AGENDA

Meeting:	**Wiltshire Pension Fund Committee**
Place:	**Kennet Room - County Hall, Bythesea Road, Trowbridge, BA14 8JN**
Date:	**Thursday 17 November 2022**
Time:	**10.00 am**

Please direct any enquiries on this Agenda to Kieran Elliott, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718504 or email kieran.elliott@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

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Membership:

Voting Membership
Wiltshire Council Members:
Cllr Richard Britton (Chairman)
Cllr Pauline Church
Cllr George Jeans
Cllr Gordon King
Cllr Christopher Newbury

Substitute Members
Cllr Ernie Clark
Cllr Sarah Gibson
Cllr Gavin Grant
Cllr Carole King
Cllr Dr Nick Murry
Cllr Ian Thorn
Cllr Robert Yuill

Swindon Borough Council Members
Cllr Steve Heyes
Cllr Kevin Small

Substitute Members
Cllr Vijay Manron

Employer Body Representatives
Tracy Adams
Claire Anthony

Non-voting Membership
Observers
Stuart Dark
Mike Pankiewicz

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Public Participation

Please see the agenda list on following pages for details of deadlines for submission of questions and statements for this meeting.

For extended details on meeting procedure, submission and scope of questions and other matters, please consult Part 4 of the council's constitution.

The full constitution can be found at this link.

For assistance on these and other matters please contact the officer named above for details
 details

Items to be considered		Time

PART I

Items to be considered when the meeting is open to the public

1	**Apologies** To receive any apologies for absence or substitutions for the meeting.	**10.00**
2	**Minutes of the Previous Meeting** *(Pages 7 - 12)* To approve and sign as a true and correct record the minutes of the previous meeting held on 6 October 2022.	
3	**Declarations of Interest** To receive any declarations of disclosable interests or dispensations granted by the Standards Committee.	
4	**Chairman's Announcements** To receive any announcements through the Chairman.	
5	**Review of the Minutes of the Local Pension Board** *(Pages 13 - 22)* To receive the minutes of the meeting of the Local Pension Board held on 27 October 2022. To review the summary of any recommendations made by the Board.	
6	**Public Participation** The Council welcomes contributions from members of the public. Statements If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named on the front of the agenda for any further clarification. Questions To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the front of this agenda no later than 5pm on 10 November 2022 in order to be guaranteed of a written response**.** In order to receive a verbal response questions must be submitted no later than 5pm on 14 November 2022. Please contact the officer named on the front of	

this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

7 **Triennial Valuation Results (and accompanying policies)** *(Pages 23 - 112)* **10.15**

The Scheme Actuary (Hymans), the Head of Pensions and the Pensions Administration Lead will present the following:

a) Whole Fund Valuation Results and Employer Results overviews (Hymans)
b) A revised Funding Strategy Statement and Cessation Policy and a new Prepayment and employer contribution rate review policy (Head of WPF/Pensions Administration Lead)

8 **Responsible Investment Update** *(Pages 113 - 128)* **11.45**

The Investment and Accounting Officer to present a report on the Fund quarterly responsible investment performance.

9 **Corporate Recharge** *(Pages 129 - 130)*

To receive a paper submitted by the Chair of the Local Pension Board in relation to the Fund's Corporate Recharge to Wiltshire Council and associated setting of agreed Service Levels.

10 **Taskforce on Climate-related Financial Disclosures (TCFD) Consultation Response** *(Pages 131 - 132)*

To provide the Committee with the Funds proposed response for the TCFD consultation (Appendix to follow)

11 **Date of Next Meeting** **12.00**

To confirm the dates of upcoming meetings.

14 December 2022 (Administration)
2 March 2023 (Investment)

12 **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

13 **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 14 – 15 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

Item(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

14 **Strategic Asset Allocation** *(Pages 133 - 210)* **12.45**

The Scheme's Investment Advisers (Mercer) will present a report setting out the Fund's strategy asset allocation and next steps.

15 **Investment Quarterly Progress Update** *(Pages 211 - 250)* **13.45**

The Investment and Accounting Officer to present a report on the Fund quarterly investment performance.

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Wiltshire Council

Wiltshire Pension Fund Committee

MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 6 OCTOBER 2022 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:
Cllr Richard Britton (Chairman), Cllr Steve Heyes (Vice-Chairman), Cllr Gordon King, Mike Pankiewicz and Claire Anthony

184 **Apologies**

Apologies were received from Councillors George Jeans and Jonathan Seed, and Tracy Adams.

185 **Minutes of Previous Meetings**

The minutes of the meeting held on 5 September 2022 were presented for consideration, and it was,

Resolved:

To approve and sign the minutes as a true and correct record.

186 **Declarations of Interest**

There were no declarations.

187 **Chairman's Announcements**

It was agreed to take an additional item at Item 21 in respect of an audit report on the pension payroll reconciliation.

The Brunel Investor Day took place on 28 September 2022.

188 **Review of Actions Arising From Previous Meetings**

The Committee reviewed the list of actions arising from previous meetings, including to monitor Brunel's reaction to the proposed audit of savings.

189 **Review of the Minutes of the Local Pension Board**

The minutes and recommendations of the meeting of the Local Pension Board on 18 August 2022 were received and noted. Recommendations would be considered against the relevant agenda items, as detailed in the agenda papers.

190 **Public Participation**

There were no statements or questions submitted.

191 **Headlines and Monitoring (HAM)**

Jennifer Devine, Head of Wiltshire Pension, supported by other officers presented the Headlines and Monitoring Report.

Progress against high priority Business Plan actions were reviewed as set out in the report. Details were provided the signing of a contract with Hymans to outsource backlogs, identified as a priority action in the review by Aon. Bids had also been received for outsourcing of work to complete the pensions reconciliation project.

An update was also provided on investments in light of the volatile situation arising from impacts on gilts. Members had been provided a news article to assure them of the lack of impact for their benefits. The Committee discussed and debated liability driven investment.

Administrative updates were also provided, with delays to the process of employers transferring to the I-connect system due to changing payroll systems. The risk register was also reviewed, including additional risks regarding energy stability and cost of living, and the Committee discussed key performance indicators and developing a further plan to achieve greater progress against these, which would need to be reviewed by the Local Pension Board and Committee.

At the conclusion of discussion, it was,

Resolved:

1) **To note the updates received.**

2) **To approve the changes to the Risk Register set out in the report and as recommended by the Local Pension Board and officers.**

192 **Business Plan 2022-2023**

Jennifer Devine, Head of Wiltshire Pension Fund, presented an update on Business Plan actions as set out in the agenda.

In response to queries it was confirmed work on the backlogs should begin shortly, and that work to ensure compliance with the good governance review was proceeding.

A further update would be provided to the Committee at its meeting in December 2022.

At the conclusion of discussion, it was,

Resolved:

To note the update on the Business Plan.

193 **Key Financial Controls**

Christopher Moore, Pension Fund Accounting and Investment Officer, presented a report on Key Financial Controls as detailed in the agenda.

The progress in implementation of the council's Evolve project was explained, with no additional concerns for the Fund's administration, with a replanning phase taking place which might lead to a delay. Details were also provided on the Fund's running costs, inflationary pressures and the impact of any pay award.

The Treasurer to the Fund, Andy Brown, provided details of the signing off of the council's 2021/22 accounts, which meant the Fund's accounts could also not be signed off. The council continued to work with auditors to address the issue.

Details were also provided about the ongoing work to resolve discrepancies between payroll systems.

At the conclusion of discussion, it was,

Resolved:

To note the update on Key Financial Controls.

194 **AVC Performance Review**

Liam Robson, Pension Fund Accounting and Investment Officer, presented a report providing an overview of additional voluntary contribution (AVC) activity in 2021/22.

It was stated that about 3% of members took up the option, which was similar to other Funds, with a valuation summary provided in the report for 31 March 2022.

It was then,

Resolved:

To note the uprate regarding the level of service being provided by Prudential and valuation of the AVC accounts.

195 **Pension Payroll Database Reconciliation**

A report was received updating the Committee on the ongoing reconciliation project between the pension administration system, Altair, and the pensioner payroll system (SAP).

Further updates would be discussed under Part II and discussion of an audit report from South West Audit Partnership.

196 **Committee Forward Work Plan**

The Forward Work Plan was received for consideration.

Comments were received on changes to be made to the risk register, and the review of the annual reports and accounts.

Resolved:

To note the Forward Work Plan.

197 **Date of Next Meeting**

The next meetings of the Committee would take place on 17 November and 14 December 2022.

198 **Urgent Items**

There were no urgent items.

199 **Exclusion of the Public**

It was,

Resolved:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 200-204 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

200 **Urgent Items**

An update was received regarding the Pensions Payroll Reconciliation Project, and a report from the internal auditors SWAP.

The complexity of the reconciliation project, addressing errors built up between discrepancies of the systems over many years, was highlighted. It was confirmed that all remaining cases with a difference of >£5 per month between the two systems would be resolved by outsourcing to an external provider.

The Committee discussed the report, noting the concerns raised by SWAP around measurable deadlines and monitoring among other matters. They noted that previous updates to the Committee and Board had identified many of these issues, and noted the actions taken to fully resolve the project that had been set out.

It was agreed that quarterly reports would continue to be received at present, and then within the Headlines and Monitoring Report.

201 **Minutes of Previous Meetings**

The Part II minutes of the meeting held on 5 September 2022 were received, and it was,

Resolved:

To approve and sign the minutes as a true and correct record.

202 **Local Pension Board Minutes**

The Committee received and noted the Part II minutes of the Local Pension Board meeting held on 18 August 2022.

203 **Cyber Security Review**

A presentation and report was received from AON, providing Cyber Assessment Reports for both Wiltshire Council and Heywood Pensions Technologies

The methodology of the assessment was set out, identifying gaps, strengths and weaknesses against best practice. In general, the council was found to have a reasonable level of cyber maturity, with a number of risks identified at a medium level, along with proposed resolutions. No concerns had been raised regarding Heywood Pensions Technologies.

The Committee discussed the presentation and report, which had been prompted following a report from the internal auditors. To assist in the clarification of risks identified at a medium level with the Wiltshire Council report the Committee raised questions with both the Aon Consultants and the Deputy Chief Executive of Wiltshire Council, who was also present at the meeting. The assurance received concerning the progress made was welcomed. However, it was agreed that further discussions would be needed about what further progress could be made -. Based on the outcome of those discussions, the Committee could then determine what, if any additional risk mitigation steps it should take to ensure that it was compliant with the Pension Regulator's guidance.

Additionally, officers agreed to co-ordinate the receipt of questions from members after the meeting, so that a responses could be provided by Aon in time for the Committee meeting in December.

At the conclusion of discussion, it was,

Resolved:

1) **To note the update, and receive a formal response from the council at the next administration focused meeting.**

2) **For members to submit any supplementary questions to officers, relating to Aon's reports.**

204 **Brunel Governance Update**

The Head of Wiltshire Pension Fund, Jennifer Devine, updated the Committee regarding the Brunel Pensions Partnership governance. The Committee discussed the responses to issues raised by the Shareholder Group, potential increases to budget, and reviewing fee savings.

(Duration of meeting: 10.00 am - 12.45 pm)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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Local Pension Board

MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 27 OCTOBER 2022 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:
Mark Spilsbury (Chairman), Marlene Corbey (Vice-Chairman), Laura Fisher, Asifa Ashraf, Mike Pankiewicz and Juliet Weimar

Also Present:
Cllr Richard Britton

143 **Apologies and Membership**

There were no apologies.

It was confirmed that Full Council had ratified the appointment of Juliet Weimar at its meeting on 18 October 2022.

144 **Minutes and Action Tracking**

The public minutes of the meeting held on 18 August 2022 were presented for consideration. The action log was noted, in particular in relation to the recharging of services from Wiltshire Council.

It was then,

Resolved:

To approve and sign the minutes as a true and correct record.

145 **Declarations of Interest**

There were no declarations.

146 **Chairman's Announcements**

The Chairman updated the Board on discussions held with the Chairman of the Wiltshire Pension Fund Committee and officers on actions to further strengthen the working relationship between the Board and Committee. This would include the Board Chairman providing a brief comment- summarising the minute where a Board recommendation had also been made.

147 **Public Participation**

There were no questions or statements submitted.

148 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee and Investment Sub-Committee**

The public minutes of the Wiltshire Pension Fund Committee meeting held on 5 September 2022 were received for any comment. The minutes of the meeting of the Committee held on 6 October 2022 were included in Agenda Supplement 1, and would be formally noted at the next meeting, due having been published the day prior to the Board meeting.

It was then,

Resolved:

To note the minutes of the Wiltshire Pension Fund Committee meeting held on 5 September 2022.

149 **Scheme, Legal, Regulatory and Fund Update**

A written update was received on Scheme, Legal, Regulatory and Fund matters.

Minor changes were included as detailed in the agenda papers, and it was noted that the Department for Work and Pensions, Pension Dashboard project had now been pushed back to September 2024 because of more time being needed to resolve issues for public service pensions arising from the McCloud legal judgement.

Resolved:

To note the update.

150 **Business Plan 2022-2032**

The Head of Wiltshire Pension Fund, Jennifer Devine, presented an update on the Business Plan. Progress was reported against most items, as detailed in the agenda papers, however an action on implementing integrated payments was now expected to take place during the next financial year due to resolving software issues.

The Board discussed the update, and details were sought on development of an improvement plan in relation to action 3, in respect of achieving key performance indicator targets. It was stated data was being analysed, and a plan was expected to be completed in 2022, to be presented at the next meeting in February 2023.

Details were also sought on the customer service excellence review, and collaboration with partner funds on defining the future direction of the Brunel Pensions Partnership.

Resolved:

To note the updated Business Plan 2022-32.

151 **Training Update**

The Head of Wiltshire Pension Fund, Jennifer Devine, presented an update on the Business Plan. Progress was reported against most items, as detailed in the agenda papers, however an action on implementing integrated payments was now expected to take place during the next financial year due to resolving software issues.

The Board discussed the update, and details were sought on development of an improvement plan in relation to action 3, in respect of achieving key performance indicator targets. It was stated data was being analysed, and a plan was expected to be completed in 2022, to be presented at the next meeting in February 2023.

Details were also sought on the customer service excellence review, and collaboration with partner funds on defining the future direction of the Brunel Pensions Partnership.

Resolved:

To note the updated Business Plan 2022-32.

152 **Administration Quarterly Key Performance Indicators and Data Improvement Plan**

The Board received an update from Andy Cunningham, Pension Administration Lead.

The Board discussed the report and update, seeking detail of backlogs of work, outsourcing, and monitoring volumes of remaining tasks. The improvement in high level key performance indicators was noted, but worsening in the percentage for medium priority tasks. It was also confirmed the Board would still receive detailed reports in future as well as more high level presentation of the key data.

It was,

Resolved:

To note the report.

153 **Key Financial Controls**

Jennifer Devine, Head of Wiltshire Pension Fund, presented a report on Key Financial Controls.

Details were provided the external audit, and further delays to the council's accounts being signed off. It was reported the remaining pensioner payroll reconciliation work was being outsourced, which would reduce the open cases moving forward.

The Board discussed the reports. Dissatisfaction was expressed with a lack of updates from the council regarding reviewing the calculation for charging the Fund for council services. It was noted that the council was beginning its budget setting for the next year, and the Committee should raise the matter urgently with the Corporate Director, Resources at its next meeting.

Further details were sought on the payroll reconciliation, where over or underpayment occurred due to discrepancy between the pension administration system and SAP.

At the conclusion of discussion, it was,

<u>Resolved:</u>

To note the report.

154 **<u>Responsible Investment Plan</u>**

A report was received from Liam Robson, Pension Fund Accounting and Investments Officer, on updates relating to the Responsible Investment Plan.

