

**Bank Balances and Accounts for Payment -****Jan 2023**

Bank Balances	Current	£9,311.71
	Deposit	£152,261.44
	Play Area	£10,432.70

**Payments Received**

29/12/2023 FCC	Precept	£38,950.33
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**Bank Transfers****Unpresented Cheques/Payments**

Payment Method	Payee	Details	Amount
Bacs	WoodsWork CIC	Nature Area Management	£340.00
Bacs	Avow	Payroll Charges Oct -Dec	£73.14
Bacs	Mr G Davies	Expenses	£2.55
Bacs	Mr C Jones	Mileage and Expenses	£9.90
Bacs	Mrs S Hughes	Mileage and Expenses	£40.34
Bacs	Staffing Cost	Dec-22	£3,491.46
	HSBC	Monthly Charge (dec-jan)	£5.00
			<b>£3,962.39</b>

**PLAY AREA ACCOUNT**

Payment Method	Payee	Details	Amount
	HSBC	Monthly Charge (dec- jan)	£5.00
			<b>£5.00</b>

**Note:**

Chairman of Finance: .....

Chairman of Council: .....

Clerk &amp; RFO: .....

Date: .....

**Payments Authorised by two Bank Signatories**

Bank Signatory: .....

Bank Signatory: .....

	Budgeted Expenditure for 2019/20	Budgeted Expenditure for 2020/21	Budgeted Expenditure for 2021/22	Budgeted Expenditure for 2022/23	Expected Budget for 2022/23	Proposed Budget for 2023/24	Variance
<b>Parks &amp; Open Spaces</b>							
1.1 Gardening Maintenance	£1,800	£1,000	£1,000	£500	£0	£500	£0
1.2 Play Leadership	£2,200	£2,200	£2,200	£2,200	£2,053	£2,200	£0
1.3 Dobshill Rent	£5	£5	£5	£5	£5	£5	£0
1.4 Bus Shelter Repairs	£250	£250	£250	£100	£0	£100	£0
1.5 Playing Fields	£5,000	£5,000	£5,000	£0	£0	£0	£0
1.6 Bulbs/Shrubs	£200	£400	£400	£500	£388	£1,100	£600
1.7 Seat/ Memorial Garden(clock)	£100	£100	£21,500	£27,000	£35	£27,000	£0
1.8 Litter Receptacles/equipment - ground staff	£150	£150	£150	£1,150	£1,470	£1,150	£0
1.9 Millstone Play Area	£5,000	£5,000	£5,000	£0	£0	£0	£0
1.11 CCTV	£300	£300	£500	£550	£950	£1,000	£450
1.12 Enviromental Improvements	-	£4,000	£4,000	£1,000	£0	£1,000	£0
1.13 Skate Ramps			£25,000	£0	£0	£0	£0
1.14 Old School Garden/West View Wildlife Garden			£2,500	£8,100	£4,081	£8,100	£0
1.15 Tree Maintenance						£2,000	£2,000
reserves - Melwood Play Area					£52,950		£0
reserves - Sponsor a Tree					£0		£0
reserves - Millstone Play Area					£1,780		£0
reserves - Skate ramps					£9,999		£0
Proposed - Dobshill Play Area Improve						£20,000	£20,000
Proposed - Additional CCTV for Millstone						£3,000	£3,000
Proposed - Nature Area pathway						£5,000	£5,000
<b>Staff, Office Costs &amp; Admin</b>							
<b>Staffing Costs</b>							
2.1 Wages, (inc Employee Pension) HMRC & NI	£18,886	£22,500	£23,928	£34,637	£32,971	£36,945	£2,308
2.2 Payroll	£350	£350	£350	£330	£250	£330	£0
2.3 Employer Pension	£4,000	£4,500	£4,500	£5,600	£5,448	£7,100	£1,500
2.4 Clerks Expenses - Home Allowance & Travel	£1,700	£1,700	£1,750	£1,780	£1,880	£1,920	£140
<b>Office Costs</b>							
2.5 Postage	£50	£50	£70	£80	£115	£120	£40
2.6 Stationery	£500	£300	£300	£300	£291	£300	£0
2.7 Office Machinery	£200	£200	£150	£200	£0	£200	£0
2.8 IT Services & DPO Services	£660	£660	£690	£1,080	£919	£1,120	£40
<b>General Administration</b>							
2.9 Insurance	£1,600	£1,800	£1,800	£1,900	£1,724	£1,724	£-176
2.11 Civic Service	£250	£250	£250	£0	£0	£0	£0
2.12 Audit Fee	£500	£600	£600	£700	£560	£825	£125
2.13 Chairmans Name Board	£150	£150	£150	£150	£0	£50	£-100
2.14 Elections	£1,000	£500	£4,000	£5,000	£243	£500	£-4,500
2.15 Clock Tower	£500	£500	£500	£900	£300	£500	£-400
2.16 Annual Subscriptions	£220	£550	£880	£900	£963	£992	£92
2.17 Training	£1,500	£1,500	£1,500	£2,500	£211	£2,500	£0
2.18 Website	£500	£3,200	£500	£300	£216	£250	£-50
2.19 Members Allowance	£2,500	£5,000	£5,000	£3,450	£3,450	£3,450	£0
2.21 Newsletter	£500	£500	£500	£500	£270	£500	£0
2.22 Community Awards	£400	£400	£400	£0	£0	£0	£0
2.23 Council Email Accounts		£1,000	£1,100	£1,100	£1,182	£1,200	£100
2.24 Bank Charges				£120	£124	£125	£5
2.25 Place Plan				£3,000	£0	£3,000	£0
<b>Street Lighting</b>							
3.1 Electrical Supply	£800	£600	£450	£250	£250	£5,400	£5,150
3.2 Electrical Testing/Inspections	£1,720	£1,500	£500	£250	£250	£250	£0
3.3 Repairs & Maintenance	£10,000	£10,000	£10,000	£12,750	£888	£12,750	£0
3.4 Christmas Tree/ Lighting	£10,000	£8,000	£8,000	£8,000	£8,000	£8,000	£0
<b>Highways and Footpaths</b>							
4.1 Salt Bins	£200	£200	£200	£200	£0	£200	£0
4.2 Noticeboards	£1,000	£250	£250	£0	£0	£0	£0
4.3 Footpaths		£2,000	£2,000	£2,000	£0	£2,000	£0
Proposed - Noticeboard Dobshill						£0	£0
<b>Community</b>							
<b>Grants/Donations</b>							
5.0 Grants	£9,000	£4,000	£5,515	£6,000	£6,000	£4,000	£-2,000
5.1 CAB	£275	£300	£300	£300	£300	£300	£0
5.2 Investing in Youth	£5,000	£5,000	£5,000	£3,000	£0	£3,000	£0
Proposed - Kings Coronation						£1,000	£1,000
<b>Community Buildings</b>							
6.0 Community Centre -Youth Club (Inc £7000 S106)	£15,000	£6,350	£15,000	£15,000	£0	£15,000	£0
6.1 Pyf War Memorial Institute		£12,650	£4,000	£4,000	£4,000	£4,000	£0

6.2	Community Changing Rooms			£5,000	£4,000	£2,735	£4,000	£0
7.0	Community Improvements	£15,246	£7,500	£5,000	£1,000	£562	£1,000	£0
8.0	Provision of balance	£6,000	£5,000	£5,000	£2,500	£210	£2,500	£0
<b>Total Expenditure</b>		<b>£125,212</b>	<b>£127,965</b>	<b>£182,638</b>	<b>£164,882</b>	<b>£148,022</b>	<b>£199,206</b>	<b>£34,324</b>

<b>Balance as at 1 April 2022</b>	<b>£154,472</b>
Reserved - Melwood Close Play Area Improvements	-£44,125
Reserved - Millstone Play Area Improvements	-£9,778
Reserved - Sponsor a Tree payments	-£244
Reserved - Millstone Skate Ramps	-£39,999
	<b>£60,327</b>

<b>Income 2022/2023</b>	<b>£</b>	<b>Expenditure 2022/2023</b>	<b>£</b>
Balance 1 April 2022	£154,472	Probable expenditure 2022/2023	£148,022
Precept 2022/2023	£116,851		
Estimated interest 2022/2023	£200		
Refund of VAT	£11,111		
Sponsor a Tree	£170		
Other	£10,723		
<b>Total income</b>	<b>£293,527</b>	<b>Total expenditure</b>	<b>£148,022</b>

<b>Estimated Balance as at 1 April 2023</b>	£145,504
Reserved - Millstone Play Area	-£8,643
Reserved - Millstone Skate Ramps (inc match funding)	-£30,000
Reserved - Sponsor A Tree	-£414
Reserved - unspent Street Light Upgrade	-£11,862
	<b>£94,585</b>

**Recommended precept requirement for 2023/2024 (Based on estimates submitted)**

	<b>£</b>
Estimated expenditure for 2023/2024	£199,206
Working balance for 2023/2024	£25,000
Total revenue resource requirement	£224,206
Less estimated available balance as at 1 April 2023	£94,585
Less estimated VAT claim for 2022/23	£11,800
Amount recommended to be met from precept	£117,821
<b>Precept for 2022/2023</b>	<b>£116,851</b>

The Tax Base for 2023/24 financial year of equivalent Band D Properties is: 2220.75 (higher than 2022/23 which was 2171)

Note: The annual charge for Band 'D' properties for 2023/24 would be as follows:

Examples of how the precept affects Band D properties

**Based on the above figures**

£117821 :- 2220.75 (Council tax base for 2023/24) = £53.05 (£53.82 - 2022/23) (**£-0.77p/1.43% decrease**)

**Based on a 0% change to Band D Properties (gives an additional £1700 that could be allocated in the budget)**

£119521 :- 2220.75 (Council tax base for 2023/24) = £53.82 (£53.82 - 2022/23) (**£0.00/0.00%**)

**Based on a precept requirement of £122821 (an increase of £5k)**

£122821 :- 2220.75 (Council tax base for 2023/24) = £55.31 (£53.82 - 2022/23) (**£+1.49p/2.77% increase**)

