk sharing arrangements which may exist between employers and the entities which they rely on for financial funding and support.

Regulations

Regulation 58 of the Local Government Pension Scheme Regulations 2013 sets out that administering authorities are required to prepare and maintain an FSS. The corresponding regulations in Scotland and Northern Ireland are:

- Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018
- Regulation 64 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

Statutory guidance

Regulation 58 also sets out in preparing the FSS, the administering authority must have regard to:

- this guidance
- its Investment Strategy Statement or Statement of Investment Principles, whichever is appropriate

Other guidance

- [MHCLG guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments, and Deferred Debt Agreements and](#)
- [SAB's guide to Employer Flexibilities](#)
- [SAB's statement on Surpluses](#)

Best practice

- The modules relevant to the Public Service Pension Schemes in the Pension Regulator's General Code of Practice
- Policy and other documentation issued by the Department for Education (DfE) on local government pension scheme guarantee for academy trusts
- GAD's Section 13 reports
- Any guidance published for actuaries and pension funds which informs consideration of climate change risks

Legal opinions/decisions

- Prepayment of contributions - [QCJGLGPS032022.pdf \(lgpsboard.org\)](#)
- Judgment of the High Court at paragraph 161 in the case of [Enterprise Managed Service Ltd & Anor, R \(On the Application Of\) v Secretary of State for the Ministry of Housing, Communities and Local Government \[2021\] EWHC 1436 \(Admin\) \(27 May 2021\)](#).

Statutory references

Throughout this guidance reference is made to the LGPS Regulations. In the context of the guidance, this term refers to the following legislation (as amended):

- the Public Service Pensions Act 2013
- the Public Service Pensions Act (Northern Ireland) 2014
- the Local Government Pension Scheme Regulations 2013
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- the Local Government Pension Scheme (Scotland) Regulations 2018
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

- the Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2016
- the Local Government Pension Scheme (Governance) (Amendment) Regulations (Northern Ireland) 2015
- the Local Government Pension Scheme (Amendment No 2) Regulations (Northern Ireland) 2015
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000.

ANNEX B - Roles and responsibilities of key parties

The efficient and effective management of the pension fund can only be achieved if all parties are aware of and exercise their statutory duties and responsibilities conscientiously and diligently. Funds should have a pension administration strategy which outlines fully the responsibility, performance and procedures for the employers and the fund. The FSS should only emphasise the requirements set out in the pension administration strategy in relation to funding.

The FSS should clearly set out who the key parties are who input to or may have interest in the funding issues of the pension fund and who are key stakeholders to the FSS.

The primary parties to the FSS are the administering authority, the fund actuary, employers, employing body guarantors, Pensions Committee (or equivalent) and the Local Pensions Board. The FSS should document these specific stakeholder roles in greater detail. Examples have been provided below of the key parties and their roles for the purposes of a FSS, in some situations there may be other parties and roles required therefore the list is non-exhaustive.

Scheme members may have an interest in the FSS, and funds should decide in their engagement plan what communication to provide to them about the FSS. It is recommended that funds have an engagement plan which sets out who it intends to consult with when reviewing the FSS. There are other interested parties when developing the FSS and these could include:

- Department for Education
- Fund advisors
- Government Actuary's Department
- Investment pools
- Minister of Housing, Communities and Local Government (MHCLG)
- Scheme Advisory Board

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 valuation process in consultation with the fund's actuary
- prepare and maintain an FSS and associated funding policies and SIP/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
- 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 valuation and FSS review process and 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 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 timely
- 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 inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality

The fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency based on the assumptions set by the administering authority and having regard to the FSS and the LGPS Regulations
- provide advice so the fund can set the necessary assumptions for the valuation
- prepare advice and calculations in connection with bulk transfers and 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 valuations to the fund so that it can make decisions on the exit of employers from the fund
- 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 valuations as permitted or required by the 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.