The report provided updates on training and engagement, that all actions scheduled for quarters 2 and 3 2022 had or were due to be completed, and gave details of events such as a climate stocktake with Brunel to discuss priorities and for Brunel to update on progress and development of its own climate policy.

The Board discussed the update, asking questions on how Hymans tested strategies to determine the effect of different responses to climate scenarios on the Fund

Details were sought on the Employer Strategic Focus Group, which was a growing group of employers which looked at funding and investment issues as well as engaging on responsible investment.

At the conclusion of discussion, it was,

<u>Resolved:</u>

To note the progress made against the Responsible Investment Plan 2022/23.

155 **Data Retention Policy**

The Board received an update from Andy Cunningham, Pension Administration Lead on the Data Retention Policy. Changes set out in the report were stated to be mostly minor, with changes including to deletion of membership data dates.

After a short discussion, including noting the allocation of resources to transition to new Sharepoint systems, once higher priority actions had been completed.

It was then,

Resolved:

To endorse the Data Retention Policy.

156 **Audit Update**

A report was received updating the Board on the progress of 2022/23 audits commissioned by the Wiltshire Pension Fund Committee, and the actions log of SWAP key financial controls audit March 2022.

Details were presented as set out in the report. The Board discussed revised dates for actions 2-7 as set out in appendix 1 of the report and if these would remain on track for the end of December 2022. These actions relating to Contribution & Projects were discussed and officers felt confident that the deadlines could be achieved. With regard to the other actions it was noted that officers also felt confident that those target dates could be achieved too, where these outstanding actions where within the control of Fund officers and not 3rd parties. Queries were also raised on reductions in the operational backlog. In this respect officers confirmed that 3rd party service providers had now been appointed in respect of both the identified backlog areas. In additional, further discussions would be held with SWAP at part of their 2022/23 key financial controls audit, which would include revisiting the recommendations made during their 2021/22 audit.

Regarding audits and self-assessments commissioned by the Committee for 2022/23, officers confirmed that the following where in current stages of progress:

a) Pension Payroll Reconciliation
b) TPR self-assessment
c) Statutory Returns: &
d) Brunel Cost Savings

Officers would report to the Committee and the Board on the progress and outcomes of those audits and self-assessments as they arose.

Resolved:

To note the audit update.

157 **Risk Register Update**

A report was received on the risk register and officers proposed changes for consideration by the Wiltshire Pension Fund Committee, and the Board's recommendation regarding those risks.

The Board supported the proposed changes, though sought details of potential risks from unanticipated outcomes from the cost-of-living crisis or geopolitical situation on the Fund. Officers responded to the term "unanticipated outcomes" stating that this largely revolved around changes in human behaviour, where that be scheme members, employer staff or the Fund's own staff. A watching brief would be maintained around such matters like an increase in scheme members opting out of the scheme. The Board also recommended reviewing risk PEN011 regarding expertise of officers, to see if this could be changed from amber to green. Officers agreed to take this recommendation forward to the Committee.

The Board also received a presentation on the development of a newly formulated and formatted risk register, which was designed to be embedded in the Fund's operational practices. This new risk register would enable easier analysis of tasks, but also retain the capability to monitor strategic activities and other matters by appropriate dates and by level of risk.. Operational risks would be funnelled into 20 risk themes to make it easier for Board and Committee members to assess. Noting that the current dynamically driven risk register had grown in size significantly in the last 3 years making it difficult to review.

It was,

Resolved:

To note the risk register and recommend the changes as set out in the report and as detailed above.

158 **Employer Compliance and Performance**

A report was received on the officer strategy in relation to the monitoring of employer compliance and performance. The terms of reference for the Board included oversight of compliance from employers. A scorecard was being developed which would aim to notify employers on how they fared in relation to compliance and performance requirements. This was to be implemented in 2023.

The Board reviewed the update, seeking details on available monthly data to enable monitoring, improving partnership between the Fund and contributing employers, and any impact on resourcing for the Fund or employers, with as much automation as possible. Queries were raised on where membership data or payments could be incorrect. Officers responded, indicating that whilst it was inevitable that there would be an initial level of resource which would be needed, it was the longer term intention that this regular communication with employers and in turn the Committee and Board would operate in a low impact way concerning the resource requirements devoted to it.

Officers also agreed to consider the points raised by members concerning the development of this scorecard. In particular;

a) How its introduced and how scheme employers should respond to it
b) A clear strategy of who at the employer should receive this information: &
c) How any correction to the scorecard would be managed, if an employer's compliance changed during a reporting period.

At the conclusion of discussion, it was,

Resolved:

To note the progress made in overseeing employer compliance and performance.

159 **Urgent Items**

There were no urgent items.

160 **Date of Next Meeting and Forward Work Plan**

The date of the next meeting was confirmed as 1 February 2023.

The updated Forward Work Plan was received. It was stated the audit commissioning arrangements for the 2023/24 scheme year had been moved to the February meeting, as well as updates on a training plan and effectiveness review which were currently in progress.

161 **Exclusion of the Public**

It was,

Resolved:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Minute Numbers 162-165 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

162 **Minutes and Key Decisions of the Wiltshire Pension Fund Committee**

The private minutes of the Wiltshire Pension Fund Committee meeting held on 5 September 2022 were received for any comment.

It was then,

Resolved:

To note the minutes of the Wiltshire Pension Fund Committee meeting held on 5 September 2022.

163 **Cyber Security Update**

The Board received reports from AON on cyber security assessments undertaken in respect of the systems of Wiltshire Council and Heywood Pensions Technologies, as well as details of a presentation they had provided to the Wiltshire Pension Fund Committee.

The Chair presented the reports noting the assessment had been excellent for Heywood's and acceptable for Wiltshire Council. Aon recording a reasonable level of cyber maturity and hygiene. A number of recommendations had been made in respect of Wiltshire Council systems, although these had resource implications. Reassurance had been provided that there were no high-risk areas identified. The council's Director of Resources would be responding formally to the update at the Committee's meeting in December 2022.

The Board discussed the update, noting the importance of being compliant with any Regulator guidance. Questions were raised in relation to available resourcing and response plans on systems concerning an out of hours service. Where required, Fund officers would raise questions with Aon in relation to clarifications around the reports and the Fund's associated compliance.

Resolved:

To note the update.

Officers to contact Aon with questions raised by Committee and Board members

164 **Minutes of the Previous Meeting**

The private minutes of the meeting held on 18 August 2022 were provided for consideration, and it was,

Resolved:

To approve and sign the minutes as a true and correct record.

165 **Urgent Items**

The Board received and discussed a report from South West Audit Partnerships (SWAP) on the pensioner payroll reconciliation programme.

The Board also received an update from the Head of Wiltshire Pension Fund on actions taken on monitoring staff productivity, and career grading.

(Duration of meeting: 10.00 am - 12.25 pm)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114 or email communications@wiltshire.gov.uk

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Wiltshire Council

Wiltshire Pension Fund Committee

17 November 2022

Wiltshire Pension Fund – Triennial Valuation Results (and accompanying policies)

Purpose of the Report

1. This report provides an overview of the valuation results and presents various policies to the Committee for approval (or conditional approval). Included within these changes, are a proposed change to the cessation calculation methodology for employers which leave the Fund with no scheme employer guarantor in place.

Background

Triennial Valuation results

2. Under the Local Government Pension Scheme Regulations, all funds must undertake a formal valuation of the whole Fund every three years, with the valuation date for this year being 31 March 2022. The Fund's actuary has overall responsibility for producing the valuation results and determining the employer contribution rates however this process is undertaken in collaboration with senior officers and the Committee.

3. The actuary provided information, take questions from this Committee, on 16 December 2021 and 5 April 2022. On the latter date the Committee also approved key aspects of valuation assumptions which have resulted in the valuation results presented at this meeting.

Funding Strategy Statement & Cessation Policy

4. Funds also have a statutory requirement to produce and maintain a Funding Strategy Statement (FSS); these are typically reviewed alongside the Triennial Actuarial Valuation, as they help outline the framework within which the triennial valuation takes place.

5. The FSS outlines how the Fund calculates employer contributions, what other amounts might be payable in different circumstances, and how it operates alongside the investment strategy. The FSS has been prepared in collaboration with the Fund's Actuary and forms an integral part of the framework within which they carry out triennial valuations to set employers' contributions and to provide recommendations on funding decisions.

6. The Fund also holds a separate employer cessation policy, outlining the Fund's approach to cessations as would otherwise be held in the FSS, this has also been reviewed as officers propose some changes to the cessation process for some employers which also impacts the FSS.

7. Wiltshire Pension Fund's previous FSS was approved by the Committee in 2019 and the cessation policy as last approved on 17 December 2020.

8. The new FSS draft has been informally consulted upon with the employer members of the Employer Focus Group and no comments were received. A formal consultation will follow this meeting and approval is sought at this meeting on the basis there no comments are received back from employers which results in officers deciding to revise certain aspects of it.

<u>Other policies</u>

9. Officers are also seeking approval for two other, new policies, linked to the Funding Strategy Statement, as follows:

   a). <u>Prepayments Policy</u>: Following a successful request from Wiltshire Council to 'prepay' each year's worth of employer contributions, in order to gain more investment returns and therefore pay less, officers have introduced a new policy to bring formality and transparency to this process and enable it to be opened up to requests from other suitable employers.

   b). <u>Employer Contribution Review</u>: Following amendments to Regulations over the last couple of years, new powers now exist which contribution rates to be reviewed between valuations.

Key Considerations for the Committee

<u>Triennial Valuation Results</u>:

10. The actuarial valuation results as at 31 March 2022, show an improved funding level of 102% (2019: 97%) from the last valuation on 31 March 2019. Whilst the assumed short-term inflation is high, the main factor driving the funding position improvement is stronger than expected investment returns. Further details are available in Appendix 1.

    <u>Note</u>: The Fund actuary will be present at this Committee meeting, and they will talk through the appendix and take questions. They will also be available for questioning on the impact of recent events on the funding level.

11. Following this meeting, Fund officers will circulate individual results to each employer, present an overview of results to employers at an Employer Forum on 21 November 2022 and also invite employers to attend an individual 'surgery' on 29 November 2022 to discuss their specific employer circumstances.

12. Officers will provide employers with provisional employer contribution rates based on the assumptions set by the actuary and agreed in previous meetings. In some limited circumstances, the employer may request, and officers may agree to an alternative employer contribution from the default, however, officers will only agree to contribution rates which remain within the parameters of the funding strategy (as shown in table 1, 2.2. of the FSS).

Funding Strategy Statement & Cessation

13. This revised version of the Funding Strategy Statement has been simplified to make it easier to read and understand, bearing in mind the inherent complexity as far as if possible whilst ensuring that statutory contents remain, and certain technical details have been updated. Despite these changes, the general Fund approach is broadly similar to the previous version.

14. Once approved, this draft version will be issued to all participating employers with any comments to be submitted within 30 calendar days. Following the end of the consultation period, this document will then be published, unless significant feedback needs to be considered at this Committee on 14 December 2022.

15. However, one key change is proposed in relation to cessations, which is discussed below:

Cessation calculation methodology review (Low Risk basis/Employers with no guarantor)

16. At present, when any employer leaves the Fund, the actuary will perform a cessation calculation to help identify what is an appropriate exit funding position for that employer and thus whether this creates the need for a cessation deficit to be recovered or cessation surplus to be paid. The Fund takes a different approach to this valuation depending on whether a scheme employer guarantor sits behind the existing employer.

Methodology A (‘ongoing’ – for employers with a scheme employer guarantor): The actuary performs the cessation valuation on a basis which is broadly similar to the approach used for the whole Fund valuation. This already includes a layer of prudence baked in by using a discount rate which is achieves fully funding in 75% of the actuary’s 5,000 modelled outcomes (and a flat discount rate for years further in the future).

Methodology B (‘low risk’ – for employers without a scheme employer guarantor): At present, the actuary takes a more prudent (but not modelled) approach to setting the discount rate by setting it equal to the yield of long dated gilts.

17. The actuary and officers propose changing methodology B so that it more similar to methodology B but with a higher level of prudence than methodology A still applied. The new approach would remain different to methodology A in two ways:

- The discount rate set would need to be achieved in higher percentage of modelled outcomes.
- Rather than setting a specific likelihood of success, a corridor will be introduced instead with cessation deficits/surpluses only being due if the final cessation funding position sits outside of that corridor (and it only be necessary to make or receive payments to reach the boundary of the corridor rather than the centre).

18. To help inform the decision of what is the appropriate corridor to use, the Fund also needs to consider what is the appropriate investment strategy to be used for the

orphaned liabilities which result from a cessation linked to methodology B. The available options are to use either the Fund's main investment strategy or to use an alternative investment strategy which is more appropriate for (generally) maturing, non-active member liabilities which would ultimately need to be funded by unconnected employers in the Fund should there be a shortfall in assets.

19. The Fund has asked Mercer to provide some advice on this. Unfortunately, this was not available in time for this meeting and therefore officers are seeking approval of the general change to the methodology B at this meeting but approval to the exact approach to methodology B at the December Committee meeting.

20. As context, due to two material, recent cessations, officers expect the orphaned liabilities pool to soon be around £100m-£150m in size (c4-5% of assets) which is sufficiently large that the decision made in this respect could have impact on the overall investment strategy.

21. Furthermore, at present, officers are currently considering using a likelihood of success corridor of either 87.5%-92.5% or 90%-95% but a final proposal will be brought to the next meeting.

Other policies

22. Prepayment Policy: The attached policy aims to bring a balance between various factors such as: allowing employers greater flexibility, ensuring risk is managed effectively (by limiting this approach to larger, long-term employers), avoiding additional administrative and cash flow complexities whilst also providing transparency.

23. Employer Contribution rate review policy: The main purpose of the attached policy is to outline the trigger points for an employer or the Fund to ask the actuary for an employer's contribution to be reviewed between triennial valuations. There is now some discretion in this respect although this is limited within the Regulations. Further detail can be found in the appendix.

Financial Considerations & Risk Assessment

24. These are detailed in the body of the paper. General risks are outlined within the Fund's risk register.

Legal Implications

25. There are no known implications at this time.

Environmental Impact of the Proposal

26. There are no known environmental impacts with this proposal.

Safeguarding Considerations/Public Health Implications/Equalities Impact

27. There are no known implications at this time.

Reasons for Proposals

28. To fulfil the Wiltshire Pension Fund's statutory obligation and to seek to fulfil best practice

Proposals

29. Valuation Results: The Committee is asked to **note** the valuation results produced and the approach to releasing and agreeing employer results.

30. Funding Strategy Statement: To **approve** the draft Wiltshire Pension Fund - Funding Strategy Statement 2022, as attached in the Appendix, subject to the period of consultation of employers not resulting in any material changes being deemed required by officers.

31. Cessation calculation methodology: To **approve** the revised methodology approach (noting the final details will be brought back to the December Committee), with the new approach to apply from 1 April 2023.

32. Prepayments and Contribution Review policies: To **approve** these new policies (to become effective immediately)

Jennifer Devine
Head of Wiltshire Pension Fund

Report Author: Andy Cunningham, Pensions Administration Lead

Appendices
Appendix 1 – Wiltshire Pension Fund Initial Results report
Appendix 2 – Funding Strategy Statement
Appendix 3 – Cessation Policy
Appendix 4 – Prepayments Policy
Appendix 5 – Employer Contribution Flexibility

Background Papers

None

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Wiltshire Pension Fund

Actuarial valuation at 31 March 2022

Initial results

Barry Dodds

Catherine McFadyen

10 October 2022
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

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A glossary of technical terms used in this report can be found in Appendix 5

Executive summary

Funding position as at 31 March 2022

- The reported funding position has improved from last valuation (at the 75% likelihood of success) from 97% to 102%.