**Penrffordd Community Council - Summary Accounts**  
**2022 - 23 Financial Year**

**Income**

	<b>Actual</b>	<b>Anticipated</b>	<b>Difference</b>
Precept	116,851.00	116,851.00	0.00
Bank Interest	184.49	13.00	171.49
Refunds/Other	722.50	0.00	722.50
Grants/Funds(Play Area)	10,000.00	0.00	10,000.00
Sponsor a Tree	170.00	0.00	170.00
VAT Refund	11,110.75	11,110.75	0.00
<b>Total</b>	<b>139,038.74</b>	<b>127,974.75</b>	<b>11,063.99</b>

**Expenditure**

	<b>Actual</b>	<b>Agreed Spend</b>	<b>Balance</b>
Parks & Open Spaces	70,737.64	125,473.00	54,735.36
General Admin etc	5,076.38	20,520.00	15,443.62
Office Costs	974.32	1,660.00	685.68
Staffing Costs (wages, hmrc, pension)	30,141.10	42,347.00	12,205.90
Street Lighting (inc Christmas Lights)	1,079.05	21,250.00	20,170.95
Highways & Footpaths	0.00	2,200.00	2,200.00
Grants & Donations	6,300.00	6,300.00	0.00
Investing in Youth	0.00	3,000.00	3,000.00
Community Buildings	6,735.02	23,000.00	16,264.98
Community Improvements	561.78	1,000.00	438.22
Provision of Balances	210.00	2,500.00	2,290.00
<b>Total</b>	<b>121,815.29</b>	<b>249,250.00</b>	<b>127,434.71</b>

**Note:** the above agreed spend includes all the reserved funds carried over (details on budget summary)

**Current Summary**

Balance c/f as at 31 March 2022	154,472.40
(+) Income Receipts for 2022/23	139,038.74
(-) Total Expenditure for 2022/23	121,815.29
<b>Gross Balance as at 31 Dec 2022</b>	<b>171,695.85</b>
Current	£10,770.00
Deposit	£133,924.70
Millstone Play Area	£10,442.70
Reserved - Melwood Close Play Area Improvements	-8,825.00
Reserved - Millstone Play Area Improvements	10,442.70
Reserved - Sponsor a Tree payments	414.00
Reserved - Skate Ramps	30,000.00
<b>Net Balance as at 31 Dec 2022</b>	<b>169,664.15</b>
<b>VAT Costs for 2022/23 Financial Year</b>	<b>10,188.05</b>

Penyffordd Community Council		Budget Summary 2022/23			
Details of Expenditure		Budget for 2022/23	Current Spend to Date GROSS	Available to Spend to Date	
<b>Parks &amp; Open Spaces</b>					
1.1	Gardening Maintenance	£500.00	£0.00	£500.00	
1.2	Play Leadership	£2,200.00	£2,053.00	£147.00	
1.3	Dobshill Rent	£5.00	£5.00	£0.00	
1.4	Bus Shelter Repairs	£100.00	£0.00	£100.00	
1.5	Playing Fields	£0.00	£0.00	£0.00	
1.5a	RESERVED - Melwood Play Area	£44,125.00	£52,950.00	£-8,825.00	Inc VAT which will be reclaimed
1.6	Bulbs/Shrubs	£500.00	£385.98	£114.02	
1.6a	RESERVED - Sponsor a Tree	£244.00	£0.00	£244.00	
1.7	Seat/ Memorial Garden(clock)	£27,000.00	£35.24	£26,964.76	Project been delayed due to FCC
1.8	Litter Receptacles/equipment etc for Operative & Group	£1,150.00	£1,298.43	£-148.43	Anticipate to be over budget - new staff
1.9	Millstone Play Area	£0.00	£0.00	£0.00	
1.11	CCTV	£550.00	£949.99	£-399.99	over budget due to replace ipad for laptop
1.12	Environmental Improvements	£1,000.00	£0.00	£1,000.00	
1.13	Skate Ramps	£39,999.00	£9,999.00	£30,000.00	Lottery Grant returned
1.14	Old School Garden/West View Wildlife Garden	£8,100.00	£3,061.00	£5,039.00	
<b>Staffing Costs</b>					
2.1	Wages, (inc Employee Pension) HMRC & NI	£34,637.00	£24,819.32	£9,817.68	
2.2	Payroll	£330.00	£200.64	£129.36	
2.3	Employer Pension	£5,600.00	£3,721.70	£1,878.30	
2.4	Clerks Expenses - Home Allowance & Travel	£1,780.00	£1,399.44	£380.56	
<b>Office Costs</b>					
2.5	Postage	£80.00	£75.79	£4.21	
2.6	Stationery	£300.00	£170.13	£129.87	
2.7	Office Machinery	£200.00	£0.00	£200.00	
2.8	IT Services & DPO Services (&Zoom)	£1,080.00	£875.91	£204.09	
<b>General Administration</b>					
2.9	Insurance	£1,900.00	£1,723.58	£176.42	Under budget - 5yr LTA
2.11	Civic Service	£0.00	£0.00	£0.00	
2.12	Audit Fee	£700.00	£297.00	£403.00	Awaiting external audit to be completed
2.13	Chairmans Name Board	£150.00	£0.00	£150.00	Work undertaken FOC
2.14	Elections	£5,000.00	£243.05	£4,756.95	Uncontested Election
2.15	Clock Tower	£900.00	£0.00	£900.00	
2.16	Annual Subscriptions	£900.00	£963.00	£-63.00	
2.17	Training	£2,500.00	£210.64	£2,289.36	
2.18	Website	£300.00	£216.00	£84.00	
2.19	Members Allowance	£3,450.00	£0.00	£3,450.00	Paid in the final quarter
2.21	Newsletter	£500.00	£0.00	£500.00	
2.22	Community Awards	£0.00	£0.00	£0.00	
2.23	Council Email Accounts	£1,100.00	£1,182.00	£-82.00	
2.24	NEW - Bank Charges	£120.00	£93.60	£26.40	
2.25	NEW - Place Plan	£3,000.00	£0.00	£3,000.00	
<b>Street Lighting</b>					
3.1	Electrical Supply	£250.00	£79.05	£170.95	
3.2	Electrical Testing	£250.00	£0.00	£250.00	
3.3	Repairs & Maintenance	£12,750.00	£790.00	£11,960.00	Upgrades due by yr end
3.4	Christmas Tree/ Lighting	£8,000.00	£210.00	£7,790.00	Inv due final quarter
<b>Highways and Footpaths</b>					
4.1	Salt Bins	£200.00	£0.00	£200.00	
4.2	Noticeboards	£0.00	£0.00	£0.00	
4.3	Footpaths	£2,000.00	£0.00	£2,000.00	
<b>Grants/Donations</b>					
5.0	Grants	£6,000.00	£6,000.00	£0.00	
5.1	CAB	£300.00	£300.00	£0.00	
5.2	Investing in Youth	£3,000.00	£0.00	£3,000.00	
<b>Community Buildings</b>					
6.0	Community Centre -Youth Club (inc £7k - S106)	£15,000.00	£0.00	£15,000.00	Project delayed
6.1	Pyf War Memorial Institute	£4,000.00	£4,000.00	£0.00	
6.2	Community Changing Rooms	£4,000.00	£2,735.02	£1,264.98	
7.0	Community Improvements	£1,000.00	£561.78	£438.22	phone kiosk refurb
8.0	Provision of balance	£2,500.00	£210.00	£2,290.00	Jubilee Posters
		<b>£249,250.00</b>	<b>£121,815.29</b>	<b>£127,434.71</b>	

**Finance Committee - Quarterly Budget Review 31 December 2022**

<b>Current Acc Bal B/f</b>				£9,001.71	
<b>Date Cashed</b>	<b>Cheque No</b>	<b>Payee</b>	<b>Details</b>	<b>Amount</b>	<b>Uncleared Cheques</b>
					£210.00 Cherry Orchard Farm £100.00 Buckley Scout Group
					£310.00 Total uncleared
					<b>£9,311.71 Bank Statement Balance</b>
			<b>Balance Carried Forward</b>	£9,001.71	
<b>Deposit Acc Bal B/f</b>				£152,261.44	
<b>Date</b>	<b>Type</b>		<b>Details</b>	<b>Amount</b>	
				<b>Total</b>	
			<b>Balance Carried Forward</b>	£152,261.44	<b>£152,261.44 Bank Statement Balance</b>
<b>Play Area Acc Bal B/f</b>				£10,432.70	
<b>Date</b>	<b>Type</b>		<b>Details</b>	<b>Amount</b>	
				<b>Total</b>	
			<b>Balance Carried Forward</b>	£10,432.70	<b>£10,432.70 Bank Statement Balance</b>
			<b>Total Available Balance of All Accounts</b>	<b>£171,695.85</b>	<b>Total Bank Balance Inc £172,005.85 Uncleared Cheques</b>

## Account overview

Last Updated 29 Dec 2022 12:47

Account	Balance
40-16-01 01285645 Charitable - Penyffo Play	GBP 10,432.70 <span style="color: red; font-weight: bold;">&gt;</span>
40-16-01 43035867 Bmm Account - Peny Comm Counc	GBP 152,261.44 <span style="color: red; font-weight: bold;">&gt;</span>
40-16-01 91029770 Charitable - Peny Comm Counc	GBP 9,311.71 <span style="color: red; font-weight: bold;">&gt;</span>

# FUNDING STRATEGY STATEMENT

## CLWYD PENSION FUND

[DATE]

FLINTSHIRE COUNTY COUNCIL

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Clwyd Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

**Note** - Square brackets indicate areas which are yet to be finalised or where hyperlinks are to be made active. These will be completed before the FSS is formally signed off in February 2023.

**A glossary of the key terms used throughout is available at the end of this document [link to be inserted]**

*This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).*

# 1

## GUIDE TO THE FSS AND POLICIES

The key objectives of the Clwyd Pension Fund (“the Fund”) are set out in section 3. The information required by overarching guidance and Regulations is included in Sections 2 and 3 of the Funding Strategy Statement. This document also sets out the Fund’s policies in the following key areas:

### **1. Actuarial Method and Assumptions (Appendix A)**

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the “Secondary” rate, are set out [link to be inserted].

### **2. Deficit Recovery and Surplus Offset Plans (Appendix B)**

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [link to be inserted].

### **3. Admission Policy (Appendix C)**

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [link to be inserted].

### **4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)**

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [link to be inserted].