Local Pension Boards (LPB):

Local Pension Boards have responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each fund to determine the input into the development of the FSS (as appropriate within fund's own governance arrangements) however this may include:

- Assist with the development and review the FSS
- Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
- Assist with the development of and review communications in relation to the FSS.

Employer guarantors (list non-exhaustive)

- Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.

- Department for the Environment, Food and Rural Affairs
- Other bodies with a financial interest (outsourcing employers)

ANNEX C - Funding Strategy Statement (FSS) Checklist

To assist with the development of the FSS, funds are strongly encouraged to follow the structure and terminology within this guidance. The below checklist has been created as a short, high-level summary of the themes covered in this guidance, but the main contents of this guidance should be reviewed as it provides the fuller detail of what to include in each section of a FSS.

Section A - Purpose of the fund and the FSS

Aims and objectives of the FSS

So that all parties to the FSS share a common understanding, the FSS should set out clearly the aims and purpose of the fund, in the context of fiduciary duty and requirement to pay pension benefits according to the LGPS and wider regulations

Aims and objectives of the fund in relation to long term benefit funding, how these are measured and how risks are managed.

Monitoring and review of the FSS

Circumstances when the fund would review the FSS and considerations in undertaking the review

Section B: Key funding principles

Funding Target

Explain that it is a regulatory requirement that fund solvency and long-term cost efficiency is secured

Commentary explaining how the fund balances contributions, reliance on investment return and how there may be deficit or surplus periods

How funding differs according to employer type, how this is considered and managed overtime

Managing risk

Identify and explore the risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. Specifically:

Main actuarial assumptions

A summary of the methodology used to determine and monitor the actuarial assumptions used at the valuation.

Links to the Investment Strategy Statement (ISS) or Statement of Investment Principles (SIP)

The FSS should provide information on the development of the FSS and ISS/SIP, how they interlink and the impact on funding if investment returns or income are lower than expected

The FSS should explain how funding requirements have been considered in setting the strategic asset allocation, reflecting appetite for investment risk

How employer contributions are calculated

The approach by which employer contribution rates are calculated, specific employer profiles are treated, employer covenant has been taken into consideration and assurance in consistency in process is considered

Primary rate of the employers contribution

The methodology and process of calculating the primary rate for employers, strategy, and risk-sharing arrangements

Secondary rate of the employers' contribution

Explain the fund's approach to setting secondary contributions and how any potential conflict of interests are managed

Payment of additional contributions

Set out when employers may need to make other payments to the fund in respect of member benefits, how they are paid

Actuarial valuation

The regulatory requirement for an actuarial valuation should be explained in the FSS and, for employers understanding, a high-level commentary on the typical contents of the fund's valuation report

Review of employer contributions between valuations

The FSS should set out the fund's approach and process to reviewing contribution rates between valuations and the rationale for the approach taken

Fund approach to managing surpluses and deficits

The FSS should explain the fund's response to being in deficit or surplus and recognise that this may differ for groups of employers within a single fund (according to employer type and circumstances).

The FSS should enable employers to understand how their funding outcomes and contributions might change over time, together with any tailored options the administering authority may offer to manage these changes over time.

The FSS should set out how the costs of tailored approaches might be met and how they fit with their overall risk management approach

Employer covenant

The FSS should explain how the fund assesses and keeps employer covenant under review, sets out the risk assessment methodology and criteria by which the fund will assess the long-term financial health of employers, and how this will be monitored.

The FSS should also specify the types of event or changes in circumstances that employers will be obliged to notify the fund about and the process that applies

Guarantors

The FSS should outline how specific funding issues in relation to treatment, responsibilities, and interaction with a guarantor are managed

The FSS should outline the assumptions used and how it considers the existence of, guarantor type and any other relevant factors in actuarial calculations.

The FSS should explain the different guarantor types (e.g. subsuming, guarantor of last resort etc).