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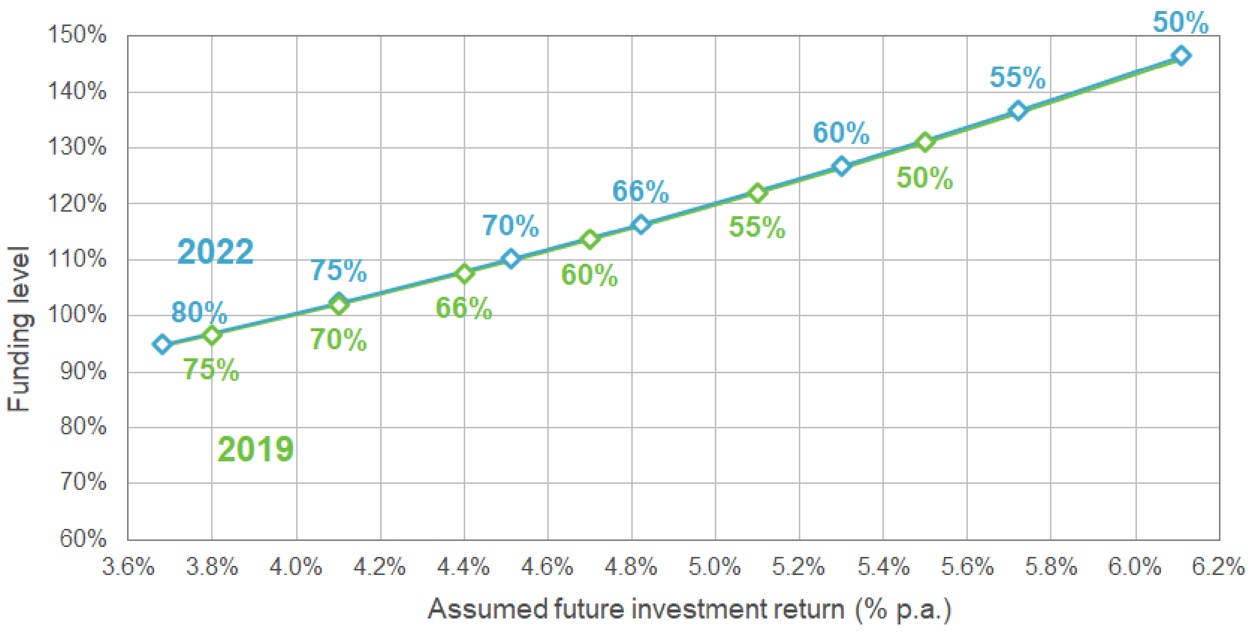
Changes since the last valuation

- The main factor driving the funding position improvement is stronger than expected investment returns.
- Going forward, there is a sharp increase in assumed short term inflation but this is partially offset by higher long-term expected investment returns.
- Despite the Covid-19 pandemic, the funding impact of mortality experience has not been significantly different from expectations.



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The valuation process

The valuation process

1. Assumptions advice – Q4 2021/Q1 2022 ✓
2. Employer risk management – Q4 2021/Q1 2022 ✓
3. Contribution rate modelling – Q2 2022 ✓
4. Data provision – Summer 2022 ✓
5. **Initial results – October 2022**
6. Funding Strategy Statement – November 2022
7. Employer results – November 2022
8. Employer discussions – Q1 2023
9. Valuation sign off – March 2023

Initial results

This report:

- presents the funding position of the Wiltshire Pension Fund ('the Fund') on the valuation date of 31 March 2022
- explains why the funding position has changed since the last valuation in 2019
- shows the sensitivity of the funding position

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There are two main actions:

1

Understand the fund-level funding position, noting this does not directly drive individual employer contribution rates.

2

Identify risks to explore and consider options for management.

Data and assumptions

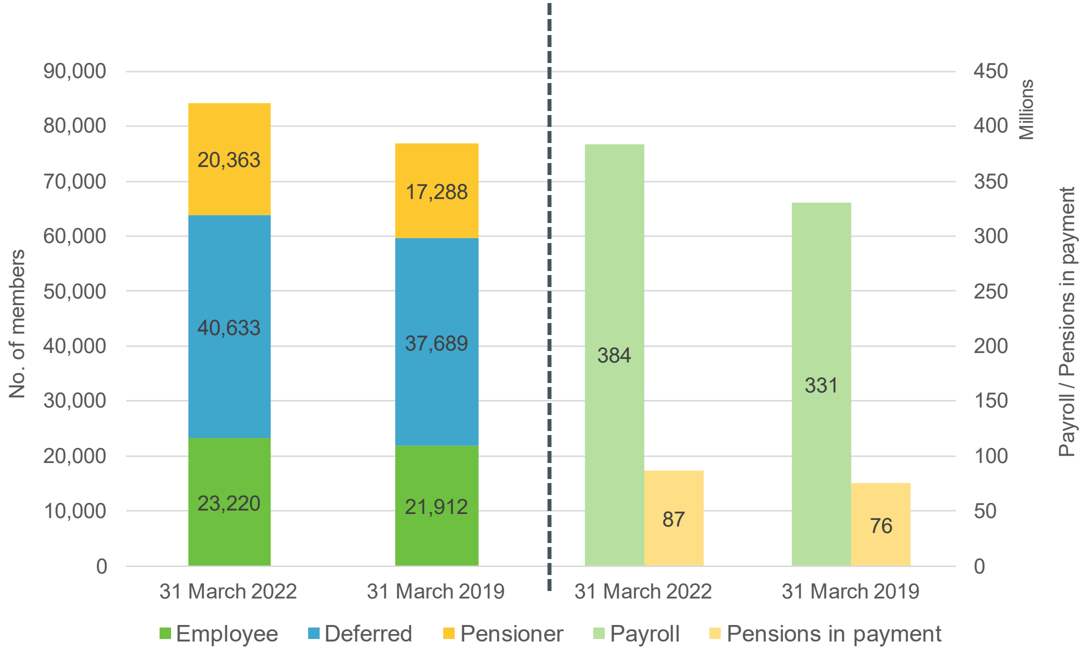
Data

We have used the below data provided by the Administering Authority:

- Membership data, uploaded to the DataPortal on 9 August 2022
- Cashflow and investment data, provided over the intervaluation period for monthly employer asset tracking

Accurate results depend on good data quality. Based on the DataPortal's validations, we believe the membership data is fit for purpose for these initial results. The data will be reviewed again when we prepare employer-level results at the next valuation stage.

Membership summary



The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2022. Details can be found at http://www.lgpsregs.org/.

Assumptions

To set and agree assumptions for the valuation, the Administering Authority commissioned an assumption setting paper – '220307 Wiltshire pension Fund – 2022 Valuation Assumptions Advice'. The assumptions in this report were agreed by the Pensions Committee on 5 April 2022. The assumptions represent the 'best estimate' of future expectations – that means we estimate there is a 50% chance that future events will be better or worse than the assumption. The discount rate is the exception, as it includes the margin of prudence required by the LGPS Regulations.

Financial assumptions

Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Purpose	31 March 2019
Discount rate	4.1% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 75% likelihood of returning above the discount rate.	3.8% pa (based on 75% likelihood)
Benefit increases / CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.2% pa	To determine the size of future final-salary linked benefit payments.	2.7% pa

Assumptions

Demographic assumptions

Longevity

Whole fund average life expectancies from age 65, with 2019 comparison.

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	31 March 2022	31 March 2019
Male pensioner	21.9 years	21.7 years
Male non-pensioner	22.7 years	22.5 years
Female pensioner	24.6 years	24.0 years
Female non-pensioner	26.1 years	25.5 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.
Retirement age	The earliest a member can retire with unreduced benefits
Family details	A varying proportion of members have a dependant at retirement or on earlier death eg at age 60, 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Male members – dependant 3 years younger Female members - dependant 3 years older

Further information on these assumptions can be provided upon request.

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Assumptions

Benefit structure

Results are based on our understanding of the benefit structure of the LGPS in England and Wales on 31 March 2022 – see www.lgpsregs.org. However, there are areas of uncertainty and potential change.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. We expect minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. We have assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

We have assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, we have made no allowance for these changes.

Fund-level results

Projected future benefit payments

Combining membership data and the assumptions allows us to project future benefit payments for all benefits accrued up to 31 March 2022.

The projection will be different from the last valuation due to:

1. Events between 2019 and 2022 which were different from expectations – reflected in the updated membership data.

2. Estimates of the future have changed – reflected in the updated assumptions.

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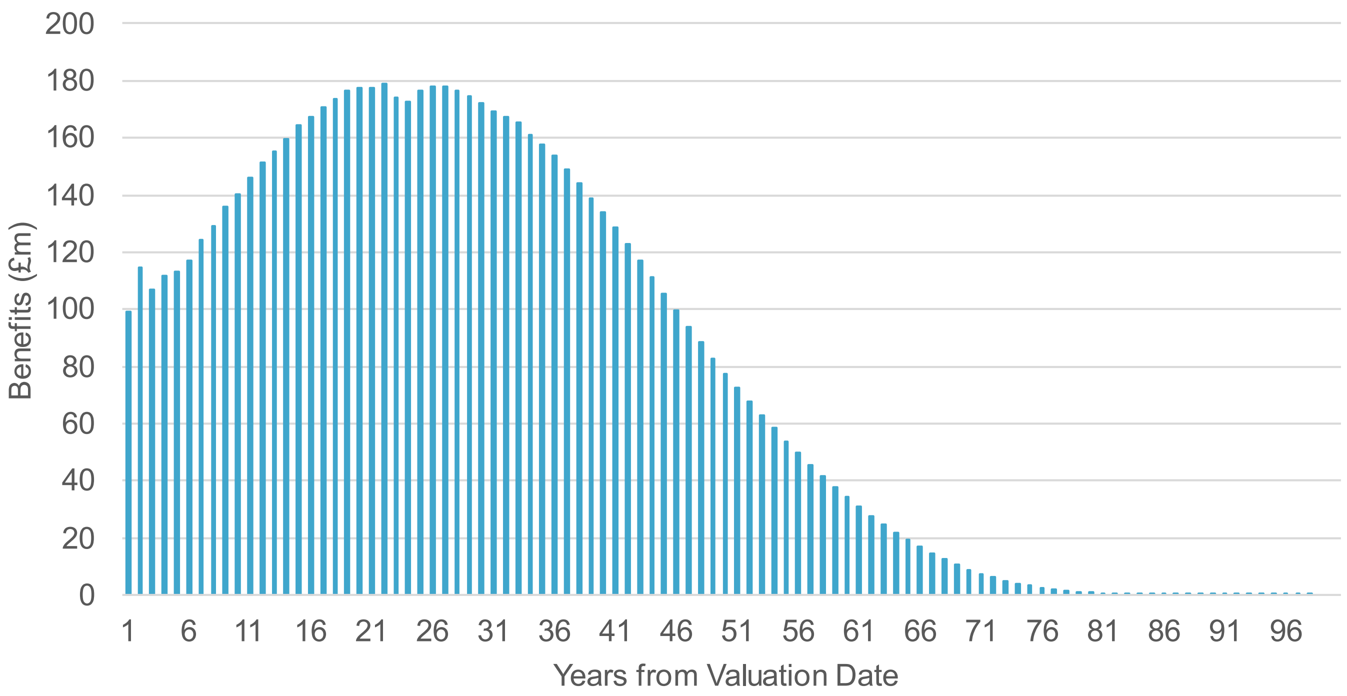


Notes about the model:

The cashflow peak in Year 2 is a feature of the cashflow model, which assumes all active members older than their retirement age retire 1 year after the valuation date. The dips in cashflow in years 22 and 23 correspond with changes in state pension age.

Funding position as at 31 March 2022

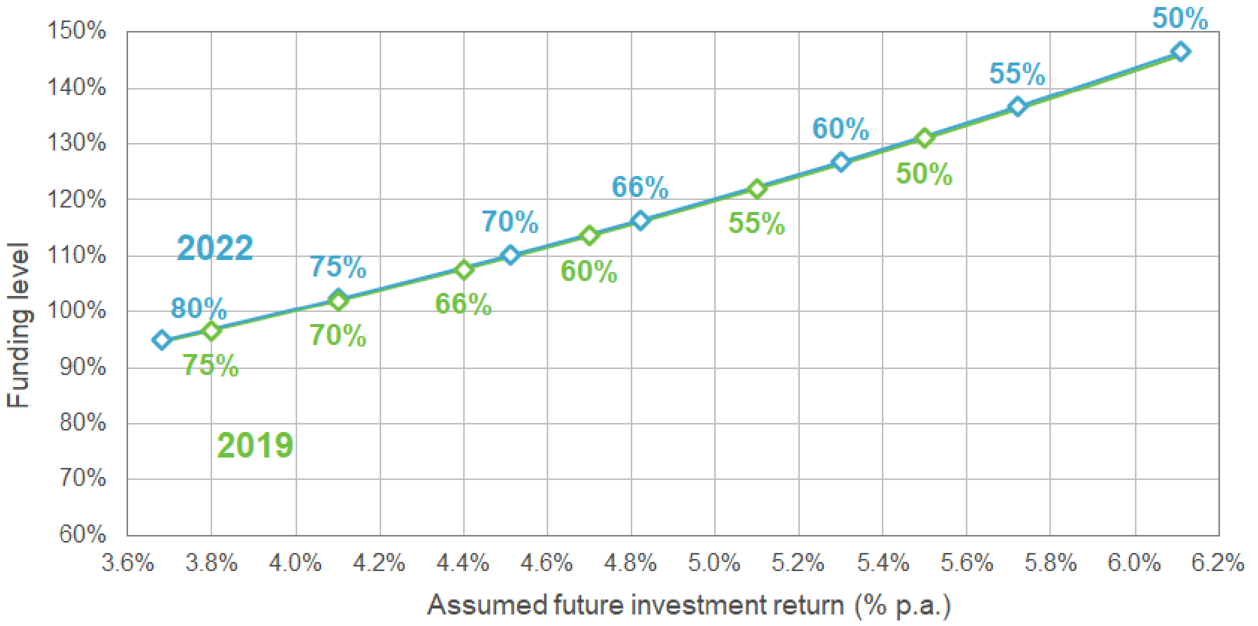
We can place a single value on all the future projected benefit payments for current members, called the liabilities. Comparing the liabilities to the market value of the Fund's assets at the valuation date provides the funding level (assets divided by liabilities).

To calculate the liabilities, we discount the benefit payments with an assumed future investment return (the 'discount rate'). Future investment returns are uncertain, so we calculate the liabilities and funding level across a range of future investment returns.

To help stakeholders better understand funding risk, we also calculate the likelihood of the Fund's investment strategy achieving certain levels of return.

- The funding level is 100% if future investment returns are c.4.0% pa. The likelihood of the Fund's assets yielding at least this return is around 77%.
- The comparator at 2019 was a return of 4.0% pa which had a likelihood of 71%.
- **The funding position at 2022 is stronger than 2019.**
- There is a 50% likelihood of an investment return of 6.1% pa. So the best-estimate funding level is 147% at 31 March 2022 (130% at 2019).

Funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

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Single funding position as at 31 March 2022

The chart on the previous page provides stakeholders with a better understanding of the funding position. However, we are still required to report a single funding position at 31 March 2022.

We use a discount rate of 4.1% pa to report a single funding level and funding surplus/deficit for the 2022 valuation. There is a 75% likelihood associated with a future investment return of 4.1% pa.

This table details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison (NB at 2019 the reported position used a discount rate with a 75% associated likelihood).