### **5. Review of Employer Contributions between Valuations (Appendix E)**

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund’s policy on how the Administering Authority will exercise its discretion is set out [link to be inserted].

### **6. Covenant Assessment and Monitoring Policy (Appendix F)**

An employer’s financial covenant is its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. This is a critical consideration in an employer’s funding and investment strategy as it is the employers who underwrite the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces. Further details on how employer covenant is assessed and monitored by the Fund is set out [link to be inserted].

### **7. Notifiable Events Framework (Appendix G)**

Whilst in most cases regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to proactively notify the Administering Authority of



any material changes. This policy sets out when this may happen and the notifiable events process. More details are set out [link to be inserted].

### **8. Ill Health Insurance Arrangements (Appendix H)**

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for employers whose financial position could be materially affected by ill health retirement of one of their members. The captive arrangement is reflected in the employer contribution rates (including on termination) for the eligible employers. More details are set out [link to be inserted].

# 2

## BACKGROUND

The objectives of the Clwyd Pension Fund (the “Fund”) is to ensure it has sufficient assets to meet its pension liabilities in the long-term in line with its fiduciary responsibility as the Administering Authority (Flintshire County Council). The Funding Strategy adopted by the Clwyd Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received.

### INTEGRATED RISK MANAGED STRATEGY

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

### THE REGULATIONS

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

### THE SOLVENCY OBJECTIVE

The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

### LONG TERM COST EFFICIENCY

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as it relates to the Fund.

### EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the Actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

# 3

## KEY FUNDING PRINCIPLES

### PURPOSE OF THE FSS

Funding is making advance provision to meet the cost of accruing benefit promises. Decisions taken on the funding approach therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary. The purpose of this FSS is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency";
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

### KEY FUNDING AND INVESTMENT OBJECTIVES AND AIMS OF THE FUND:

- Achieve and maintain assets equal to 100% of liabilities within a [13] year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities.
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives.
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

<b>THE AIMS OF THE FUND ARE TO:</b>	<b>THE PURPOSE OF THE FUND IS TO:</b>
<ul style="list-style-type: none"> <li>• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due</li> <li>• enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future.</li> <li>• maximise the returns from investments within reasonable risk parameters taking into account the above aims and the risk controls in place under the Flightpath Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• receive monies in respect of contributions, transfer values and investment income, and</li> <li>• pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.</li> </ul>

## RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below.

## KEY PARTIES TO THE FSS

<b>The Administering Authority should:</b>	<b>The Individual Employer should:</b>
<ul style="list-style-type: none"> <li>• operate the pension fund</li> <li>• collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations</li> <li>• pay from the pension fund the relevant entitlements as stipulated in the Regulations</li> <li>• invest surplus monies in accordance the Regulations</li> <li>• ensure that cash is available to meet liabilities as and when they fall due</li> <li>• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default</li> <li>• manage the valuation process in consultation with the Fund's Actuary</li> <li>• prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties</li> </ul>	<ul style="list-style-type: none"> <li>• when determining the final level of contributions payable at each valuation within the FSS parameters employers should ensure they consider the appropriate balance between contribution affordability in the short term and the sustainability of contributions in the longer term. An employer should ensure they understand the potential risk that contributions may increase if experience turns out worse than the actuarial assumptions adopted. This may lead to employers choosing to pay higher contributions than the minimum requirement under the FSS.</li> <li>• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer</li> <li>• pay all contributions, including their own, as determined by the Actuary, promptly by the due date (including any exit payments upon ceasing participation where applicable)</li> </ul>

<ul style="list-style-type: none"><li>• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary</li><li>• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and</li><li>• 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.</li></ul>	<ul style="list-style-type: none"><li>• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework</li><li>• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain</li><li>• have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context</li><li>• understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data may result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.</li><li>• notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund.</li><li>• understand the pensions impacts of any changes to their organisational structure and service delivery model.</li><li>• comply with Regulations in the case of a bulk transfer of staff</li></ul>
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The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> <li>• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations</li> <li>• prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc.</li> <li>• provide advice and valuations on the termination of admission agreements</li> <li>• provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default</li> <li>• assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations</li> <li>• advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and</li> <li>• ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.</li> </ul>	<ul style="list-style-type: none"> <li>• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination</li> <li>• Where necessary, provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations</li> <li>• be aware of all guarantees that are currently in place</li> <li>• work with the Fund and the employer in the context of the guarantee</li> <li>• receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.</li> </ul>

## SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate.

Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

## LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS) (this section is subject to finalisation once the investment strategy review has been completed and an updated ISS is confirmed)

[In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance taking into account the investment strategy adopted by the Fund, as set out in the ISS, which can be found on the Fund's website.

The overall strategic asset allocation is set out in the ISS. The current strategy is included below:]

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
<b>Total</b>	<b>100.0%</b>

### CLIMATE CHANGE (this section is subject to finalisation once the analysis has been completed)

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgment made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of [20] years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.

[A summary of the output of the analysis is set out below:]

### IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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



<b>FINANCIAL</b>	<b>DEMOGRAPHIC</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Investment markets fail to perform in line with expectations</li> <li>• Protection and risk management policies fail to perform in line with expectations</li> <li>• Market outlook moves at variance with assumptions</li> <li>• Investment Fund Managers fail to achieve performance targets over the longer term</li> <li>• Asset re-allocations in volatile markets may lock in past losses</li> <li>• Pay and price inflation significantly more or less than anticipated</li> <li>• Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions</li> <li>• Employer contributions are unaffordable and/or unstable</li> <li>• Investment and/or funding objectives and/or strategies are no longer fit for purpose</li> <li>• Insufficient assets to pay benefits</li> <li>• Loss of employer income and/or other employers become liable for their deficits</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> </ul> <p>Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.</p> <p>In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored. In addition, the Flightpath risk management framework will help to reduce the key financial risks over time.</p>	<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.</li> <li>• Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement</li> <li>• Deteriorating pattern of early retirements (including those granted on the grounds of ill health)</li> <li>• Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations.</li> </ul> <p>Early retirements for reasons of redundancy and efficiency do not immediately affect the solvency of the Fund because they are the subject of a direct charge.</p>

<b>GOVERNANCE</b>	<b>REGULATORY</b>
<p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> <li>• The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated</li> <li>• Administering Authority unaware of structural changes in employer’s membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level</li> <li>• Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates</li> <li>• An employer ceasing to exist with insufficient funding or adequacy of a bond.</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements</li> <li>• Changes to Committee membership</li> </ul> <p>For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.</p> <p>Full details of the risks and the controls in place are set out in the Fund risk register.</p>	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,</li> <li>• Changes to national pension requirements and/or HMRC Rules</li> </ul> <p>Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p>

## MONITORING AND REVIEW

A full review of this Statement will occur every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, a review of part of or all of the Statement will take place annually to ensure all the relevant parameters remain fit for purpose and will take account of the current economic conditions, change in demographic trends and will also reflect any legislative changes.

## FLIGHTPATH RISK MANAGEMENT FRAMEWORK - DE-RISKING STRATEGY

With effect from 1 April 2014 the Administering Authority to the Fund has implemented a Cash and Risk Management Framework (“CRMF”) for the purpose of managing various aspects of the Fund’s financial risks. The CRMF is made up of four key components: Liability Driven Investment (“LDI”), Synthetic Equity with Protection, Currency Hedging and Collateral Management. These components help the Fund to mitigate liability, equity and currency risk in a capital efficient manner.

The LDI component of the CRMF helps to effectively control and limit interest rate and inflation risks as these factors can lead to significant changes to liability values. At the valuation date, the level of hedging within the assets was approximately 26% in relation to interest rates and 42% in relation to inflation, meaning to the extent the liabilities vary due to these factors, the assets will offset that movements by this proportion. The level of interest rate hedging increased to c50% at 30<sup>th</sup> September 2022 and new triggers were implemented to reflect the higher interest rate and market yield environment.

The intention is for the Fund to increase exposure in the long term to achieve an 80% proportion to both interest rates and inflation as yields become more attractive through a market-aware yield trigger framework.

The overall funding flightpath strategy structure was reviewed as part of the annual review of the CRMF as well as the impact of the recent changes in interest rates and inflation outlook. A summary of the latest real yield triggers above CPI effective from [November 2022] is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers.

[Table to be inserted once the latest agreed triggers have been implemented]

### **Risk Management Framework – Monitoring/Trigger Review**

A summary report is provided to the Fund (on a monthly and quarterly basis) that includes a “traffic light” analysis of the key components of the CRMF. The “traffic light” indicates whether the CRMF is operating in line with expectations or if any actions are required.

Furthermore, a separate fund-wide mechanism is in place such that if the funding level falls more than 5% below the “expected” funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. The Officers have agreed to implement a new funding level trigger of 110%, on a consistent approach to the valuation funding basis, to prompt further discussions regarding potential actions. This will be reviewed as part of the actuarial valuation process and investment strategy review.

A Dynamic Equity Protection strategy has been in place for the Fund since 2018. This was after rigorous analysis and value for money considerations by the Fund’s Funding and Risk Management Group (“FRMG”). The strategy protects against falls of greater than 10% the average market position over rolling 12 month period on c. £400m of equity exposure within the CRMF. The cost of protection is offset by the Fund’s participation in losses again beyond a fall of 30% from average market levels over the same 12 month period as well as by giving up some potential upside return on a 2-weekly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

1. Improved protection levels in upward trending markets;
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios; and
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off.

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan

would deliver the strategy via the existing CRMF vehicle managed by Insight Investment management.

The Fund has implemented a currency hedging policy through the CRMF to lock-in gains from the depreciation in sterling and reduce the risk of a materially strengthening pound. The coverage of the currency hedge is 75% of the overall equity portfolio.

Further details of the updated funding level triggers, equity market protection and currency hedging are shown in the relevant Committee report.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the CRMF monitoring detailed above and regular funding reviews. If considered appropriate, the funding and CRMF strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the CPF membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- have been any significant special contributions paid into the CPF
- if there have been material changes in the ISS
- if there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

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

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

### **Cash and Liquidity Management**

The Administering Authority regularly monitors the position in terms of Fund cashflow requirements to ensure that benefits can be paid in an efficient manner and also to consider the impact on investment strategy e.g. in terms of collateral management. The monitoring approach and governance is set out in the separate cashflow and risk management policy.

# APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

FINANCIAL ASSUMPTIONS		
	2022 valuation assumption	Description
Investment return / discount rate	Ongoing funding basis: 4.60% p.a. (past service) and 5.10% p.a. (future service)	Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1.5% p.a. above CPI inflation (past service) and 2.0% p.a. above CPI inflation (future service). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
	Minimum risk termination basis: 1.7% p.a.	Derived from the yield on conventional UK Government gilts. This assumption will be reviewed on an ongoing basis to allow for changes in market conditions at the relevant employing body's cessation date, along with any other structural or legislative changes.
Inflation (Consumer Prices Index)	3.10% p.a.	RPI inflation is reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to remove any supply/demand distortions as well as Bank of England forecasts. The total adjustment was a deduction of 0.8% p.a. from the market implied RPI expectations at the valuation date.
Salary increases (long-term)	4.35% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Salary increases (short-term)	Where applicable this is 3% or 4% p.a. until 31 March 2026.  As set out on individual employer results schedule.	Allowance has been made for expected short term pay restraint for some employers.  To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).

## DEMOGRAPHIC ASSUMPTIONS

### Mortality/Life Expectancy

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

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
<b>Pensioners</b>	22.4	21.5	24.8	23.9
<b>Actives aged 45 now</b>	24.0	23.3	26.8	26.0
<b>Deferreds aged 45 now</b>	22.6	22.8	25.6	25.6

For example, a male pensioner, currently aged 65, would be expected to live to age 86.5. Whereas a male active member aged 45 would be expected to live until age 88.3. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed and updated based on LGPS wide experience.

### Life expectancy assumptions

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

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	114% S3PMA_CMI_2021 [1.75%] 105% S3PFA_M_CMI_2021 [1.75%]
	Dependant	136% S3PMA_CMI_2021 [1.75%] 119% S3DFA_CMI_2021 [1.75%]
	Ill Health	143% S3IMA_CMI_2021 [1.75%] 170% S3IFA_CMI_2021 [1.75%]
Active	Normal Health	117% S3PMA_CMI_2021 [1.75%] 105% S3PFA_M_CMI_2021 [1.75%]
	Ill Health	256% S3IMA_CMI_2021 [1.75%] 342% S3IFA_CMI_2021 [1.75%]
Deferred	All	125% S3PMA_CMI_2021 [1.75%] 111% S3PFA_M_CMI_2021 [1.75%]
Future Dependant	Dependant	134% S3PMA_CMI_2021 [1.75%] 121% S3DFA_CMI_2021 [1.75%]

### OTHER DEMOGRAPHIC ASSUMPTIONS

Commutation	It has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2023 to 31 March 2026. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2022 actuarial valuation. An allowance for reasonable expenses will also be

	included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination valuation.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

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

## METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

## METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.



As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the associated benefits being built up are paid out over a longer time horizon than benefits already accrued; thus it is justifiable to use a slightly higher expected return from the investment strategy.

### EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This involves applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares may be restated for changes in data or other policies.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

# APPENDIX B – DEFICIT RECOVERY AND SURPLUS OFFSET PLANS

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), an adjustment plan needs to be implemented such that the secondary contributions for each employer can be calculated. This adjustment plan requires a period over which to recover the deficit or run off any surplus i.e. the recovery period.

It is one of the Fund's key objectives that an employer will target 100% funding (e.g. full solvency) over an agreed period to maintain sustainability of contributions in the longer term subject to the affordability of the participating employers given other competing cost pressures, dependent on the Administering Authority's view of the employer's covenant and risk to the Fund. Based on the advice of the Actuary the assumptions and parameters in the FSS have been determined to try to achieve this but there is no guarantee that contributions will remain sustainable at future valuations. Employers therefore need to consider the balance between affordability of contributions in the short term and sustainability of contributions in the longer term (at subsequent actuarial valuations) in the context of their budgets now and in the future when determining the level of contributions. This could lead to an employer deciding to pay more than the minimum contributions determined under the FSS which would support future sustainability/stability of contributions at future valuations.

## EMPLOYER CONTRIBUTION ADJUSTMENT PLANS – KEY PRINCIPLES

The average recovery period for the Fund as a whole is [13] years at this valuation which is [the same as] [x years shorter than] the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish.

Deficit or surplus offset contributions paid to the Fund by each employer will normally be expressed as £s amounts.

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

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account; the size of the funding shortfall; or surplus the business plans of the employer; the assessment of the financial covenant of the Employer, changes in the funding position after the valuation date which is deemed reasonable and security of future income streams; and any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The Administering Authority, following consultation with the participating employers, has adopted the following principles for setting the individual employer contribution rates arising from the 2022 actuarial valuation:

The employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
- the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2023/26 in respect of an employer's surplus or deficit (including phasing adjustments)

**The contributions certified by the Actuary will be the minimum contributions payable by the employer. An employer can choose to pay additional contributions each year if they wish to do so.**

#### General principles:

- a) Where increases (or decreases) in employer contributions are required from 1 April 2023, following completion of the 2022 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2023/24 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum unless agreed otherwise based on the overall contributions paid over the certificate period. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund will not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
- b) Where a deficit exists the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain, unless there is compelling reason to do so and any reduction will need clear justification on affordability grounds. Any employer whose covenant (as assessed by the Administering Authority) is not sufficiently strong in the long term will not normally be allowed to reduce contributions where the position has improved.
- c) The Fund's policy is not to allow the prepayment of employee or primary contributions and therefore only deficit contributions can be prepaid.
- d) Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2023/26 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.
- e) If the covenant is deemed to be materially weak, the secondary contributions may be set with reference to a higher funding target, subject to the discretion of the Fund.
- f) For those bodies identified as having a relatively weak covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.

- g) For employers that do not have a financial year end of 31 March 2023 (e.g. 31 July 2023), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2023 if the year-end is 31 July 2023).
- h) Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will normally review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any risk sharing arrangements when reviewing contribution rates.
- i) It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, an employers could be faced with contributions that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically, this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.
- j) Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has the discretion to consider whether any exceptional arrangements should apply in particular cases.

**If an employer is in deficit:**

- k) Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
- l) For closed employers, the deficit recovery period will be linked to the expected average future working lifetime of the active membership.
- m) The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit.
- n) Employers may also elect to make lump sum prepayments of deficit contributions (either on an annual basis or a one-off payment) which could result in a cash saving over the valuation certificate period.

**If an employer is in surplus:**

For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a the same period as that adopted for the last actuarial valuation, subject to a total employer contribution minimum of zero i.e. the secondary contribution offset cannot exceed the primary contributions payable in any year of the certificate. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target no exit debt or exit credit being payable.

# APPENDIX C – ADMISSION POLICY

## INTRODUCTION

This appendix details the Fund's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It also sets out the methodology for assessment of ongoing contribution requirements.

- Admission bodies are required to have an “admission agreement” with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the Fund.

## ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

## ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the Actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in Appendix B.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer (further information is set out within Appendix D).

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

#### PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular, the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

# APPENDIX D – TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

[The termination policy is being review in light of current market conditions and the Chancellors Autumn Statement].

This appendix details the Fund’s policy on the methodology for assessment of termination payments in the event of the cessation of an employer’s participation in the Fund.

## EXITING THE FUND

Unless entering a DDA, an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends and the employer then becomes an “exiting employer” under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

When an employer terminates, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund (i.e. either deferred benefits or immediate retirement benefits).

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees (i.e. to existing deferred and pensioner members) except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

## TERMINATION POLICY

The Fund’s policy for settling termination payments/credits is as follows:

1. The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable). The treatment upon termination will depend on whether the employer has a guarantor within the Fund, or a successor body exists to take over the employing body’s liabilities. Further detail is set out in the table below.
2. At the discretion of the Administering Authority, instalment plans over a defined period may be agreed but only when there are clear issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

The assumptions and approach used to assess the amount of a payment/credit payable upon termination will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date. With the following exceptions:

	<b>Employers with no guarantor in the Fund / only a guarantee of last resort</b>	<b>Employers with a guarantor</b>
<b>Financial assumptions</b>	The minimum risk termination basis (unless the Administering Authority agrees otherwise, based on the advice of the Actuary). Adjustments may also be made to the inflation assumption to reflect the level of overall hedging in the Fund. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).	If the employing body has a guarantor within the Fund or a successor body exists either of which would take over the employing body's liabilities, the Fund's policy is that the ongoing funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.
<b>Demographic Assumptions</b>	In line with the assumptions adopted for the 2022 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to [2.25% p.a.]. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	In line with the assumptions adopted for the 2022 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
<b>McCloud</b>	[A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.]	
<b>Additional Costs</b>	A reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.	
<b>Default policy once the termination certificate has been provided</b>	<ul style="list-style-type: none"> <li>In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time).</li> </ul>	The guarantor or successor body will then subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and



	<ul style="list-style-type: none"> <li>In the case of a deficit -the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.</li> </ul>	<p>liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.</p>
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The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on any representations from the interested parties (where applicable). For example, the Fund may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers

With regard to subsuming the residual assets and liabilities, this may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

## FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

## DETERMINATION NOTICES (EMPLOYERS WITH A GUARANTOR)

Where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor.

For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of their determination. An exit credit determination notice will be provided alongside the termination assessment from the Actuary in cases where there is an exit credit. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

#### **POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)**

The default position is for exit payments to be paid immediately in full (once the cessation assessment has been completed by the Actuary (adjusted for interest where appropriate) unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment (as detailed above). In the case of an exit credit the determination process set out above will be followed.

Under the Regulations the Fund has complete discretion as to whether it agrees to put a DDA in place provided that it follows the procedure set out in the Regulations.

If an employer requests that an exit debt payment is recovered over a fixed period of time (e.g. via a Debt Spreading Agreement ("DSA")) or that they wish to enter into a Deferred Debt Arrangement (DDA) with the Fund, they must make a request in writing covering the reasons for such a request.

Any deviation from the default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of the Fund (and therefore ultimately taxpayers) to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and, depending on the employer's circumstances, will either be required as an upfront payment or included in the contribution plan or exit debt payment.

### POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period via a DSA.

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information to use as part of their covenant review. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
  - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years except in exceptional circumstances).
  - b. The initial and annual payments due and how these will change over the period
  - c. The interest rates applicable and the costs associated with the payment plan devised
  - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
  - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
  - f. The views of the Actuary, covenant, legal and any other specialists necessary
  - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.

- h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.
7. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

#### EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt upfront or via a DSA, an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund will agree to allow the employer to enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority.
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the employer could afford the exit debt (either immediately or via a debt spreading agreement) at that time (based on advice from the Actuary, covenant and legal advisor where necessary). If the exit debt is deemed to be affordable then a Deferred Debt Agreement will not apply to the employer.
3. The initial process to determine whether a DDA should apply may take up to 3 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date (for example when the Employer's active membership has reduced below 5 members and it appears likely that termination could be triggered within the next 6-9 months).
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a DDA using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:
  - a. What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority will not enter into such an arrangement unless they are confident that the employer can support the arrangement in future. Provision of

security may also result in a review of the recovery period and other funding arrangements.

- b. Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
- c. What the updated secondary rate of contributions would be required up to the next valuation.
- d. The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- e. The advice of the Actuary, covenant, legal and any other specialists necessary.
- f. The responsibilities that would apply to the employer while they remain in the Fund.
- g. What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- h. The circumstances that would trigger a variation in the length of the DDA (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- i. Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a DDA with the employer, and confirm the terms that are required.

5. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the triggers are met.
6. The costs associated with the advice sought and drafting of the DDA will be passed onto the employer as part of the arrangements and contribution requirements. Subject to the employer's circumstances, any costs will either be required as an upfront payment or included in the contribution plan.

# APPENDIX E - REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the overarching Government policy is that contribution reviews are not permitted outside of a full valuation cycle. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date, unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the [6] months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

## SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

- **Significant changes in the employer's liabilities**

This includes but is not limited to the following scenarios:

1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - a. Restructuring of an employer
  - b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
  - c. A bulk transfer into or out of the employer
  - d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
  - e. Where the aggregation of member movements materially shortens the expected time horizon for continued participation in the Fund
2. Two or more employers merging including insourcing and transferring of services
3. The separation of an employer into two or more individual employers

In terms of assessing the triggers under point a. above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than [5%] of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

- **Significant changes in the employer's covenant**

This includes but is not limited to the following scenarios:

1. Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement or creditor (e.g. banks), which may impair the security provided to the Fund.
2. Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
3. Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances, employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements (an example of the notifiable events framework is set out in Appendix G).

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any

specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

Where a contribution review is triggered by a significant change in employer covenant, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- the contributions changing or staying the same depending on the conclusion, and/or;
- security to improve the covenant to the Fund, and/or;

In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

### PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisor.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's funding plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the Primary contribution rate should be adjusted to allow for any profile change
- Whether the Secondary contribution rate should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available

The review of contributions may take up to [3] months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions.



Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

# APPENDIX F – COVENANT ASSESSMENT AND MONITORING POLICY

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

## RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

## ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

An assessment of employer covenant includes determining the following:

- Type of employer body and its origins
  - Nature and enforceability of legal agreements
  - Whether there is a bond in place and the level of the bond
  - Whether a more accelerated recovery plan should be enforced
  - Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

Research will be carried out into employers' backgrounds and, in addition, employers may be contacted to gather further information. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

### FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation and will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately. The notifiable event requirements are set out in Appendix G.

### COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms

that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

# APPENDIX G - NOTIFIABLE EVENTS FRAMEWORK

The Fund regularly monitors the covenant of its employers. Whilst in most cases the regular covenant updates will identify some of the key employer changes, in some circumstances, employers are required to notify the Administering Authority of any material changes. This is in keeping with the guide that The Scheme Advisory Board recently published ('A Guide for Administering Authorities') in which is recommended that Administering Authorities should include a notifiable events process within its policies.

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress and keep the interests of the employer, the Fund, the members and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgment of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund\*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund\*

\* These conditions would also apply where an employer and the Fund has entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

## EVENTS THAT MUST BE NOTIFIED TO THE FUND

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant'.

Typical events that must be notified to the Fund include the following:

## 1) Significant changes in the employer's membership / liabilities

This includes but is not limited to the following scenarios, where applicable:

- i) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - a. Restructuring of the employer involving significant changes in staffing
  - b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)\*
  - c. A bulk transfer of staff into the employer, or out of the employer to another pension scheme\*
  - d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or large a number of member withdrawals\*
  - e. A decision which will restrict the employer's active membership in the future\*
- ii) Two or more employers merging including insourcing and transferring of services\*
- iii) The separation of an employer into two or more individual employers\*
- iv) Concerns of fraudulent activity that may include pensions aspects

\*In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.

## 2) Significant changes to the employer covenant

### i. Significant changes in the employer's financial strength / security

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

- a. An employer's forecasts indicate reduced affordability of contributions.
- b. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
- c. Provision of security to any other party including lenders and alternative pension arrangements
- d. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
- e. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
- f. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
- g. The employer has defaulted on payments
- h. There has been a breach of banking (or other) covenant or the employer has agreed a waiver with the lender
- i. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
- j. An employer becomes insolvent

## ii. A change in the employer's circumstances

This includes but is not limited to the following scenarios, where applicable:

- a. A merger of the employer with another organisation
- b. An acquisition by the employer of another organisation or relinquishing control
- c. An employer commences the wind down of its operations or ceases to trade
- d. A material change in the employer's business model
- e. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
- f. The employer becoming aware of material suspected / actual fraud or financial irregularity
- g. The employer becoming aware of material legal or court action against them
- h. There has been suspension or conviction of senior personnel
- i. Regulatory investigation and/or sanction by other regulators
- j. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g. at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

### WHAT INFORMATION SHOULD BE PROVIDED TO THE FUND?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

### WHAT ACTION WILL THE FUND TAKE ONCE NOTIFIED?

Where one of the listed events occurs, the Fund will enter into discussion with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or a covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

- a. No further action required
- b. More detailed request for further information and ongoing monitoring
- c. The Fund will review the documentation provided and respond on next steps
- d. A review of employer contributions
- e. A review of the recovery period used to calculate secondary contributions
- f. A review of the termination position and discussions with the employer as to how this may be addressed
- g. A review of any deferred debt agreements if applicable

Employers will kept informed of all steps throughout the process.

# APPENDIX H – INSURANCE ARRANGEMENTS

## OVERVIEW OF ARRANGEMENTS

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions.

For certain employers in the Fund (following discussions with the Fund Actuary) a captive ill health insurance arrangement was established by the Administering Authority to cover ill health retirement costs by pooling these risks for eligible employers. The aim of the arrangement is that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, pay a premium to the Fund within their future service contribution rate. This has applied to all ill-health retirements since 1 April 2017.

The internal captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2023/26 is 0.6% of pensionable pay per annum.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e.so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.



## EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Community related Admitted Bodies
- Town and Community Councils

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where it is felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs would be recovered from the employer. This would normally be at the next valuation but could be at an earlier review of the contributions due, including on termination of participation.

## EMPLOYER RESPONSIBILITIES

Apart from the regulatory procedures in place to ensure that ill health retirements are properly controlled, **employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.**

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

# APPENDIX I - GLOSSARY OF TERMS

**ACTUARIAL VALUATION:** an investigation by an Actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

**ADMINISTERING AUTHORITY:** the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**ADMISSION BODIES:** A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

**BENCHMARK:** a measure against which fund performance is to be judged.

**BENEFITS:** The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

**BEST ESTIMATE ASSUMPTION:** an assumption where the outcome has a 50/50 chance of being achieved.

**BONDS:** loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

**CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE):** with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

**CPI:** acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

**CPIH:** An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

**CONTINGENT ASSETS:** assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

**COVENANT:** the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

**DEFERRED DEBT AGREEMENT (DDA):** A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

**DEFERRED EMPLOYER:** An employer that has entered into a DDA with the Fund.

**DEFICIT:** the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

**DEFICIT RECOVERY PERIOD:** the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**DERIVATIVES:** Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

**DISCOUNT RATE:** the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

**EARLY RETIREMENT STRAIN:** the additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

**EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"):** the contribution rate payable by an employer (expressed as a % of pensionable pay) which is set at a level which should be sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

**EMPLOYER'S SECONDARY CONTRIBUTION RATE:** an adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

**EMPLOYING BODIES:** any organisation that participates in the LGPS, including admission bodies and scheme employers.

**EQUITIES:** shares in a company which are bought and sold on a stock exchange.

**EQUITY PROTECTION:** an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

**EXIT CREDIT:** the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

**FLIGHTPATH:** a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target.

**FUNDING OR SOLVENCY LEVEL:** the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

**FUNDING STRATEGY STATEMENT:** This is a key governance document that outlines how the Administering Authority will manage employer’s contributions and risks to the Fund.

**GOVERNMENT ACTUARY'S DEPARTMENT (GAD):** the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

**GUARANTEE / GUARANTOR:** a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.

**HEDGING:** a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

**HEDGE RATIO** The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

**ILL HEALTH CAPTIVE:** this is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

**INVESTMENT STRATEGY:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**LETTING EMPLOYER:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate

those employing bodies which are eligible to participate, members' contribution rates, benefit calculations and certain governance requirements.

**LIABILITIES:** the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LONG TERM COST EFFICIENCY:** this is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

**MATURITY:** a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**MCCLOUD JUDGMENT:** This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

**MEMBERS:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired and dependants of deceased ex-employees).

**MINIMUM RISK FUNDING BASIS:** an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy. This is usually adopted when an employer is exiting the Fund.

**ORPHAN LIABILITIES:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**PAST SERVICE LIABILITIES:** this is the present value of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

**PERCENTILES:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**PHASING/STEPPING OF CONTRIBUTIONS:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually "stepped" or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**POOLING:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**PREPAYMENT:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**PRESENT VALUE:** the value of projected benefit payments, discounted back to the valuation date.

**PRIMARY RATE OF THE EMPLOYERS' CONTRIBUTION:** the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

**PROFILE:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**PRUDENT ASSUMPTION:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**RATES AND ADJUSTMENTS CERTIFICATE:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

**REAL RETURN OR REAL DISCOUNT RATE:** a rate of return or discount rate net of (CPI) inflation.

**RECOVERY PLAN:** a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**SAB FUNDING BASIS OR SAB BASIS:** a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculate the Fund's solvency funding position and contribution outcomes for employers.