Admission bodies

The FSS must outline how it assesses the risk of a proposed new admission body and its approach to these matters

Section C: Employer events

This section of the FSS should set out the key events which could impact an employer's and the fund's funding circumstances.

Joining the fund and employer contribution rate setting and monitoring

The FSS should outline the process and the funding calculations which apply to new employers joining the fund, how contribution rates are assessed and calculated and how this applies to certain groups or types of employers (such as Academies, Multi-Academy Trusts, or Admitted Bodies) and what risks are shared

The FSS should also explain the basis on which such groupings are created and how decisions are taken on participation

The FSS should also set out how assets are identified in the event of a pooled employer ceasing participation in the pool or fund.

Preparing for exit and events which may trigger termination

The FSS should set out the fund's policy in the annex or clearly signpost to any separate policy on employers leaving the fund and the events which trigger or allow an exit from the fund.

Funds should include in their FSS a statement of principles to be followed in relation to process and the calculations involved with employer exits.

The FSS should clearly outline the justification and principles which would contribute to decisions around employer exits

The FSS should also set out in general terms the termination assumptions basis

on which surpluses or deficits will be calculated and the factors that may be considered and the process to be followed in exercising discretion on exit payment to be paid

The FSS should also set out in general terms the termination assumptions basis on which surpluses or deficits will be calculated and the process to be followed

The FSS should be clear on the decision-making principles and process to be considered when exiting employers and others affected by the decision (such as guarantors) will be able to make representations, timescales for making decisions and any rights or options to have decisions reconsidered, including reference to the appeals and adjudication provisions contained in the relevant LGPS Regulations.

Deferred debt agreements or debt spreading arrangements

Having regard to the [statutory guidance](#) and [Scheme Advisory Board guidance](#) on these matters, funds should include in their FSS a policy that covers the list in paragraph 91 of this guidance.

Suspension notices

The FSS should explain whether and in what circumstances the fund would consider using its discretion to issue a suspension notice, what happens if the conditions in a suspension notice are not met and the circumstances when a suspension notice can be withdrawn

Partial terminations

The FSS should explain how such an arrangement protects the interests of the fund and the interests of other employers in the fund.

The FSS must state the need for professional actuarial and legal advice in these circumstances and how the costs incurred for this will be met. There should also be full documented consideration of the range of risks, and appropriate due diligence.

Bulk transfers (both to or from the LGPS)

The FSS should outline the general over-riding principles, processes and responsibilities applied

ANNEX D Glossary

Actuarial certificates/rates and adjustments certificate

A statement of the contributions payable by each scheme employer. A statement of the contributions payable by the employer. Following the actuarial valuation exercise, the effective date is 12 months after the completion of the valuation.

Actuarial valuation

An investigation by an actuary, appointed by an administering authority into the costs of the scheme and the ability of the fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the fund. Valuations take place every three years (triennial).

Administering authority (referred to as ‘the fund’)

A body listed in Part 1 of Schedule 3 of the regulations who maintains a fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension fund (the fund). Usually, but not restricted to being, a local authority.

Admission agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns

Code of Practice

The Pensions Regulator’s General Code of Practice.

Data

For GAD to carry out its function under Section 13 of the Public Service Pensions Act 2013, GAD will request data to be provided by the local administering authorities/local fund actuaries, and it is assumed that this data will be provided promptly and accurately.

Debt spreading arrangement

The ability to spread an exit payment over a period of time.

Deferred debt agreement

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members.

Employer covenant

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

Funding level

The funding level is the value of assets compared with the liabilities.

Fund valuation date

The effective date of the triennial fund 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 will mean, for instance, that the fund can consider the employer's covenant to be as strong as its guarantor's.

Local Pension Board

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

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

The cost of pensions already built up or in payment.

Pension Committee

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

Pensions Administration Strategy

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

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.

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 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 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 facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts

Scheme Manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each fund has a Scheme Manager which is the administering authority.

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 whole fund (assets divided by liabilities) 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.

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.