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position on 31 March 2022. There are limitations:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	961	777
Deferred Pensioners	806	688
Pensioners	1,391	1,215
Total Liabilities	3,157	2,680
Assets	3,230	2,589
Surplus/(Deficit)	**74**	**(92)**
Funding Level	102%	97%

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	11.8%	21.5%	9.7%	+£262m
Annual	3.8% pa	6.7% pa	2.9% pa	

The Fund's expenses for non-investment activities over the last 3 years have totalled £7.9m. This is equivalent to 0.7% of the Fund's total pensionable pay and is slightly lower than last valuation (0.8%). We will make allowance for the Fund's expenses by adding 0.7% of pay to employer contribution rates from 1 April 2023.

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	9,730	9,422	-308	<£1m
Ill-health retirements	114	191	77	-£4m
Salary increases	3.4% pa	4.1% pa	0.7% pa	-£9m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£41m
Pension ceasing	£6.1m	£6.1m	£0.0m	+£1m

The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension. Further information on the Fund's mortality experience can be found in the latest Club Vita reports.

Changes since the last valuation

Future expectations

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The return achievable with a 75% likelihood is now 4.1% pa vs. 3.8% pa at 2019.	Decrease of £178m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £228m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Increase of £2m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £5m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £20m

Reconciling the overall change in funding position

The tables below provide insight into the funding position changes between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen, which relate mostly to items on the asset side. Then the impact of actual experience, which mainly affects the liabilities.

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**2,589**	**2,680**	**(92)**
Cashflows			
Employer contributions paid in	285	0	285
Employee contributions paid in	72	0	72
Benefits paid out	(299)	(299)	0
Other cashflows (e.g. Fund expenses)	(6)	0	(6)
Expected changes			
Expected investment returns	322	0	322
Interest on benefits already accrued	0	320	(320)
Accrual of new benefits	0	356	(356)
Expected position at 31 March 2022	**2,963**	**3,057**	**(95)**

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**2,963**	**3,057**	**(95)**
Events between 2019 and 2022			
Salary increases greater than expected	0	9	(9)
Benefit increases lower than expected	0	(41)	41
Early retirement strain (and contributions)	6	7	(2)
Ill health retirement strain	0	4	(4)
Early leavers less than expected	0	0	0
Commutation less than expected	0	10	(10)
McCloud remedy	0	3	(3)
Other membership experience	0	20	(20)
Higher than expected investment returns	262	0	262
Changes in future expectations			
Investment returns	0	(178)	178
Inflation	0	228	(228)
Salary increases	0	2	(2)
Longevity	0	15	(15)
Other demographic assumptions	0	20	(20)
Actual position at 31 March 2022	**3,230**	**3,157**	**74**

Numbers may not sum due to rounding

Sensitivity and risk analysis

Valuation results depend on actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

Financial assumptions

How results vary with the assumed future investment return is set out on page 14. Future inflation is currently very uncertain, the impact of varying levels is set out below. Note that these levels refer to small changes to inflation in the long term. The impact of a single year of high inflation would be less.

CPI Assumption	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
2.5%	176	106%
2.7%	74	102%
2.9%	(33)	99%

Regulatory, Administration and Governance risks

Potential risks include changes in central government legislation which may affect the future cost of the LGPS; failures in administration processes leading to incorrect data; and inaccuracies in actuarial calculations. These risks should be included in the Fund's risk register and monitored and managed as part of its ongoing risk management framework.

Demographic assumptions

The main demographic risk is that people live longer than expected. The table below shows the impact of longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results).

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
p.a.	£m	%
1.50%	74	102%
1.75%	47	101%

Climate change risk

Results may materially change due to the impact of climate change, because of transition and physical risks. We have not quantified the risk exposure here as the Fund has carried out analysis when considering its funding and investment strategy via an in-depth asset-liability modelling exercise.

Initial employer results

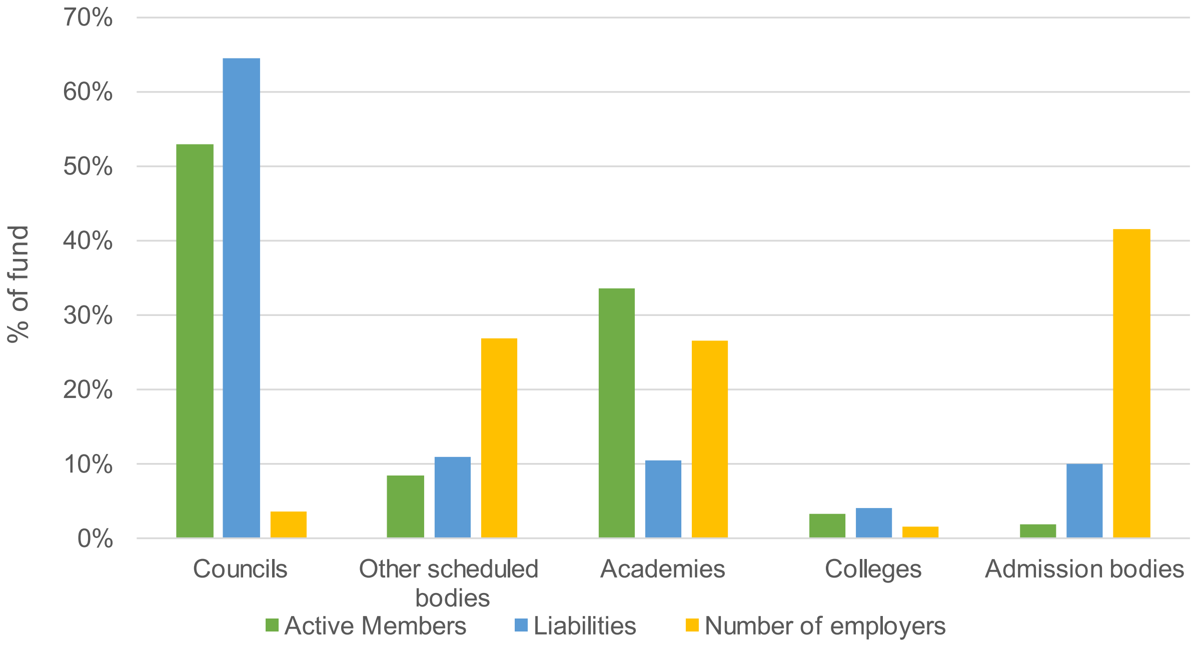
Focusing on employers

Whole-fund level results give a useful overview of the Fund's health but are not the valuation's most important output.

The Fund is funded at individual employer level, which means each employer is responsible for funding the benefits earned by their current and ex-staff. On 31 March 2022, there are around 350 employers in the Fund (including those who have ceased and those pooled with other employers).

The next stage of the valuation is to prepare funding positions and review contribution rates for each individual employer in the Fund. There is a significant range and diversity of employers, so we will work with the Fund to make sure the funding strategy recognises this diversity and is flexible enough to cater for employers' differences.

Fund employers by type



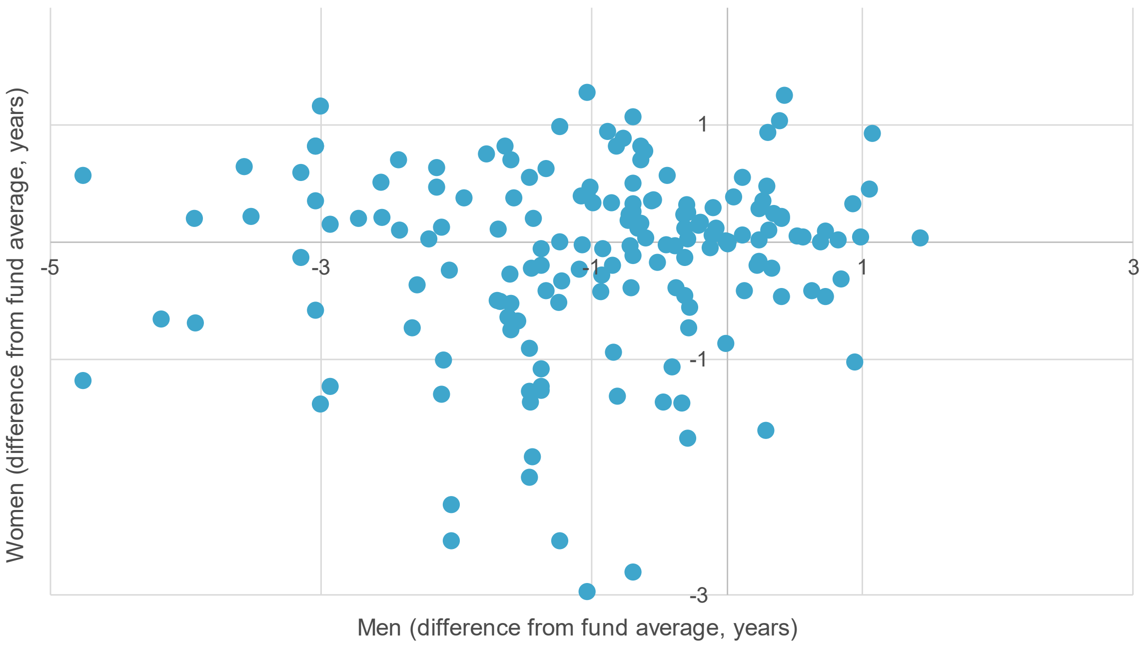
Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Capturing the diversity in funding calculations

Employer diversity is not restricted to type and size – even for smaller employers, there are significant differences in funding positions and contribution rates. This may be due to previous decisions, for example early retirement experience, pay awards, level of contributions paid, or because the membership varies.

Life expectancy is a good example of the diversity of membership. Studies show it can vary between members due to factors like socio-economic status and retirement health. Using Club Vita to set a baseline life expectancy assumption captures this individual member variation. That means the liabilities and contribution rates better reflect the Fund's, and each employer's, membership.

Difference in average life expectancy (from fund average) at employer level



Most employers are grouped around a central cluster; outliers will have a relatively larger proportion of members in higher/lower socio-economic groups.

Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Individual employer funding levels

The Fund is composed of around 350 employers, each with its own funding position and contribution plan. The Fund's overall funding position is the combination of all these employers' results.

This chart shows the range of employer funding positions. Each dot represents an employer code and shows:

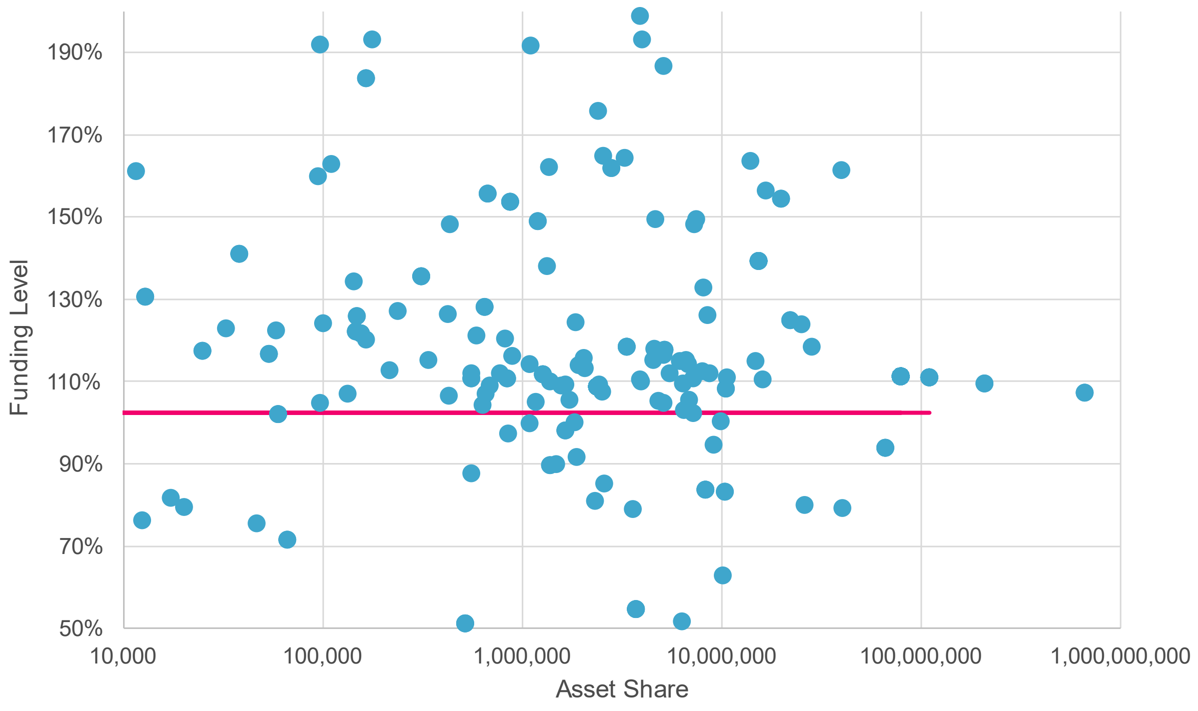
- The employer's share of the Fund assets, horizontal scale (NB this is a logarithmic scale, to accommodate the great range in size of employer from smallest to largest).
- The employer's funding level on 31 March 2022, vertical scale.

The red line is the Fund's overall funding level and shows that it does **not** relate to the average of the employer results. Instead, the whole Fund position is driven by the largest employers (right-hand side of the chart).

This shows the importance of considering individual employer results as well as the whole Fund position.

Notes about the model:
Each dot shows one employer code and some dots will represent ceased employers or legacy liabilities on an old code that will be pooled with another employer during the valuation process

Employer funding level vs asset share



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Decisions and next steps

Decisions and next steps

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1

Discuss funding risks and agree any further exploration or consideration.

2

Confirm that no changes are needed to valuation data or assumptions.

3

Prepare individual employer valuation results for discussion with Officers.

Appendices

APPENDIX 1

Deriving future investment return likelihoods

To derive the distribution of future investment returns and obtain associated likelihoods, we use the Fund's long-term investment strategy and our Economic Scenario Service (ESS) model. The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class, eg UK equities. The ESS reflects correlations between asset classes and wider economic variables (eg inflation). In the short-term (first few years), the models are fitted with current financial market expectations. Over the longer-term, models are built around our views of fundamental economic parameters, for example equity risk premium, credit-spreads and long-term inflation.