**SCHEDULED BODIES:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**SCHEME EMPLOYERS:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

**SECTION 13 VALUATION:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2022 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**SECONDARY RATE OF THE EMPLOYERS' CONTRIBUTION:** an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

**SOLVENCY/FUNDING LEVEL:** the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**SOLVENCY FUNDING TARGET:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**STRAIN COSTS:** the costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

**VALUATION FUNDING BASIS:** the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 SCHEME:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.



### Definition of Civility and Respect

Civility means politeness and courtesy in behaviour, speech, and in the written word.

Examples of ways in which you can show respect are by listening and paying attention to others, having consideration for other people's feelings, following protocols and rules, showing appreciation and thanks, and being kind.

The National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC), and One Voice Wales (OVW), believe now is the time to put civility and respect at the top of the agenda and start a culture change for the local council sector.

By our council signing up to the civility and respect pledge we are demonstrating that our council is committed to treating councillors, clerks, employees, members of the public, representatives of partner organisations, and volunteers, with civility and respect in their role.

Signing up is a simple process, which requires councils to register and agree to the following statements:

Statement	Tick to agree
Our council has agreed that it will treat all councillors, clerk and all employees, members of the public, representatives of partner organisations, and volunteers, with civility and respect in their role.	
Our council has put in place a training programme for councillors and staff	
Our council has signed up to Code of Conduct for councillors	
Our council has good governance arrangements in place including, staff contracts, and a dignity at work policy.	
Our council will commit to seeking professional help in the early stages should civility and respect issues arise.	
Our council will commit to calling out bullying and harassment when if and when it happens.	
Our council will continue to learn from best practice in the sector and aspire to being a role model/champion council e.g., via the Local Council Award Scheme	
Our council supports the continued lobbying for the change in legislation to support the Civility and Respect Pledge, including sanctions for elected members where appropriate.	





## DIGNITY AT WORK/BULLYING AND HARRASSMENT POLICY

### 1. Purpose and Scope

#### 1.1 Statement

In support of our value to respect others Penyffordd Community Council will not tolerate bullying or harassment by, or of, any of its employees, officials, members, contractors, visitors to the council or members of the public from the community which we serve. The Council is committed to the elimination of any form of intimidation in the workplace.

This policy reflects the spirit in which the council intends to undertake all of its business and outlines the specific procedures available to all employees in order to protect them from bullying and harassment. It should be read in conjunction with the council's policies on Grievance and Disciplinary handling and the Elected Members Code of Conduct.

The Council will issue this policy to all employees as part of their induction and to all members as part of their Welcome Pack. The Council may also wish to share this policy with contractors, visitors and members of the public.

#### 1.2 Definitions

##### **Bullying**

"Bullying may be characterised as a pattern of offensive, intimidating, malicious, insulting or humiliating behaviour; an abuse of this use of power or authority which tends to undermine an individual or a group of individuals, gradually eroding their confidence and capability, which may cause them to suffer stress."

##### **Harassment is**

"Unwanted conduct that violates a person's dignity or creates an intimidating, hostile, degrading, humiliating or offensive environment." This usually covers, but is not limited to, harassment on the grounds of sex, marital status, sexual orientation, race, colour, nationality, ethnic origin, religion, belief, disability or age.

These definitions are derived from the ACAS guidance on the topic.

Bullying and Harassment are behaviours which are unwanted by the recipient. They are generally evidenced by a pattern of conduct, rather than being related to one-off incidents.

Bullying and harassment in the workplace can lead to poor morale, low productivity and poor performance, sickness absence, mental health issues, lack of respect for others, turnover, damage to the Council's reputation and ultimately, legal proceedings against the Council and payment of legal fees and potentially unlimited compensation.

Approved by the Council on: \_\_\_\_\_

To be reviewed and re-affirmed at the AGM

Signed: \_\_\_\_\_

This Report is jointly published by:



# Bullying and Harassment in Councils

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# Introduction

One Voice Wales & the Society of Local Council Clerks (SLCC) are committed to improving the performance of community and town councils in Wales. One aspect of improvement is around behaviour by both elected members and council employees. While serious issues with behaviour are limited to a small number of cases each year, the impact of these cases is significant for those involved. Unacceptable behaviour can impact on the effectiveness of Councils undermining both loyalty and commitment and a souring of relationships which is in no one's interests. At its very worst it can result in ill-health and sickness absence which is clearly unproductive and very costly to those Councils which experience relationship issues of this nature.

This guidance has been developed by Paul Egan (One Voice Wales) and Naomi Bibi (SLCC) to support both councils and clerks when issues do arise.

Lyn Cadwallader, Chief Executive of One Voice Wales gives his full support to the production of this guide which he considers will help all Councils and employees to understand the nature of unacceptable behaviour and have a toolkit to help everyone ensure that Councils foster effective governance and employment practice. In his view, it is essential that Councils take all necessary actions to root out poor behaviour on the part of members and/or officers so that together a cohesive and focussed approach is adopted in achieving the best outcomes for local people.

As the professional body for local council clerks and chief officers, SLCC is similarly pleased to support the development of this guide. Rob Smith, Chief Executive of SLCC, gave his full support to the production of the guide and noted the value of its aims of improving behaviours, engendering positive relationships and helping councils and employees to deliver for their communities.

## Effective Councillor and Officer Relationships

Councillors have different enthusiasms and interests, so celebrate this. Councillors have different skills and attitudes; for example, some work with ideas while others are very practical; some like accounts while others prefer reports. The community or town council needs a range of skilled people to work as a team.

Your chair has the roles of team leader and umpire at meetings. Some councils appoint a separate council leader, but this party-political role has no status in law. The clerk provides advice and administrative support and takes action to implement council decisions. The clerk may have to act as a project manager, personnel director, public relations officer or finance administrator. The clerk is not just a secretary and is not at the beck and call of the chair or other councillors; the clerk is answerable only to the council as a whole. The clerk is the **proper officer** of the council in law. Legally councils can agree to delegate decisions to clerks because they are professional officers whose independence allows them to act on behalf of the council. Clearly the clerk must be treated with respect. The best councils will have a clerk and councillors who work as a team to serve the community.

## What is bullying and harassment?

Personal harassment takes many forms ranging from tasteless jokes and abusive remarks to pestering for sexual favours, threatening behaviour and actual physical abuse and includes bullying.

What are bullying and harassment? These terms are used interchangeably by most people, and many definitions include bullying as a form of harassment.

Harassment as defined in the Equality Act 2010 is: Unwanted conduct related to a relevant protected characteristic, which has the purpose or effect of violating an individual's dignity or creating an intimidating, hostile, degrading, humiliating or offensive environment for that individual.

Bullying may be characterised as offensive, intimidating, malicious or insulting behaviour, an abuse or misuse of power through means that undermine, humiliate, denigrate or injure the recipient.

Bullying or harassment may be by an individual against an individual (perhaps by someone in a position of authority such as a manager or councillor) or involve groups of people. It may be obvious, or it may be insidious. Whatever form it takes, it is unwarranted and unwelcome to the individual.

Examples of bullying/harassing behaviour include: spreading malicious rumours, or insulting someone by word or behaviour (copying e-mails that are critical about someone to others who do not need to know, ridiculing or demeaning someone – picking on them or setting them up to fail), exclusion or victimisation, unfair treatment, overbearing supervision or other misuse of power or position, unwelcome sexual advances – touching, standing too close, the display of offensive materials, asking for sexual favours, making decisions on the basis of sexual advances being accepted or rejected, making threats or comments about job security without foundation, deliberately undermining a competent worker by overloading and constant criticism, preventing individuals progressing by intentionally blocking promotion or training opportunities.

Bullying and harassment are not necessarily face to face. They may also occur in written communications, email, phone, through social media (e.g., Facebook, Twitter) and automatic supervision methods such as computer recording of downtime from work or the number of calls handled if these are not applied to all staff.

Bullying and harassment can make someone feel anxious and humiliated. Feelings of anger and frustration at being unable to cope may be triggered. Some people may try to retaliate in some way. Others may become frightened and de-motivated. Stress, loss of self-confidence and self-esteem caused by harassment or bullying can lead to job insecurity, illness, absence from work, and even resignation. Almost always job performance is affected and relations in the workplace suffer.

## **SLCC's Research**

In 2017 Hoey Ainscough were commissioned by the SLCC to survey their members on issues relating to council governance, the Code of Conduct and standards arrangements under the Localism Act 2011.

Although the research focussed on England and its regime, Welsh members were included in the survey and the responses were consistent between the regions and countries.

The Localism Act (which does not apply in Wales) arrangements, which deregulated standards arrangements, are now over five years old and SLCC have been receiving increasing anecdotal evidence from their members that in some places standards are deteriorating and the lack of effective sanctions in the legislation for serious or persistent misconduct by councillors was having a negative effect on the governance of some parishes. SLCC therefore wanted to establish on a more systemic basis whether what they were hearing anecdotally was in fact true; if so, what was the scale of the issue and what were the effects. This evidence would be used, where appropriate, to help SLCC decide whether it felt it would wish to push for changes to the English/Welsh statutory framework and to identify what further support its members and the sector might need.

A survey in November 2017 was sent to all SLCC members with a series of questions designed to identify what clerks felt about certain key standards issues. In parallel a shorter questionnaire was sent to the English Monitoring Officers (MOs) of the principal authorities (In Wales, the Public Services Ombudsman investigates complaints) who have oversight of parishes under the legislation to see what impact, if any, parish governance issues were having on their role. We received 801 responses to the clerk questionnaire and 55 responses to the Monitoring Officer survey.