Fund's long-term investment strategy

Asset class	Allocation
Global equities	22.0%
Private equity	7.5%
Emerging markets (equity and debt)	10.0%
Multi Asset Credit	5.0%
Private debt	7.5%
Core Infrastructure	8.0%
Renewable Infrastructure	5.0%
Secured income	8.0%
Affordable housing	5.0%
Core property	15.0%
Index linked gilts (>5 years)	7.0%
Total	**100.0%**

ESS individual asset class return distributions at 31 March 2022

		Annualised total returns								
		Cash	Index Linked Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Market Debt (hard currency)	Emerging Market Debt (local currency)	Emerging Markets Equity	Unlisted Infrastructure Equity
10 years	16th %'ile	0.8%	-1.9%	-0.7%	-1.2%	-0.6%	-0.1%	-1.5%	-2.5%	0.7%
	50th %'ile	1.8%	0.2%	5.6%	9.4%	4.4%	2.1%	3.4%	5.8%	5.9%
	84th %'ile	2.9%	2.4%	11.7%	20.1%	9.5%	4.1%	8.6%	14.4%	11.2%
20 years	16th %'ile	1.0%	-1.5%	1.5%	2.4%	1.4%	1.4%	0.5%	0.1%	2.6%
	50th %'ile	2.4%	0.1%	6.1%	10.0%	5.0%	2.9%	4.2%	6.3%	6.5%
	84th %'ile	4.0%	1.9%	10.8%	17.6%	8.9%	4.2%	8.1%	12.8%	10.6%
40 years	16th %'ile	1.2%	-0.3%	3.1%	4.7%	2.6%	2.5%	1.9%	2.1%	3.9%
	50th %'ile	2.9%	1.2%	6.5%	10.3%	5.5%	3.8%	5.0%	6.8%	7.0%
	84th %'ile	4.9%	3.1%	10.2%	16.1%	8.8%	5.3%	8.2%	11.7%	10.3%
	Volatility (Disp) (5 yr)	2%	7%	19%	30%	15%	7%	15%	26%	15%

		Annualised total returns							
		Developed World Equity	Multi Asset Credit (sub inv grade)	Senior Loans (sub inv grade)	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	-0.6%	1.7%	1.1%	2.4%	-1.7%	1.6%	-1.7%	1.1%
	50th %'ile	5.6%	3.5%	3.5%	4.1%	-0.5%	3.3%	-0.5%	2.5%
	84th %'ile	11.6%	5.2%	5.6%	5.7%	0.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.6%	2.8%	2.6%	1.6%	-0.7%	1.2%	-0.7%	1.3%
	50th %'ile	6.1%	4.4%	4.3%	3.1%	1.0%	2.7%	1.1%	3.2%
	84th %'ile	10.8%	6.0%	6.0%	4.7%	2.7%	4.3%	2.7%	5.7%
40 years	16th %'ile	3.2%	3.6%	3.5%	1.1%	-0.6%	0.9%	-0.6%	1.1%
	50th %'ile	6.6%	5.3%	5.2%	2.4%	1.3%	2.2%	1.3%	3.3%
	84th %'ile	10.2%	7.1%	7.0%	3.9%	3.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	18%	6%	7%	3%		3%		

APPENDIX 2

Sample rates for demographic assumptions

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Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485.17	813.01	0.00	0.00	0.00	0.00
25	117	0.17	320.47	537.03	0.00	0.00	0.00	0.00
30	131	0.20	227.38	380.97	0.00	0.00	0.00	0.00
35	144	0.24	177.66	297.63	0.10	0.07	0.02	0.01
40	150	0.41	143.04	239.55	0.16	0.12	0.03	0.02
45	157	0.68	134.35	224.96	0.35	0.27	0.07	0.05
50	162	1.09	110.75	185.23	0.90	0.68	0.23	0.17
55	162	1.70	87.21	145.94	3.54	2.65	0.51	0.38
60	162	3.06	77.73	130.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	458.15	467.37	0.00	0.00	0.00	0.00
25	117	0.10	308.28	314.44	0.10	0.07	0.02	0.01
30	131	0.14	258.41	263.54	0.13	0.10	0.03	0.02
35	144	0.24	223.04	227.38	0.26	0.19	0.05	0.04
40	150	0.38	185.63	189.18	0.39	0.29	0.08	0.06
45	157	0.62	173.23	176.51	0.52	0.39	0.10	0.08
50	162	0.90	146.05	148.65	0.97	0.73	0.24	0.18
55	162	1.19	108.97	111.03	3.59	2.69	0.52	0.39
60	162	1.52	87.82	89.37	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members, except salary scale

APPENDIX 3

Inflation expectations

Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation).

Current expectations are that inflation pressures will be relatively short-term and move back to normal in the longer-term. The inflation assumption we have used reflects this pattern and allows for the short-term spike – see the blue line on the chart.

The assumption noted in this report is an average of the blue line over the approximate duration of the Fund's liabilities.

Increased uncertainty and risk

There is a lot of uncertainty around both the level of future short-term inflation and how long the period of higher inflation will last. We will continue to work with the Fund to monitor actual and future expected inflation as more information emerges.

Annual CPI inflation – 2019 vs. 2022

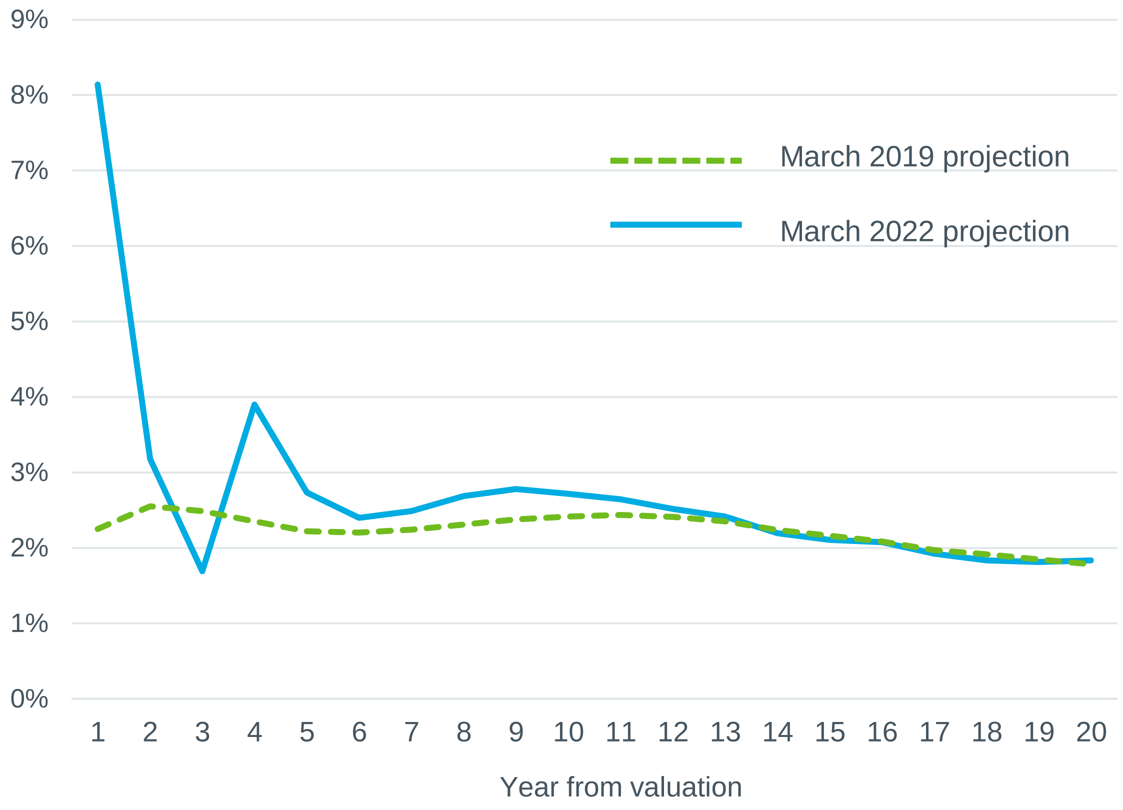

Chart shows median expected annual CPI inflation from ESS model.

APPENDIX 4

Reliances and limitations

We have been commissioned by Wiltshire Council ('the Administering Authority') to carry out a full actuarial valuation of the Wiltshire Pension Fund ('the Fund') at 31 March 2022, as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ('the Regulations').

This paper is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of:

- presenting the current funding position using a range of actuarial assumptions
- explaining why the funding position has changed since the previous valuation in 2019
- showing the sensitivity of the funding position.

It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk that it may wish to explore or mitigate during the valuation process.

Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100; and
- TAS300.

Note that this report does not comply with paragraphs 12 (b) or (c) of TAS 300, regarding future projections of funding level and its volatility. The figures in this report provide a notification of the whole Fund funding position, rather than individual employer positions. Therefore, we do not believe the exclusion of the information under these paragraphs is material.

APPENDIX 5

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 5

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

Wiltshire Pension Fund

Funding Strategy Statement

MMMM 20YY

Contents

1 Welcome to Wiltshire Pension Fund's funding strategy statement

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

The Wiltshire Pension Fund is administered by Wiltshire Council, known as the administering authority. Wiltshire Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from [DATE POST CONSULTATION].

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

1.1 What is the Wiltshire Pension Fund?

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

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

1.3 Who is the FSS for?

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

Different types of employers participate in the fund:

Scheduled bodies

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

Designating employers

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

Admission bodies

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

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

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

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at Policies and strategies - Wiltshire Pension Fund

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

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

1.6 How is the funding strategy specific to the Wiltshire Pension Fund?

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

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution which will reflect the total assets the employer holds
- **an allowance for the fund's expen**ses – usually added into the primary contribution rate.

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

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

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

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

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments is detailed in the fund's Prepayments policy Policies and strategies - Wiltshire Pension Fund

2.2 The contribution rate calculation

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authorities, police, fire, town and parish councils**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing (assuming long term Fund participation)	Ongoing (assuming long term Fund participation)	Ongoing (assuming long term Fund participation)	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund**
Likelihood of success	Target 75% but range of 60-80% depending on valuation	Target 75% but range of 60-80% depending on valuation	Target 75% but range of 60-80% depending on valuation	Target 75% but range of 60-80% depending on valuation	Target 75% but range of 60-80% depending on valuation	Target 75% but range of 60-80% depending on valuation

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authorities, police, fire, town and parish councils	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
	results & employer circumstances	results & employer circumstances	results & employer circumstances	results & employer circumstances	results & employer circumstances	results & employer circumstances
Maximum time horizon	20 years	14 years	14 years	14 years	14 years	Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll or Monetary amount	% of payroll or Monetary amount	% of payroll or Monetary amount	% of payroll or Monetary amount	Monetary amount	% of payroll or Monetary amount
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at primary rate. Reductions may be permitted by the administering authority	Contributions kept at primary rate. Reductions may be permitted by the administering authority	Contributions kept at primary rate. Reductions may be permitted by the administering authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*
*** If no single Scheme Employer guarantor exists and the likelihood of leaving or significantly reducing participation in the Fund in the next 10 years is high then the low-risk exit basis may be used as the funding target*

See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund adopts a stabilised approach to setting contributions for the employers noted in the table above, which keeps contribution variations within a pre-determined range from year-to-year. These employers are large, secure, long-term employers who can better absorb the short term funding level volatility over the longer term.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for these employers. For other employers, contribution increases or decreases may be phased.

Contribution strategies which are overly reliant on future increases in contributions will not be permitted in the interests of intergenerational fairness and cost efficiency objectives.

Table 2: current stabilisation approach

Type of employer	Wiltshire and Swindon Councils	Town and Parish Councils, Police, Fire
Maximum contribution increase per year	+1% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay

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

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in the fund's Employer Contribution Payments Policy Policies and strategies - Wiltshire Pension Fund. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

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

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

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

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

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

2.6 What are the current contribution pools?

- **Town and Parish Councils** – sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service. The Town and Parish Council pool operates a full funding pool, i.e. there is one pool of assets covering all of the Town and Parish Councils, with experience shared across the entire pool.
- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

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

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

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in the fund's Prepayments policy Policies and strategies - Wiltshire Pension Fund.

3 What additional contributions may be payable?

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

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

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

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

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

Strains are currently met by a fund-operated ill-health risk management solution for all participating employers.

The fund operates cost-sharing to spread ill-heath early retirement strain costs across all employers, except Wiltshire Council, Swindon Borough Council, Wiltshire Police and Dorset and Wiltshire Fire Authority (and any associated employers) which do not participate and except the inherent risk. The employers that are included/excluded are reviewed at the time of each review of this policy.

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

The administering authority's approach to help manage ill-health early retirement costs was put in place on 1 April 2021. It will be reviewed at the same time as the Funding Strategy Statement.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

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

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

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4.2).

4.2 How are employer liabilities calculated?

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

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

4.3 What is a funding level?

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

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

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

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

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

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

5.2 New academies

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

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

New academies will be allocated an asset share based on the estimated funding level of the ceding council. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If they are part of a MAT, the new academy is combined with the other MAT academies to set contribution rates. The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

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

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

5.3 New admission bodies as a result of outsourcing services

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

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

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

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.4 Other new employers

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

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

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

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

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The fund's admissions policy is available [Policies and strategies - Wiltshire Pension Fund]

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

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

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

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

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

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

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers from the risk of future loss when an employer leaves the scheme. The basis adopted for the cessation calculation is below. The assumptions for each basis are defined in Appendix D.

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

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

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

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

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

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are recharged to the employer by the fund. Details of the fund's charging policy can be found Policies and strategies - Wiltshire Pension Fund.

The cessation policy is Policies and strategies - Wiltshire Pension Fund.

7.3 What happens if there is a surplus?

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

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

The exit credit policy is contained within the cessation policy. See Policies and strategies - Wiltshire Pension Fund.

7.4 How do employers repay cessation debts?

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

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

The employer flexibility on exit policy is contained within the cessation policy. See Policies and strategies - Wiltshire Pension Fund.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/Debt Spreading Arrangement (DSA). Beyond this they have no further obligation to the fund. When an employer leaves the fund and there is no guaranteeing employer, their assets and liabilities are allocated to the orphaned employers pool and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The remaining assets within the orphaned employers' pool would be called upon. If insufficient assets remain within the orphaned employers' pool then the other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities as set out in the fund's cessation policy. See: Policies and strategies - Wiltshire Pension Fund. If the funding level of the orphaned employers' pool falls below 80% at any formal actuarial valuation, contributions will be required from other fund employers to top-up the orphaned employers' pool.

b) the last ex-employee or dependant dies and all liabilities are extinguished before the employer's asset share is fully run down. The surplus assets will remain within the orphaned employers' pool.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

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

or

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

8.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

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

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

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

A2 Consultation

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

The consultation process included issuing a draft version to participating employers and attending an open employers' forum.

A3 How is the FSS published?

The FSS is emailed to participating employers and made available to scheme members and any other interested parties via the Fund's website.

The FSS is published at Policies and strategies - Wiltshire Pension Fund.

A4 How often is the FSS reviewed?

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

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

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

You can see all fund documentation at Policies and strategies - Wiltshire Pension Fund.

Appendix B – Roles and responsibilities

B1 The administering authority:

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

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

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

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

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

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

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

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

12 tells the actuary about changes which could affect funding

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

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

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

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

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

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

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

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

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

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

4 prepares advice and calculations around bulk transfers and individual benefits

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

6 advises on terminating employers' participation in the fund

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

B4 Other parties:

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

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

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

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

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

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

Appendix C – Risks and controls

C1 Managing risks

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

The role of the local pension board is set out in the board terms of reference.

Details of the key fund-specific risks and controls are reviewed at each formal Committee meeting as a matter of governance and published in the relevant Committee meeting papers for each meeting, available online.

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund intends to put in place a covenant monitoring approach to acknowledge this risk and employers will be notified of this process in due course.

C3 Climate risk and TCFD reporting

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

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

The Fund has a Responsible Investment Policy Framework and a separate Climate Change Policy which can be found on its website.

Appendix D – Actuarial assumptions

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

D1 What are assumptions?

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

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

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

D2 What assumptions are used to set the contribution rate?

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

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

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

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

		Annualised total returns																
		Cash	Index Linked Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Market Debt (hard currency)	Emerging Market Debt (local currency)	Emerging Markets Equity	Unlisted Infrastructure Equity	Developed World Equity	Multi Asset Credit (sub inv grade)	Senior Loans (sub inv grade)	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	0.8%	-1.9%	-0.7%	-1.2%	-0.6%	-0.1%	-1.5%	-2.5%	0.7%	-0.6%	1.7%	1.1%	2.4%	-1.7%	1.6%	-1.7%	1.1%
	50th %'ile	1.8%	0.2%	5.6%	9.4%	4.4%	2.1%	3.4%	5.8%	5.9%	5.6%	3.5%	3.5%	4.1%	-0.5%	3.3%	-0.5%	2.5%
	84th %'ile	2.9%	2.4%	11.7%	20.1%	9.5%	4.1%	8.6%	14.4%	11.2%	11.6%	5.2%	5.6%	5.7%	0.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.0%	-1.5%	1.5%	2.4%	1.4%	1.4%	0.5%	0.1%	2.6%	1.6%	2.8%	2.6%	1.6%	-0.7%	1.2%	-0.7%	1.3%
	50th %'ile	2.4%	0.1%	6.1%	10.0%	5.0%	2.9%	4.2%	6.3%	6.5%	6.1%	4.4%	4.3%	3.1%	1.0%	2.7%	1.1%	3.2%
	84th %'ile	4.0%	1.9%	10.8%	17.6%	8.9%	4.2%	8.1%	12.8%	10.6%	10.8%	6.0%	6.0%	4.7%	2.7%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.2%	-0.3%	3.1%	4.7%	2.6%	2.5%	1.9%	2.1%	3.9%	3.2%	3.6%	3.5%	1.1%	-0.6%	0.9%	-0.6%	1.1%
	50th %'ile	2.9%	1.2%	6.5%	10.3%	5.5%	3.8%	5.0%	6.8%	7.0%	6.6%	5.3%	5.2%	2.4%	1.3%	2.2%	1.3%	3.3%
	84th %'ile	4.9%	3.1%	10.2%	16.1%	8.8%	5.3%	8.2%	11.7%	10.3%	10.2%	7.1%	7.0%	3.9%	3.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	2%	7%	19%	30%	15%	7%	15%	26%	15%	18%	6%	7%	3%		3%		

D3 What financial assumptions were used?

Future investment returns and discount rate

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

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate. UK Government Bond yields are used in funding as an objective measure of the risk-free rate of return.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.0%
Low-risk exit basis	Community admission bodies closed to new entrants or other admitted bodies with no single Scheme Employer guarantor and likely to leave or significantly reduce participation in the next 10 years	A margin consistent with the investment return achievable with an [TBC: 87.5% or 90%] likelihood over the next 20 years.
Contractor exit basis	Transferee admission bodies	A margin consistent with the approach used to allocate assets to the employer on joining the fund

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

For the purpose of calculating a whole fund funding level at the 2022 valuation, a discount rate of 4.1% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 75% likelihood that the fund's assets will return future investment returns of 4.1% per annum over the 20 years following the 2022 valuation date.

For certain employers that will cease based on a different discount rate from above, the funding levels have been calculated with reference to the relevant discount rate approach.

Pension increases and CARE revaluation

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

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation projected over 20 years from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

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

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

Life expectancy

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

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

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

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

Males

Incidence per 1000 active members per year								
Age	**Salary scale**	**Death before retirement**	**Withdrawals**		**Ill-health tier 1**		**Ill-health tier 2**	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485.17	813.01	0.00	0.00	0.00	0.00
25	117	0.17	320.47	537.03	0.00	0.00	0.00	0.00
30	131	0.20	227.38	380.97	0.00	0.00	0.00	0.00
35	144	0.24	177.66	297.63	0.10	0.07	0.02	0.01
40	150	0.41	143.04	239.55	0.16	0.12	0.03	0.02
45	157	0.68	134.35	224.96	0.35	0.27	0.07	0.05
50	162	1.09	110.75	185.23	0.90	0.68	0.23	0.17
55	162	1.70	87.21	145.94	3.54	2.65	0.51	0.38
60	162	3.06	77.73	130.02	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	458.15	467.37	0.00	0.00	0.00	0.00
25	117	0.10	308.28	314.44	0.10	0.07	0.02	0.01
30	131	0.14	258.41	263.54	0.13	0.10	0.03	0.02
35	144	0.24	223.04	227.38	0.26	0.19	0.05	0.04
40	150	0.38	185.63	189.19	0.39	0.29	0.08	0.06
45	157	0.62	173.23	176.51	0.52	0.39	0.10	0.08
50	162	0.90	146.05	148.65	0.97	0.73	0.24	0.18
55	162	1.19	108.97	111.03	3.59	2.69	0.52	0.39
60	162	1.52	87.82	89.37	5.71	4.28	0.54	0.40

Note: The salary scale decrement assumptions shown above show the cumulative salary increase based on a starting salary of £100 at age 16. For example, a member starting at age 16 on a salary of £100 would be expected to be receiving a salary of £150 by the age of 40 (i.e. a 50% increase), due to promotional increases (excluding inflationary increases). Inflationary increases to salaries are allowed for via the salary growth assumption detailed in D3.

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

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

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

1. The discount rate used for calculating the exit position will be on a lower-risk basis than the ongoing funding basis, specifically additional prudence will be applied to the assumption. This will be determined via a higher likelihood that the Fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation projected from the ESS over 20 years was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

When the "corridor" approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. As above, these two values will be based on the likelihood of the fund's assets achieving certain future investment returns over the 20 years.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set based on a margin above the risk-free rate consistent with the approach used to allocate assets to the employer on joining the fund.

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CESSATION POLICY

1. Introduction

This is the policy of Wiltshire Pension Fund ("the Fund") as regards the treatment of employers on termination of their participation in the Fund. It covers the methodology for calculation and payment of any deficit or refund of surplus on leaving the Fund (via a "cessation valuation"). It applies independently from any risk-sharing which has been agreed bilaterally between one Scheme Employer and another exiting Scheme Employer.

It has been prepared by the Administering Authority, with input from the Fund's Actuary, Hymans Robertson LLP. This policy relates to all employers in the Fund.

This policy replaces all previous policies on employer termination and is effective from 16 January 2021.

This policy applies to all past, current and future employers participating in the Fund. In exceptional circumstances, the Fund reserves the right to differ from the contents of this policy if the particular circumstances of an Exiting Employer mean that the application of this policy is not appropriate or goes against the spirit of the principles applied here.

2. Terminology

The following terms all have the same meaning as defined in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), as amended from time to time: Scheme Employer, Administering Authority, Deferred Debt Agreement, Deferred Employer status, Exiting Employer, Exit Credit, Exit Date, Rates and Adjustment Certificate and Related Employer.

3. Regulatory framework

The 2013 Regulations outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are most relevant to employers leaving the Fund are as follows;

- Regulation 64 (2) – where an employer ceases to be a Scheme Employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the Exit Date. Furthermore, it requires the Rates and Adjustments Certificate to be amended to show the Exit Payment due from the exiting employer or the Exit Credit due to the exiting employer.

- Regulation 64 (2A) & (2B) – the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more. Regulation 64 (2ZAB) & (2ZC) – the Administering Authority is given discretion on the level, if any, of Exit Credit made to an Exiting Employer subject to certain considerations and it is required to notify the relevant parties of its pending determination within 6 months of the date of cessation (or a longer timeframe if agreed)

- Regulation 64 (3) – in instances where an exit payment is due but it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or a guarantor, the contribution rate(s) for the appropriate Scheme Employer or remaining Fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets increase by an amount broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an Exit Payment to the Fund, no further payments are due to the Fund from the Exiting Employer.
- Regulation 64 (7A-7G) – An administering Authority may enter into a written Deferred Debt Agreement, allowing the employer to have Deferred Employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – An Administering Authority may set out a policy on spreading exit payments.

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

Note: Where the LGPS Regulations require that matters linked to cessations are outlined in the Fund's Funding Strategy Statement (FSS), including in relation to deferred debt agreement and deferred employer status, this cessation policy will instead outline the Fund's approach to such matters given that the Fund's FSS makes reference to this policy for further information on cessation matters. As such, material changes to this document will be subject to a consultation process with employers (to fulfil the consultation requirements for the FSS as required by the LGPS Regulations).

4. Policy reviews

This policy will be reviewed at least every three years following triennial valuations or following changes to the regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Andy Cunningham, Pensions Administration Lead in the first instance at Andy.Cunningham@wiltshire.gov.uk or 01225 718296.

5. Cessation events

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund and the manner in which they will be processed.

5.1. Current cessations

There are a number of scenarios that may lead to an employer leaving the Fund;

a). Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies).

- A cessation event will occur when either a contract comes to a pre-arranged end date (the period of which will be defined in the admission agreement), a contract is terminated early or the employer has no remaining active members in the Fund.
- Action will be taken by the Fund to determine the level of any cessation debt owed by, or exit credit which may be owed to, the exiting employer. The Fund will then seek to recover any debt from the exiting employer or alternative bond or guarantor in place, or at its absolute discretion fully or partially refund any surplus (see section 8 for further details).
- Regardless of the success of recovering any cessation debt in respect of the exiting employer, or the amount of any Exit Credit refunded, all active, deferred and pensioner liabilities of the contractor will automatically transfer back to the Awarding Authority, along with the notional value of assets held by the ceased employer.
- If the contract is re-let, a new admission agreement will be set-up between the Awarding Authority and the new employer which may lead to some or all the original active members transferring to the new employer.

b). Academies and Multi-Academy Trusts (MATs)

- A cessation event will occur if a current Academy or Multi-Academy Trust ceases to exist as an entity or as an employer with the Fund.
- If the cessation event occurs due to an academy or MAT merging with or being taken over by another academy or MAT within the Wiltshire Pension Fund, all active, deferred and pensioner liabilities from each of the merging entities will be combined, along with the notional value of assets held by the bodies concerned, and the responsibility for the payment of all current and future liabilities will become the responsibility of the newly merged entity[1]. In these circumstances the Actuary, in consultation with the Fund, will determine if an Exit Payment or Exit Credit is required or if

these funding variations should be addressed as part of future employer's contributions relating to the newly merged entity.

- If the academy or MAT is "debrokered"/split into more than one either new or existing employers with the Wiltshire Pension Fund then the Actuary will split the notional assets and liabilities relating to all active, deferred and pensioner liabilities of the exiting employer between the employers which are inheriting responsibility for the debrokered academy or MAT[1]. In consultation with the administering authority, the Actuary will use his or her professional judgement to determine an appropriate and fair methodology for undertaking this split. Furthermore, the Actuary, in consultation with the Fund, will determine if an Exit Payment or Exit Credit is required or if these variations should be addressed as part of future employers' contributions.

- If the Fund is unable to recover any cessation debt from an academy or MAT then it will seek to recover the debt from the Department for Education (DfE) as outlined in the DfE's parliamentary minute from 2 July 2013.

- In all other circumstances, following the payment of any cessation debt or the receipt of any cessation surplus, responsibility for all the remaining deferred and pensioner liabilities will be ring-fenced until the final liability ceases and then the liabilities and assets will be shared amongst all remaining active employers in the Fund, unless another Scheme Employer (or group of employers) provides a guarantee that requires them to inherit responsibility for the exiting employer's notional assets and liabilities.

c). All other employers.

A cessation event will typically occur due to an employer having no remaining active members in the Fund.

- Following payment of any cessation debt or the receipt of any cessation surplus, responsibility for all remaining deferred and pensioner liabilities will be shared amongst all remaining active employers in the Fund, unless another Scheme Employer (or group of employers) provides a guarantee that requires them to inherit responsibility for the exiting employer's notional assets and liabilities.

The calculation of the cessation position will depend on which scenario applies. See section 6 for details.

5.2 Suspending payment of exit amounts

At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an exiting employer. This may be for a period of up to three years after the cessation event (the maximum period permitted by the Regulations).

Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply;

- The employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension notice
- The employer is not a closed Admitted Body, as under the existing admission agreement no new active members would be permitted to join the Fund.
- Any application for the Administering Authority to grant a suspension notice is made within three months of the cessation event.

The Administering Authority reserves the right to withdraw a suspension notice if it is of the opinion that the terms of any agreement to award a suspension notice are not being upheld by the employer.

If a suspension notice is awarded, the cessation valuation will be deferred until the earlier of 1) the end of suspension period or 2) the point at which the suspension notice is withdrawn (for any reason). If one or more new active members are admitted to the Fund, the employer's full participation in the Fund will resume, including the ongoing responsibility for historic liabilities. If no new active members are admitted to the Fund it will seek to recover any cessation debt as per 5.1.

During the period of any suspension notice, the employer must continue to make such contributions to the Fund as certified in the Rates and Adjustments certificate.

5.3 Future cessations

If an employer is aware that it will be leaving the Fund in the future, it should alert the Administering Authority and request an indicative cessation valuation.

If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. Alternatively, if this calculation indicates a deficit position is likely then the Actuary will be able to advise of any required increase in contributions over the remaining period of membership. In either case, the Administering Authority has discretion over the funding basis to be used for this calculation.

5.4 Historic cessations

As required under Regulation 25A of the Transitional Regulations, the Administering Authority reserve the right to levy a cessation debt on employers who have ceased participation in the Fund under previous LGPS regulations, but for whom a cessation valuation was not carried out at the time. In such circumstances, the appropriate approach would be taken in line with the contents of this policy document depending on the relevant circumstances of each case.

6. Calculation Basis for cessation events: Crystallisation of cessation amount

It is the Fund's policy that ,unless a suspension notice under section 5.2 or extension arrangement under section 9 has been awarded, the determination of any surplus or deficit on termination will be carried out as at the date that the final active member leaves active service/retires. The policy aims to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in the future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

In each of the following scenarios, the cessation amount is crystallised. This means that once the cessation debt or surplus has been determined, this amount will not be reviewed in future to allow for future events such as market movements or demographic change, although in the event of an exit payment being due, it may be used as a reference point to agree upon a payment plan as per section 7 (if applicable).

6.1 Contractors participating in the Fund under an admission agreement (previously referred to as Transferee Admission Bodies).

The Fund's policy is to carry out the cessation valuation in this situation in line with the 'ongoing' actuarial valuation basis from the previous valuation (updated for market conditions at the date of exit).

The Regulations require that the contribution rate for the Scheme Employer who awarded the original contract is amended on termination should there be any unfunded liabilities remaining. This may occur if the certified cessation debt due from the ceased employer has not been paid or any amount received from any bond in place has not been sufficient to meet the full cessation debt.

In this case, the original awarding employer is the ultimate 'guarantor' for any legacy liabilities in respect of the ceased employer's liabilities.

If the admission agreement is terminated earlier than the contract period set out in the agreement, then the Administering Authority reserves the right to perform the cessation valuation on an alternative basis as agreed with the original awarding authority.

6.2 All other employers (including Scheme Employers, Designated Bodies, other Admission Bodies)

(a) No Guarantor Exists

In the case of an Exiting employer where no guarantor exists, since the Regulations suggest that any unfunded liabilities (at the point of cessation or after the cessation date) should be met via increased contributions from all other employers in the Fund, the Administering Authority wishes to protect the interests of the other unconnected employers.

The cessation valuation in such a case will be performed on a 'low risk' basis (i.e. a basis which uses a more prudent discount rate which should produce sufficient investment returns in a high percentage of modelled economic scenarios).

If, in the judgement of the Administering Authority, the employer has already ceased and there is a risk of pushing the exiting employer into insolvency by adopting the 'low risk' basis, even after allowing for the spreading period (see section 7 below), the Head of Wiltshire Pension Fund, with the prior agreement of the Chairman and Vice Chairman of the Pensions Committee and the Chief Financial Officer, may allow the cessation valuation to be performed on a set of financial assumptions that are less prudent than the 'low risk' basis. In these circumstances, the asset outperformance assumption will be no greater than half of the asset outperformance used at the previous formal actuarial valuation. In this situation, there will be an increased allowance for future mortality improvements beyond that adopted for the ongoing funding basis at the previous formal actuarial valuation.

(b) Exiting employer has a guarantor

If a scheme employer guarantor does exist or if the exiting employer is able to obtain a legally binding guarantee from a Scheme Employer on cessation which states the guarantor is prepared to absorb the exiting employer's responsibilities on an ongoing
funding basis, then the Actuary will calculate the cessation valuation using the ongoing funding basis adopted at the last actuarial valuation (updated for market conditions). This approach is subject to the guarantor (Scheme Employer) being deemed by the Administering Authority to be sufficiently large and financially secure that the cessation deficit for the exiting employer is not material to the ongoing funding position of the guarantor Scheme Employer.