### **Summary of the findings**

The findings from the survey were:

1. The number of complaints against councillors does not appear to have changed since before and after the introduction of the Localism Act, with roughly the same number reporting cases had increased as saying they had decreased

2. Most parish/community councils do not have issues with member behaviour, however a significant minority (some 15%) do have serious issues
3. In those councils with problems, it is generally caused by one or two councillors who are consistently disruptive although there is a smaller minority of councils where the whole council is seen to be acting inappropriately because of factional splits or significant governance failures
4. While the number of cases has remained roughly constant, there is a great deal of dissatisfaction with how those cases are now handled and particularly resolved, with the vast majority of respondents pointing to the lack of powers (unlike in Wales where there is a Public Services Ombudsman that receives complaints concerning alleged breaches of the code of conduct) to remove councillors from office as seriously damaging to the governance of councils where there are significant behavioural issues
5. Most clerks believe they are well supported by the principal authority's Monitoring Officer in helping them deal with issues but a sizeable minority are very dissatisfied with the support they receive (Not necessarily the case in Wales as Monitoring Officers have more of an advisory role to community councils)
6. Most clerks, however, are dissatisfied with the outcome of complaints and the way they have been handled with a minority saying they (and in some cases their councillors) no longer see the point in making a complaint
7. There is a significant feeling that the current legislative framework means certain individuals now believe they are 'untouchable' and are given free rein to cause disruption and that problems therefore go on longer without coming to a resolution (see section below on the Ledbury Town Council Judicial Review 2018)
8. Disruption generally seems to be either because of personal animosities between councillors or else because individuals or small groups of councillors are challenging the 'status quo' and see themselves as outsiders who wish to change the way that the council has traditionally been run
9. There is a small minority of councils where the behavioural issues are aimed directly against the clerk or other staff, but more generally the clerk tends to get caught in the crossfire, either as part of the general targeting of the way the council is run or because they are having to manage the behaviour or reconcile the factions. However, a minority of respondents said they had left a previous role as a clerk because of the way they were being treated and a handful of respondents were either currently engaged in an employment dispute with their council or actively considering it
10. Some councils and their councillors struggle to understand the rules around declarations of interest and a minority of councillors appear routinely to ignore the rules as they do not believe there will be any consequences

11. Councillors (particularly longstanding councillors) are resistant to receiving training, either because they see no benefit or feel they have received training in the past, or simply because they are volunteers who cannot commit the time. The availability and cost of training is also seen as a major barrier to getting councillors to go on training courses.

## **What is the difference between a grievance and a Code of Conduct complaint?**

In simplest terms, a grievance is a complaint by an employee about the actions of his or her employer, their terms and conditions of employment, work they are being asked to undertake or the working environment. It may relate to the conduct or attitude of a colleague.

In the Community and Town Council sector, a grievance is a complaint about the Council as a corporate body and an employer. A grievance cannot be just about the behaviour of an individual councillor. It may be linked to the behaviour of a councillor but only to the extent that the Council as an employer has not prevented or managed the unacceptable behaviour. A grievance may be about a person's line manager if they are another member of staff.

A line manager cannot raise a grievance about a more junior member of staff – if there is an issue of this nature that should be dealt with through normal staff management processes. Nor can a councillor raise a grievance about a member of staff – this should also be managed through normal management processes.

A council has a duty to redress the grievance of an employee promptly and fairly.

A Code of Conduct complaint relates to behaviour by an individual who may have breached the formal Code regulating the behaviour of councillors or the separate Code for officers. Behaviours that are unacceptable are set out in the Codes of Conduct. A Code of Conduct complaint against a councillor is dealt with by the Public Services Ombudsman for Wales and cannot be dealt with by the Community or Town Council under the statutory framework. However, One Voice Wales has developed a 'Model Local Resolution Protocol' for dealing with low-level complaints about members which the PSOW supports (see later in this guidance).

The Code of Conduct for officers forms part of an employee's terms and conditions of appointment. A complaint that an officer has failed to comply with the Code of Conduct is a disciplinary matter for the relevant Community or Town Council. The Ombudsman has no power to investigate a breach of the employee Code of Conduct. That said, where the alleged conduct results in potential maladministration by the Council, that aspect may fall within the Ombudsman's powers to investigate a complaint by the person directly affected.



## **What should you do to resolve the complaints in the first instance?**

In either case attempts to resolve matters informally should always be attempted before any formal process is contemplated. Ways of doing this can be as simple as an open and frank discussion or a more involved facilitated mediation. In these situations, nobody has anything to lose by trying to resolve a situation before it escalates.

Raising a formal complaint is not something that can or should be undertaken lightly. Even the most justified complaints damage relationships in the workplace in both the short and longer term.

## **Making Complaints to the Public Service Ombudsman for Wales (PSOW)**

The Ombudsman considers that resources should not be used to investigate matters which are trivial, or which have little or no impact on the public. It is important that PSOW focusses its investigations on matters that are serious and have the potential to undermine the relationship between councillors and the public they serve, such as corruption, bullying and misuse of power in public office.

The Ombudsman uses a two-stage test when receiving complaints about breaches of the Code.

### **The two-stage test**

The process requires the application of a two-stage test. Where she is satisfied that a complaint is supported by direct evidence that a breach has taken place, initially the public interest is considered in deciding whether a complaint against a councillor can and should be investigated. She considers the public interest again during an investigation to ensure that it should continue and, finally, again, when determining whether a matter should be referred to a Standards Committee (SC) or to the Adjudication Panel for Wales (APW) for consideration.

There is no widely accepted definition of public interest, but it has been described as “something which is of serious concern and benefit to the public”. The public interest therefore relates to something which has an impact on the public and is not merely a matter the public finds to be of interest or a matter that impacts solely on an individual (although an individual may be more directly impacted by the matter than the wider public).

The published public interest factors the Ombudsman considers are set out below:

- the seriousness of the breach
- whether the member deliberately sought personal gain for themselves or another person at the public expense

- whether the circumstances of the breach are such that a member has misused a position of trust or authority and caused harm to another
- whether the breach was motivated by any form of discrimination against the victim's ethnic or national origin, gender, disability, age, religion or belief, sexual orientation or gender identity

It is clear therefore that councillors or Clerks making a complaint about harassment or bullying should ensure that there is sufficient evidence to support its consideration in terms of the impact on the individual concerned and how it may impact on the work of the Council and in turn the services delivered to the town or community. It goes without saying that witnesses who may be able to support a complaint should be identified in any complaint or statements in support of allegations should be provided to support the complaint.

### **Considerations**

Then taking any of the above factors into account, relevant considerations can include the circumstances of the complaint; the extent to which the councillor was responsible for, or was to blame for, the alleged breach; whether the alleged conduct was premeditated and/or planned and whether the alleged conduct has caused harm or impacted on another person, group or body. Views expressed by the complainant, or any other person affected by the alleged conduct, relating to the impact and effect should also be considered. Other considerations may be:

- whether there is evidence of previous similar behaviour on the part of the member
- whether the Councillor has been the subject of any previous complaints or investigations, or been referred to the Standards Committee (SC) or the Adjudication Panel for Wales (APW) for a similar matter? Is the alleged conduct ongoing, repeated or is there evidence of escalating behaviour?
- whether the investigation or referral to an SC or the APW is required to maintain public confidence in elected members in Wales
- whether investigation or referral to an SC or the APW is a proportionate response. Consider whether it is likely that the breach would lead to a sanction being applied to the member and whether the use of resources in carrying out an investigation or hearing by an SC or the APW would be regarded as excessive, when weighed against any likely sanction.

Public interest will not be decided based on resource alone, but this is a relevant consideration when making an overall assessment. A balanced view should be taken and consideration of the outcomes of previous cases considered by SCs across Wales and the APW will be helpful in achieving this.

The list is not exhaustive and not all factors will be relevant to every case.

# The role of the Council and Chairman

## The legal position

Councils as employers are responsible for preventing bullying and harassing behaviour. It is in their interests to make it clear to everyone that such behaviour will not be tolerated — the costs to the business of the Council may include poor employee relations, low morale, inefficiency and potentially the loss of staff. An organisational statement to all councillors and staff about the standards of behaviour expected can make it easier for all individuals to be fully aware of their responsibilities to others.

Councils are encouraged to adopt a policy setting out its expectations and approach to dealing with identified cases of bullying and harassment by individual councillors towards other councillors and employees and relating to bullying and harassment by employees. One Voice Wales and the SLCC can provide model policies to assist Councils.

## The Code of Conduct

The Public Service Ombudsman for Wales has published guidance to assist councillors understand their obligations under the Code. The guidance makes it very clear that bullying and harassment constitutes a breach of the Code. The guidance can be accessed from the following web-link:

<https://www.ombudsman.wales/wp-content/uploads/2021/05/Code-of-Conduct-Guidance-Community-Councils.pdf>

One Voice Wales has also provided member councils with a model informal resolution process which can be used to deal with low level complaints from employees (other than the Clerk) against councillors and from councillors against councillors. The Ombudsman is very supportive of this process and encourages all councils to adopt it and use it whenever possible to resolve issues at an early stage before problems escalate. Wherever possible consideration should be given to using the informal resolution process which will enable the following matters to be considered in a more timely way and enable the individuals concerned to reach an appropriate form of agreement which is mutually acceptable. Those matters that are suitable for local resolution are:

- Minor complaints from Members about Members
- Minor complaints from Officers about Members
- Members alleged to have not shown respect and consideration for others – either verbally or in writing
- Repetitive low level and frivolous complaints

Please note that even when a council has adopted an informal resolution process these are only appropriate for these types of complaints and the Ombudsman may decide to investigate any cases which the Ombudsman considers raise more serious matters.

## **The role of the Chair of a Council**

It is the Chair's responsibility to preserve order in the conduct of those present at meetings of the Council. It is also likely to be the case that the Chair will be the person whom the Clerk will approach for information about the Council and the community/town, to seek to informally discuss matters with and informally consult on decisions that are in the Clerk's remit to make or pass back to a formal meeting. In the context of the formal role at meetings, the Chair has a duty to ensure that the behaviour of members is appropriately monitored and if there are clear examples of bullying or harassment relating to councillors or the Clerk, the Chair should warn those concerned to desist from such behaviour. In extreme cases, the Chair or any other member can put a motion to the meeting to expel a councillor from the meeting.

## **The Council's Values and Beliefs**

Although cases of bullying and harassment in Councils are probably limited to a minority of Councils it may be helpful for all Councils to consider adopting a values and beliefs statement that demonstrates to both councillors, employees and the public its position in relation to human interrelationships within the Council. Some examples are: -

### **Example 1**

#### **Trust and respect**

We trust residents to make choices and decisions that are best for them. We will help when we are needed. The way we work together as staff, councillors, and partners reflects trust and respect for each other.