(c) Treatment of pass-through employers

In the case where the admission agreement with the Fund specifies a full pass-through arrangement, a nil cessation amount will be certified. If an employer enters into an arrangement regarding risk-sharing or pass-through with another Scheme Employer that is not reflected in the employer admission agreement, then, at the Fund's discretion, a cessation amount will be calculated according to (a) or (b) above and charged to or credited to the exiting employer. The exiting employer will be entirely responsible for claiming from the other Scheme Employer any monies to which the exiting employer is entitled as a result of arrangements not reflected in the admission agreement.

7. Payment of any crystallised Deficit

If the actuary determines that there is a deficit at the cessation date, and the exiting employer is required to make a payment to the Fund, the Administering Authority will advise the exiting employer of the amount required.

The Fund's policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Administering Authority may consider permitting an Exiting employer to spread the payment over an agreed period, where it considers that this does not pose a material risk to the Fund.

Under this section, in either of the approaches above, the debt is crystallised (i.e. the total is not revisited, regardless of matters such as demographic changes or investment returns).

In general, the first port of call for payment of the deficit is the exiting employer itself and only in the final event of failure to recover from this source would other scenarios be explored.

Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Administering Authority will pursue an Exiting employer (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. In the event of non-payment, the Administering Authority will also pursue any bond or indemnity provider or guarantor, for payment where appropriate. For academies, this may include seeking to activate the Department for Education's guarantee as outlined within the parliamentary minute from 2013.

In the normal course of events (i.e. where an agreed process has been adhered to), the exiting employer will not normally be exposed to interest rate, investment or other funding risks after the cessation date. Any late deficit payment will include the addition of interest at the level of the base rate plus 5% per annum between the cessation date and the final payment date(s). However, exceptions to this may need to be made depending on the circumstances of the cessation and must be agreed by the Chairman and Vice Chairman of the Pensions Committee and the Director of Finance.

7.1. Payment as a single lump sum payment

The Fund's actuary will confirm the amount required and the Fund will advise the employer accordingly along with the required timeframe for payment (if payment is made after this time, the Fund reserves to right to charge interest, as outlined above).

7.2. Spreading cessation deficit payments

At the Fund's absolute discretion, and in line with the approach outlined below, the Fund may agree for the cessation debt to be spread. Note: the spread debt will be calculated by unwinding the discount rate which was implicit in the final deficit payment, as agreed and set by the Fund Actuary. This will appear as form of interest (based on lost investment returns).

All applications to spread deficit repayments and responses should be set out in writing (emailed to the Head of Wiltshire Pension Fund or a suitable substitution), providing information to support the employer's proposal as appropriate, in line with the information below:

a). Application process

(1). The ceding employer sends a written application outlining the reasons why the employer wishes to spread the debt, the proposed timeframe, the employer's current financial position and financial outlook and what approach it proposes to take in respect of offering guarantees, securities or covenants (see below for the Fund's requirements).

(2). The Fund will consider the information received, in line with section b). below, and it may ask for further information or clarification.

(3). This repayment period shall not exceed the deficit recovery period that applies for any guarantor, or in the absence of a guarantor, that for non-tax raising bodies within the Fund (currently 14 years). If, however, the proposed repayment period is to exceed 7 years then the Head of Wiltshire Pension Fund must obtain the agreement of the Chairman and Vice Chairman of the Pensions Committee and the Director of Finance.

Officers or the Committee may also seek advice from the actuary, a legal adviser or a covenant specialist before making a final decision.

(4). If a Scheme Employer guarantor is in place, the Fund will seek the opinion or consent of that employer before making a final decision.

(5). After consideration of all information and any advice sought, the Fund will respond in writing in one of the following ways: accepting the proposal, making a counter proposal or rejecting the proposal.

(6). If the proposal is accepted, the actuary will outline the agreed rates with the rates and adjustment certificate (therefore formalising the agreement) once all agreed guarantees, securities or other arrangements are put in place. If the proposal is rejected, then the deficit will be required to be paid as a lump sum.

b). Fund decision-making considerations

As part of its decision making process as to whether to allow a ceding employer to spread deficit payments over a repayment period, the Fund will take account of the size of the deficit, the employer's current financial position and the financial outlook of the employer involved, actuarial advice (as needs be) and presence or absence of relevant covenants (including guarantees). As necessary, the Fund may ask for written evidence of relevant covenants and financial accounts.

The Fund will not normally accept to spread an exit payment in any of the following circumstances:

i). In the Fund's opinion, there is a materially greater risk of failure to recover all or some of the deficit if the deficit was spread than if it were paid immediately. This could be due to, but not limited to, the employer's financial position, outlook or concerns regarding future organisation reforms.

ii). There is a Scheme Employer guarantor in place and that employer does not consent to the deficit being spread.

iii). In the Fund's opinion, the offer of a guarantee or securities, is insufficient to adequately reduce the risk or future failure to pay the deficit amounts.

iv). The amount of deficit is too small and thus there would a disproportionate amount of administration and oversight needed by the Fund to put such an arrangement in place.

v). Any other reasons particular to that case that the Fund can objectively justify as meaning that spreading the debt would not be the interests of the Fund.

c). Approach to guarantees or securities

If no guarantor will be in place for the length of time of which the deficit is recovered, the Fund (or the scheme employer guarantor) may seek to obtain security which matches or exceeds the level of the outstanding deficit at all times during the period of time it is recovered (i.e. a decreasing amount over time). The form of financial security must be acceptable to the Administering Authority at its absolute discretion. Approved forms of security include a bond with a financial institution, a charge over assets or a Scheme Employer who will act as guarantor for the cessation debt over the extended cessation period. Alternatively, the exiting employer may provide evidence to the Administering Authority of their financial ability to make the repayments required and demonstrate that there is no increased risk of a default on the debt; this provision is subject to the Administering Authority's approval at its absolute discretion and also subject to regular review by the Administering Authority, with the option to remove such an approach and replace by appropriate security as and when it deems appropriate.

d). Completion of the debt-spreading arrangement

Once any debt-spreading arrangement is in place, no further review will normally apply (depending on the terms of the agreement) and once the debt is fully repaid, the employer will no longer have any financial obligations to make to the Fund. The Fund will consider proposals from the employer to change the arrangement, such as to clear the debt quicker, using a similar approach as outlined above.

However, the Fund reserves the right to cancel the agreement to spread the deficit repayments should the ceding employer fail to make the payments agreed and stated within the Rates and Adjustments Certificate. Such a cancellation, will mean that the remaining debt is payable in full immediately.

8. Payment out of any crystallised Exit Credit

If the actuary determines that there is a surplus at the cessation date, the Administering Authority has discretion* to decide upon the level of any Exit Credit payment up to the full surplus value, including on whether to set the value to zero.

**Note: This discretion was introduced into the LGPS Regulations from 20 March 2020 but with backdated effect to 14 May 2018.*

The Fund's approach to making a determination is to consider the circumstances of the case, as set out in 8.1, as split below between regulatory considerations and Fund identified considerations, and to apply the principles in 8.2.
However, the points below act only as guidelines and each case will still be decided on its own merits and as such the Fund may differ in its approach where it deems it appropriate to do so.

8.1. Considerations

The LGPS Regulations 64, paragraph 2ZC state that in exercising its discretion to determine the amount of any exit credit, the Fund must have regard to the following:

> *a). the extent to which there is an excess of assets in the fund relating to that employer over the liabilities…;*
>
> *(b) the proportion of this excess of assets which has arisen because of the value of the employer's contributions;*
>
> *(c) any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 to these Regulations [LGPS Regulations 2013 in relation to transferee admission bodies]; and*
>
> *(d) any other relevant factors.*

Further to point d), the Fund considers the following factors as being potentially relevant in making a determination:

i). If the terms of the any admission agreement, service agreement or transfer agreement was determined before May 2018 (i.e. before the Regulations were changed to allow Exit Credits to become payable), the Fund will normally assume that Exit Credits were not considered at that point in time unless there is information available to show the contrary;

ii). The type of employer body within the definitions of the LGPS Regulations, its initial funding position and whether or not it is part of a pool.

iii). The approach which was taken to setting that exiting employer's contributions during its participation in the Fund, in particular in terms of any secondary contribution rates and the levels of prudence applied.

iv). The presence, or otherwise, and details of any risk-sharing arrangements provided to the Administering Authority by the relevant parties, including any contractual terms which either directly or indirectly indicate an agreed approach to Exit Credits.

8.2. The principles which will apply to reach a determination

The principles that apply will vary according to an Exiting Employer's classification:

Admitted bodies

a). In the absence of evidence to the contrary, the Fund will assume that for all employer admissions prior to May 2018, it is likely that the understanding of all relevant parties at that point in time would have been that no Exit Credit payment would be due on cessation in any circumstances and this may have influenced the terms agreed (including the absence of any reference to exit Credits);

b). The Fund will normally make an Exit Credit payment in line with any contractual agreements which specifically covers the ownership of Exit Credits/cessation surpluses in a clear, unambiguous way. Similarly, if the Scheme Employer, Guarantor and Exiting Employer agree on an approach to the paying of any Exit Credit at the time of exit, the Fund will normally make a payment in line with that agreement (as long as its payment is still consistent with Regulations);

c). If as a result of any risk-sharing agreement outlined with an admission agreement, service contract or transfer agreement, the exiting employer's participation in the Fund is on a pooled or quasi-pooled basis, whereby it only has responsibility for primary rate contributions, then no Exit Credit will normally be paid out (with all assets and liabilities remaining the responsibility of the remaining employer or pool).

d). For other types of risk-sharing arrangements, other than that outlined in c), the Fund will consider what approach to paying an Exit Credit would appear consistent with details of the risk-arrangement. This could result in nil, partial or full Exit Credit payment. The Fund will consider the representations made by the parties before making a decision.

e). If the service contract or transfer agreement ended early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the determination of the Fund of the value of the Exit Credit.

f). Where a guarantor arrangement is in place, but no risk-sharing arrangement was entered into:

i). For admissions post May 2018 the Fund will normally assume that the parties had an understanding and awareness of the upside and downside risks involved at the time of admission and it will normally seek to make the Exit Credit to the exiting employer unless other relevant factors apply.

ii). For admissions prior to May 2018, the Fund will seek to determine if it is likely the terms of admission would have been different if legislation applying from May 2018 had been in place at the time of the admission and it will make a decision accordingly on whether to pay the Exit Credit to the exiting employer in full or not (alongside other relevant factors).

g). The Fund will consider the differential between employer's contributions paid and the size of the surplus, as required by amended Regulations where this may be a relevant factor. However, the Fund will not normally determine the approach to paying Exit Credits on this differential alone without a wider analysis of the risks undertaken by each party.

h). If an admitted body leaves on a minimum risk cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the Exiting Employer.

Scheduled bodies and designating bodies

h). Employers within the Town and Parish Councils pool will not normally receive exit credits upon leaving the Fund as the remaining participants of the pool will continue to take responsibility for assets and liabilities after the relevant employer has exited.

i). Similarly, academies which form part of a wider multi-academy trust (MAT) which leave the Fund for whatever reason will not normally be entitled to an Exit Credit and any surplus will remain with the MAT.

j). Normally a scheme employer will only become an Exiting Employer on an ongoing cessation basis if the exit relates to a reorganisation, merger or take-over (as per 5.1.b). In such circumstances, no exit credit will be made as assets and liabilities will be transferred over to the new organisation.

8.3. Timeframes, determinations and tax

The Administering Authority is required to advise the Exiting employer, as well as other relevant Scheme Employer or Scheme Employer guarantor (normally the same body), of its requirement to make an Exit Credit determination under Regulation 64 and to obtain the information outlined in 8.1, as required.

The final decision will be made by the Fund's Head of Wiltshire Pension Fund, in conjunction with advice from the Fund's actuary, Section 151 officer and Wiltshire Pension Fund Committee where necessary, in consideration of the points held within this policy.

The Administering Authority will advise the Exiting Employer of the amount due to be repaid and seek to make the payment within six months of the Exit Date. However, in order to meet the six-month timeframe, the Administering Authority requires prompt notification of an employer's exit and all data requested. The Administering Authority is unable to make any Exit Credit payment until it has received all data requested.

At the time this policy was originally produced, the Fund has been informed by HMRC that Exit Credits are not subject to tax and are consider authorised payments, however all exiting employers must seek their own advice on the tax and accounting treatment of any Exit Credit.

9. Deferred Debt Agreement (DDA): Non-crystallisation of cessation debt calculation

The methodology set out in sections 5, 6 and 7 of this policy is the Fund's preferred treatment of exiting employers. As a potential alternative, subject to the Fund's absolute discretion, an employer without any active members may enter into Deferred Employer status. This would allow the employer to enter into a written DDAs to delay the calculation and payment of a cessation debt (the crystallisation date) beyond the date the last active leaves active service within the Fund, for reasons other than in the circumstances set out in Section 5.2. If agreed by the exiting employer and the Fund (subject to consultation with Fund's actuary), the DDA will operate and be managed as set out below.

(1) The Administering Authority will require the employer concerned to outline in writing, providing appropriate evidence, why they consider that a DDA an appropriate way to deal with their funding deficit. The Fund will respond to the request in writing, normally with one month of the application and all information requested being received.

(2) A cessation debt will be calculated at the date of the cessation event, on the Fund's 'ongoing' actuarial basis (and low risk-basis, if applicable)

(3) The Fund Actuary will also calculate the value at risk by assessing the potential cessation deficit that may arise over the next 3 years based on employer's end-point cessation basis (i.e. ongoing or 'low risk') and determine an appropriate secondary contribution rate for the remainder of the current Rates and Adjustment certificate period. The Fund may also take legal and covenant advice before entering into such an arrangement. These calculations will take into account the total agreed length of the DDA.

(4) For exiting employers without a Scheme Employer guarantor, the employer must provide one or both of the following:

a). An appropriate form of financial security to Wiltshire Council as administering authority to the Wiltshire Pension Fund, for the amount of the value at risk. The form of financial security must be acceptable to the Administering Authority at its absolute discretion. Approved forms of security include a bond with a financial institution, a charge over assets or a Scheme Employer who will act as guarantor for the cessation debt over the extended cessation period; or

b). Demonstration of a sufficiently strong financial position, outlook and funding plan, to the Administering Authority's satisfaction, to provide assurance that entering into such an arrangement with the Administering Authority does not increase the risk of the exiting employer failing to meet its responsibility now or in the future.

(5) For an exiting employer with a Scheme Employer Guarantor in place, the Guarantor must be a signatory to the DDA (allowing the guarantor to terminate the DDA, creating a crystallisation of debt, subject to one of the DDA termination clauses being met).

(6) The Administering Authority must be satisfied that the level of risk to the Fund of such an arrangement does not increase the risk to the Fund now or it is likely do so in the future.

(7) The Fund may require the Deferred Employer to enter into an alternative employer investment strategy as a condition of agreeing to the DDA. The Fund may also seek advice from legal or actuarial advisers or covenant specialists before making a final decision.

(8) The value at risk will be re-calculated at each triennial valuation, and the arrangements applied in point 3 will be reviewed, to ensure the outstanding value at risk is covered within the total timeframe agreed for the DDA.

(9) The DDA will not normally last for a period longer than 7 years. When considering the appropriateness of the timeframe, the Fund will take into account the level of any guarantee or securities in place. Moderations to any length of agreement set will be subject to agreement between the Fund and deferred employer (and the Guarantor, if relevant).

(10) The terms of the DDA may require the employer to regularly share certain information, such as their financial position to enable the Fund to monitor the risk to the Fund. The details of any such monitoring will be outlined within the DDA. If upon receipt of such information the Fund feels the circumstances under which the DDA was agreed has changed, it may seek to revise the details of the DDA.