#### **Pride**

Our elected councillors and our staff are proud to work for us. They are committed to making our town a great place to live, and even a better place to do business.

#### **Working as a team**

The way we work together as councillors and staff makes sure we are the best we can be. We avoid duplication, tackle inefficiency and improve services and experience of residents and customers.

#### **Being valued**

We recognise our many responsibilities for keeping the area and our residents safe and prosperous. We recognise our councillors and staff for their contribution and for our success.

### **Example 2**

**Leadership** - Councillors are elected to represent their communities and to lead on issues that will affect the lives of local people.

**Integrity** – operating with integrity, being ethical, trustworthy and reliable and treating others with respect.

**Tenacity/ Persistence** – work proactively to achieve the decision of the Council even if it takes a long time and a great deal of effort.

**Communication** – to give the public the opportunity to ask questions and engage with the Council, and to publicise the work of the Council.

**Strong financial management** – to ensure that the Council's resources are managed effectively and efficiently, at least cost, yet maintain quality.

**Training** – to support relevant training for Councillors and staff members.

**Working as a corporate body** – to respect decisions made democratically

These would serve to ensure that the Council is observing the ten principles that underpin the Code of Conduct which are:

A) Selflessness - Members must act solely in the public interest. They must never use their position as members to improperly confer advantage on themselves or to improperly confer advantage or disadvantage on others.

B) Honesty - Members must declare any private interests relevant to their public duties and take steps to resolve any conflict in a way that protects the public interest.

C) Integrity and Propriety - Members must not put themselves in a position where their integrity is called into question by any financial or other obligation to individuals or organisations that might seek to influence them in the performance of their duties. Members must on all occasions avoid the appearance of such behaviour.

D) Duty to Uphold the Law - Members must act to uphold the law and act on all occasions in accordance with the trust that the public has placed in them.

E) Stewardship - In discharging their duties and responsibilities members must ensure that their authority's resources are used both lawfully and prudently.

F) Objectivity in Decision-making - In carrying out their responsibilities including making appointments, awarding contracts, or recommending individuals for rewards and benefits, members must make decisions on merit. Whilst members must have regard to the professional advice of officers and may properly take account of the views of others, including their political groups, it is their responsibility to decide what view to take and, if appropriate, how to vote on any issue.

G) Equality and Respect - Members must carry out their duties and responsibilities with due regard to the need to promote equality of opportunity for all people, regardless

of their gender, race, disability, sexual orientation, age or religion, and show respect and consideration for others.

H) Openness- Members must be as open as possible about all their actions and those of their authority. They must seek to ensure that disclosure of information is restricted only in accordance with the law.

I) Accountability - Members are accountable to the electorate and the public generally for their actions and for the way they carry out their responsibilities as a member. They must be prepared to submit themselves to such scrutiny as is appropriate to their responsibilities.

J) Leadership - Members must promote and support these principles by leadership and example so as to promote public confidence in their role and in the authority. They must respect the impartiality and integrity of the Council's statutory officers and its other employees.

## **Ledbury Town Council Judicial Review 2018 and its relevance in Wales**

### **Introduction**

Although the Ledbury case was a judicial review in England the decision's underlying principles are relevant to Wales and are founded in the legislative framework and the Code of Conduct in Wales. Caselaw such as the Heesom and Calver cases also provide useful context for the application of the Code in Wales.

### **The Ledbury Case**

The case arose after the Clerk & Deputy Clerk raised grievances about the conduct of two councillors. It was alleged that the councillors were bullying and harassing staff and preventing them from carrying out their duties. The grievances were investigated by the Council's advisor and the grievances upheld. The councillors appealed the outcome of the grievance.

Cllr Harvey believed that the matter was purely a Code of Conduct matter and self-referred to the Monitoring Officer. In May 2016, the Town Council put in place measures that restricted Cllr Harvey's access to the Clerk and Deputy Clerk, removed her from committees and outside bodies, prevented her from acting as a substitute for another councillor and informed other bodies of its decision.

On 11<sup>th</sup> May 2017 the Council resolved to maintain and extend the prohibitions. Shortly after that the Monitoring Officer confirmed that the investigation of Cllr Harvey's self-referral had concluded there was no breach of the Code.

## **What were the issues at Judicial Review?**

Cllr Harvey challenged the 11<sup>th</sup> May 2017 decision on the grounds that the decision was ultra vires as it should have been dealt with as a Code of Conduct complaint by the Principal Authority and not an internal grievance.

She also claimed the decision was substantively unfair as it breached her Article 10 rights to freedom of expression or substantively unfair at common law.

She further claimed procedural unfairness through the absence of investigation, detail of complaints about her, failure to disclose the full evidence to the Council and its failure to allow Cllr Harvey to defend herself.

The Council's view was that it was acting to protect its staff and that it had the powers to do so.

## **The Decision**

The Court agreed that the correct process for dealing with councillor behaviour is through the Principal Authority and the Code of Conduct under the Localism Act 2011. This follows the reasoning in previous cases and to a certain extent could have been expected as an outcome.

The Court while not having to consider the second and third issues found some of Cllr Harvey's argument persuasive. The discussion in the judgement providing useful guidance.

## **Implications of the Judicial Review**

Where a complaint relates to the conduct of a councillor in Wales and falls into the provisions of the Council's Code of Conduct, the Council can and should attempt to resolve it informally. If this informal approach fails then it may be passed to the Public Services Ombudsman for Wales (PSOW) as a local council has no powers to deal with the matter. Where the PSOW investigates a complaint and decides that the complaint should be referred to either a local standards committee or the Adjudication Panel for Wales, where breaches of the Code are found, they may decide to impose a sanction such as censure or suspension on the councillor.

Any complaint about a councillor's conduct should be regarded as a Code of Conduct complaint even if the complainant is an employee and it is raised in a grievance.

A complaint may fall outside the Code of Conduct in which case the Council must carry out or arrange for a proper investigation. There may also be overlapping issues that the Council as an employer should address in addition to any Code of Conduct being considered by the PSOW. The procedure followed must identify the issues in full, separating the issues as necessary. It must also ensure that the subject of the allegations is provided with details of the allegations and evidence so that they can provide a response.

Any subsequent measures taken as the employer must be proportionate and limited to the minimum required to stop the issue recurring. The measures should be kept under regular review and their effectiveness evaluated.

### **Further Commentary**

In the wider context of regulating employment relations between a council and its staff the Ledbury decision does not obviate a council's duty of care towards its employees. Nor does it invalidate the principle of employers' vicarious liability established in the Bude Stratton case. This principle is clear that a council as a corporate body may be legally liable for the actions of individual members.

It is still possible for a Council to protect its employees if done correctly and that Councils have both preventative and reactive protective measures that they can apply. These are:

#### Preventative

Dignity at work policy

Member Officer protocol (perhaps with limitations on officer contact time)

Good induction of new members and ongoing training for existing members

Good policies to support effective governance

#### Reactive

Must be temporary (for example pending the decision of the PSOW)

Regularly reviewed

Relevant and proportionate

Not punitive

Still enables a councillor to carry out their role

Make a corporate Code of Conduct complaint – supported by/supporting the employee



## Support for Councils and Clerks

There are several available sources of support including:

### Mediation

In some cases, it may be appropriate to consider engaging an external mediator to assist in the handling of complaints relating to bullying and harassment. There are a range of sources of this form of service and One Voice Wales does engage a qualified consultant who can assist in such cases.

### Training of Members

One Voice Wales offers six training courses that are relevant in this context and they are:

Code of Conduct

Council as an Employer

Equality and Diversity

Effective Staff Management

Mediation Skills

The Councillor

### Support available for individuals

SLCC members can access a wide range of training and personal development opportunities which can support them. By developing their professional skills and knowledge they can equip themselves to better manage some of the demands of their role. Available opportunities include ILCA, CiLCA, the Community Governance degree, and continuing professional development courses.

SLCC members also have access to a free counselling service to provide individual support when they are experiencing distress in their personal and professional lives. Details of this can be obtained by logging into the SLCC website.

In addition to this SLCC members who are also members of the Association of Local Council Clerks are entitled to individual employment advice and support from the trade union. Details of this can be found at [www.alccunion.co.uk](http://www.alccunion.co.uk). Clerks may also be members of other trade unions who can offer individual employment advice and support.

## **Making a complaint and evidencing it**

One Voice Wales and SLCC are aware that bullying and harassment allegations have primarily originated from Clerks in several Councils in Wales and in all cases, it has related to the approach of individual councillors rather than the Council. We are also aware that Clerks who have submitted complaints to the Public Services Ombudsman for Wales have often been dissatisfied with the result that the case has not been investigated. This has occasionally resulted in councillors often wrongly assuming that they have been exonerated. In those cases where Clerks have not been able to resolve such issues within the Council itself, the following checklist has been put together to assist them in formulating any complaint they may wish to submit to the Public Services Ombudsman for Wales.

# Making a Complaint of Bullying and/or Harassment

## Checklist

### Factual Evidence

- Can you document the dates, times and location?
- Do you have any witnesses who will support you?
- Are the witnesses prepared to write and sign a witness statement to accompany your complaint?
- Are the witnesses prepared to be interviewed if an investigation is undertaken by the PSOW or by the Council in the case of a grievance?

### Read and Understand the Code of Conduct

- Identify which parts of the Code have been breached and how
- Explain how you consider the member has breached the Code

### Collection of Written Evidence

- E-Mails
- Letters
- Memos
- Comments on social media
- Other

### What support has been provided to you

- Staff
- Chairman/Mayor
- Other Councillors
- SLCC
- ALCC/ trade union

### What is the impact on you personally

- Feeling undermined
- Illness (Describe)
- Absence from Work

## Conclusion

The purpose of this guide is to help Councils and their employees develop a greater awareness and understanding of what constitutes unacceptable behaviour, the impact it can have on individuals and the Council as a whole and above all, what steps can be taken to address such issues when they occur.

## Useful Links & Materials

OVW website - [www.onevoicewales.org.uk](http://www.onevoicewales.org.uk)

SLCC website - <https://www.slcc.co.uk>

PSOW website - <https://www.ombudsman.wales>

ALCC website - <https://www.alccunion.co.uk>