(11) The DDA will be terminated (at the "termination date"), and the full amount of any outstanding cessation debt calculated on the termination date will become due immediately, in any of the following circumstances:

a. the Deferred Employer enrols new active members;

b. the period specified, or as varied, under paragraph 9 elapses;

c. the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer (unless the Fund determines that such an event does not increase the risk of the deferred debt agreement not being adhered to in the next 12 months);

d. the administering authority serves a notice on the Deferred Employer that the administering authority is reasonably satisfied that the Deferred Employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 month; or

e. an actuary appointed by the administering authority assesses that the Deferred Employer has paid sufficient secondary contributions to cover the exit payment that would have been due under Regulation 64(1) if the employer had become an exiting employer on the calculation date. Note the reference to 'calculation date', is the date of the latest actuarial assessment rather the date the debt would have been otherwise crystallised.

f. The DDA is terminated by one of the parties, according to the termination terms of the DDA. For example, in order to clear the remaining debt early.

(12) On termination of a DDA, the Deferred Employer will become an exiting employer (ceased employer) and section 5 of this policy with then apply and any remaining debt (or surplus) will then be crystallised.

(13) The Fund, in consultation with the actuary, may choose to put in place a recovery plan, potentially altering the rates and adjustments certificate accordingly should it have evidence to suggest that the cessation goal will not be met by the end of the DDA timeframe.

(14) All legal, covenant reviews and actuarial costs incurred by the Fund in the process of maintaining the above DDA arrangements will be met by the exiting employer.

Any employer entering into DDA will be exposed to funding risks after the date of the cessation event. An employer could end up paying more to the Fund than the amount calculated as at the original cessation date.

Other considerations

In the following circumstances the Fund may not consider it appropriate to enter into a DDA:

i). In the Fund’s opinion, there is a materially greater risk of failure to recover all or some of the deficit if the deficit was spread than if it were paid immediately. This could be due to, but not limited to, the employer’s financial position, outlook or concerns regarding future organisation reforms.

ii). There is a Scheme Employer guarantor in place and that employer does not consent to the deficit being spread.

iii). In the Fund’s opinion, the offer of guarantee or securities, is insufficient to adequately reduce the risk or future failure to pay the deficit amounts.

iv). The amount of deficit is too small and thus there would a disproportionate amount of administration and oversight needed by the Fund to put such an arrangement in place.

v). Any other reasons particular to that case that the Fund can objectively justify as meaning that spreading the debt would not be the interests of the Fund.

10. Ongoing Management of liabilities after settlement of cessation debts

It is the policy of the Fund to avoid 'orphaned' liabilities and assets which can occur in the following situations:

a) The former employer no longer exists; or

b) The former employer still exists, but they have paid off a cessation valuation in full, so there is no further recourse to them.

In these situations, the issue remains of where the former employer's liabilities (which don't cease until the last pensioner dies) and investment assets reside within the Pension Fund's unitised structure. The approach for dealing with this is as follows:

a) Where there is a guarantor which is also an employer within the Fund, it is the Fund's policy that they will take the legacy (deferred and pensioner) liabilities and assets into their own valuation group for the purposes of future actuarial valuations. This can also be a way of spreading the cost of any remaining deficit that the guarantor may be picking up, because the liabilities (and assets) become merged with the guarantor's existing liabilities/assets for valuation and contribution rate purposes.

b) Where there is no guarantor, another existing employer within the Fund, such as the original ceding employer (in the case of old Community Admission Bodies) or some other organisation with close links to the former employer will be sought to similarly absorb the legacy (deferred and pensioner) liabilities and assets.

c) If no other employer within the Fund has links to the former employer, the former employer's assets will be ring-fenced until the last pensioner dies and any emerging deficit or surplus will be allocated across all current employers in the Fund at that date in proportion to their liabilities.

Approved at Wiltshire Pension Fund Committee on 17 December 2020 (subject to a consultation period with employers from 17 December 2020 to 15 January 2021, which passed with no responses).

Wiltshire Pension Fund

Policy on Prepayments

Effective date of policy	
Date approved	
Next review	

1 Introduction

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

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

1.1 Aims and objectives

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

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

1.2 Background

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

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

1.3 Guidance and regulatory framework

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

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

2 Statement of principles

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

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

3 Policy

3.1 Eligibility and periods covered

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

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

Where prepayment is agreed with an employer, the R&A certificate will be updated to reflect that agreement.

3.2 Request and timing

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

This request should be received by the fund within 2 months of the start of the period for which the prepayment is in respect of.

The fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made as close as possible to the beginning of the appropriate R&A period and by 31 May at the latest.

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

3.3 Calculation

The fund actuary will determine the prepayment amount required.

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

- The fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

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

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

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

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

3.4 Sufficiency check

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

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

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

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

3.5 Documentation and auditor approval

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

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

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

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

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

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

3.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority. These costs would be recharged to employers by the fund.

3.7 Risks

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

4 Related Policies

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

Wiltshire Pension Fund

Policy on contribution reviews

Effective date of policy	
Date approved	
Next review	

1 Introduction

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

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

1.1 Aims and objectives

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

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

1.2 Background

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

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

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

1.3 Guidance and regulatory framework

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

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

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

2 Statement of principles

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

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

3 Policy

3.1 Circumstances for review

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

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

3.2 Employer requests

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

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

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

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

3.3 Other employers

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

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

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

3.4 Effect of market volatility

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

3.5 Documentation

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

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

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

4 Related Policies

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

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Wiltshire Council

Wiltshire Pension Fund Committee

17 November 2022

Responsible Investment Update

Purpose of the Report

1. The purpose of this report is to update members on responsible investment issues.

Key Considerations for Committee

<u>Progress against recent decisions and the actions in the Responsible Investment Plan 2022/23</u>

2. Actions from the recent Committee meetings are as follows. Actions which were reported as complete in the last regular update have been removed:

Recommendation	Action
Members agreed…	
That the Fund should aim to sign up to the 2020 Stewardship Code during 2021.	The full stewardship report was submitted to the FRC, published on the Wiltshire Pension Fund website; and success in achieving signatory status was confirmed on 7 September 2022.
That officers will follow up with Mercer on advising on a road map for the Fund to achieve net zero by 2050.	Mercer completed work on analysing the Fund's holdings using Mercer's Analytics for Climate Transition (ACT) tool, this was presented at the 5 September 2022 meeting.
To authorise officers to work with Mercer to deliver the implementation of the affordable housing and renewable infrastructure portfolios.	The implementation work for the affordable housing portfolio has been completed. The implementation process for renewable infrastructure is ongoing.

3. The road map from the Responsible Investment Plan 2022/23 is shown on the following page. Progress against actions for Q3 2022 is as follows overleaf:

Responsible Investment Road Map

Q2 2022 -

Investments and strategy: Progress the next stage of the Mercer work on climate, to look at bottom-up and engagement targets. Implement the first stage of the renewable infrastructure portfolio.

Reporting and disclosure: Expand our portfolio coverage in terms of carbon metrics, and develop our TCFD reporting.

Training and engagement: Publish the 2020 Stewardship Code submission and mini-magazine version. Training on strategic asset allocation for Committee members.

Q3 2022 -

Investments and strategy: Complete the strategic asset allocation (SAA) review, embedding sustainability and climate considerations. Review the climate modelling findings from the actuarial valuation 2022.

Reporting and disclosure: Monitor and report progress against the interim decarbonisation targets. Develop impact metrics reporting for the affordable housing portfolio.

Q4 2022 -

Investments and strategy: participate in the Brunel climate stocktake and input into shaping policy and direction of travel. Review the RI Policy.

Reporting and disclosure: establish decarbonisation targets for property and infrastructure, and develop plans for other asset classes.

Training and engagement: expand the stewardship and voting information on the website

Q1 2023 -

Investments and strategy: update Investment Strategy Statement . Complete implementation of the affordable housing and renewable infrastructure portfolios.

Training and engagement: investigate use of a tool to enhance holdings transparency for stakeholders. Investigate the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD).

4. **Investments and strategy:**

- The Fund has made a specific allocation to renewable infrastructure of 5%. Implementation options are currently under consideration.
- Mercer's work on a "net zero by 2050" road map will continue with analysis using Mercer's Analytics for Climate Transition (ACT) tool.
- Officers of the Fund attended the Brunel Climate Stocktake workshop on 11 October 2022. The purpose of this workshop was for Brunel clients to discuss priorities and for Brunel to update clients on its progress and development of Brunel's own climate policy.
- Following approval at the meeting of 5 September 2022, the Responsible Investment policy 2022, was published and circulated to all legacy asset managers and Brunel. Officers held discussions with some managers and can confirm that the policy had been acknowledged and accepted by all on 12 October 2022.
- The triennial valuation and strategy review is on the agenda of this meeting, 17 November 2022, with the climate modelling results shown below in this paper.

5. **Reporting and disclosure:**

- Stewardship Code signatory status was confirmed by the Financial Reporting Council (FRC) on 7 September 2022. Some feedback was provided on potential areas of improvement. This will be considered in drafting of the 2023 report.
- The Climate pages of the Wiltshire Pension Fund website have been updated with more comprehensive content on recent and ongoing work.
- The Department for Levelling Up, Housing & Communities (DLUHC) consultation LGPS (England and Wales): Governance and reporting of climate change risks opened on 1 September 2022.

6. **Training and engagement:**

- Brunel held an Investor training day on 28 September 2022. Among the topics and discussion sessions were "Emerging Markets and responsible investing update", "Long-termism and Sustainability in a world of acute short-termism" and "Investing with Profit and Purpose" (impact). These were presented by Ninety One, Ownership Capital and Neuberger Berman respectively. An update on Brunel Stewardship was also provided.
- As mentioned above, the update to the climate pages of the Wiltshire Pension Fund will be accompanied by a member communication (climate one-pager) planned to align with COP27, the UN Climate Change Conference. This is later in the calendar as Pension Awareness Week, originally scheduled for September, was moved to run between 31 October to 4 November 2022.
- Induction training for new Pension Fund Committee and Local Board members was held on 3 November 2022. In addition, the Local Government Association (LGA) Fundamentals training programme (a three-day introductory course) covering all aspects of the LGPS, including responsible investment, is running between October and December.
- Wiltshire Pension Fund has been shortlisted for an award for "Best Climate Change Strategy" at the LAPF Investment Awards, 15 December 2022, and Paris Alignment Awards for "Best Climate Change Member Communication" and "Best Climate Change Policy Statement"at the Pensions for Purpose Awards, rescheduled for 1 February 2023.

Climate Modelling Results (Hymans)

7. As part of the actuarial valuation, it is now mandatory for actuaries to take account of climate risk as part of their work, such is the scale of this risk to pension funds. It is important to note that this work is completely separate to the climate scenario modelling work done by Mercer (the Fund's investment consultant), which looks exclusively at investment returns, and helps inform the setting of the investment strategy, and put in place measures to manage this risk from an investment perspective.

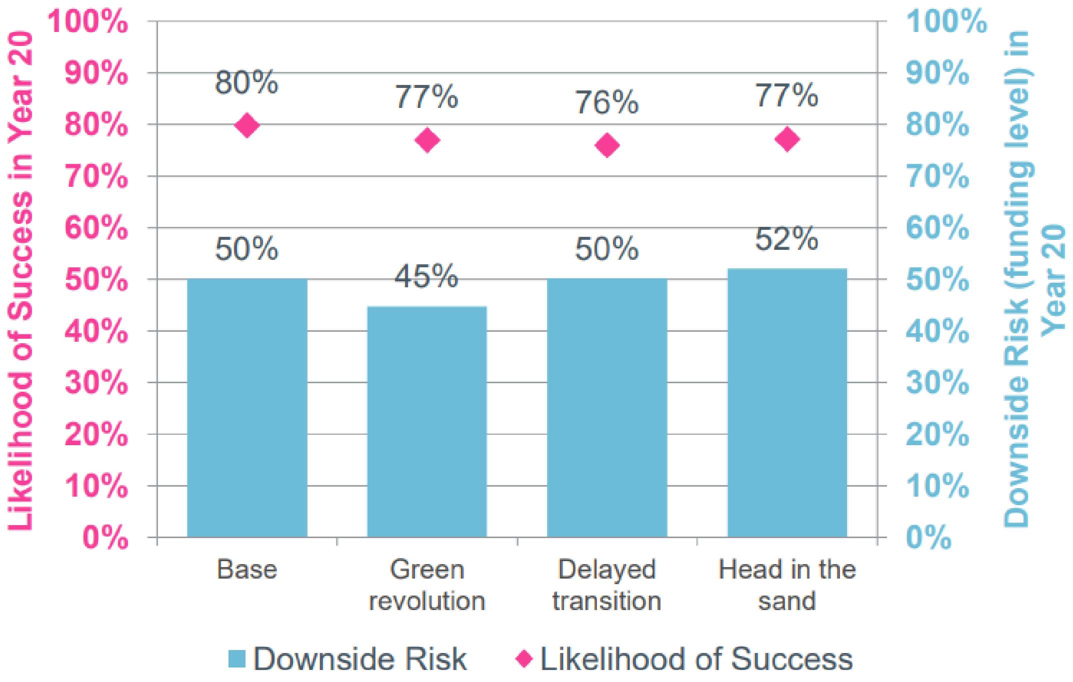
8. The work done by Hymans (the Fund's actuary) looks at the impact of climate risk on the funding position. The work takes three different scenarios, ranging from a rapid regulatory response to climate risk to doing nothing, and then something in the middle, and applies these to the entire model (which itself looks at 5,000 different scenarios). The work then shows whether the Fund's funding strategy is robust enough to survive these different scenarios.

9. The following explanation of the work has been provided by Hymans:

   "The modelling behind the charts below is intended to test the resilience of the funding strategy to potential different future climate risk scenarios for the purposes of reporting under the requirements of the Task Force on Climate Related Financial Disclosures (TCFD). In order to do this, the chart shows the impact of stressing the model based on 3 different potential future global reactions to climate risk (compared to the "standard" funding model). This is largely done by varying the volatility in economic conditions within the model at different periods of time over the next 20 years to correspond with:

   1. *immediate, large scale global reaction to climate change – Green Revolution*
   2. *much later global reaction in the longer term (years 15-20) – Head in the Sand*
   3. *global reaction somewhere in between the two above – Delayed transition*

   The charts show that the results are not significantly impaired by any of these three scenarios – certainly not by enough to make us change our funding decisions. This provides some assurance that the funding approach already allows for sufficient variation in future economic scenarios and that the recommended strategy is resilient enough to deal with a variety of future outcomes."



10. It is important to note that the Fund's funding strategy contains a stabilisation mechanism, which means that rates can be adjusted (for the larger employer groups) by plus or minus 1% each year in light of experience. This is a big driver in ensuring that funding targets can be met.

11. The conclusion of the modelling is reassuring, and illustrates that the funding strategy is sufficiently resilient. The full modelling results are included in Appendix 1.

Environmental Impacts of the Proposals

12. This report includes information on actions and policies which directly deal with addressing climate change risk.

Safeguarding Considerations/Public Health Implications/Equalities Impact

13. There are no known implications at this time.

Proposals

14. The Committee is asked to:

- use this report as a basis for monitoring the progress that is being made towards implementing responsible investment policy;
- note the progress made against the Responsible Investment Plan 2022/23 actions and discuss whether any additional actions are needed at the current time.

Report Author: Liam Robson (Accounting and Investment Officer)

Unpublished documents relied upon in the production of this report:

NONE

Appendices:
Appendix 1 – Hymans climate scenario modelling

HYMANS # ROBERTSON

Exploring climate change risk

Climate change risk

Exploring the impact of climate change risk

Climate change is too uncertain to "build in" to our model directly like we do with e.g. inflation risk.

Instead we see how the results change if we stress the model in three different scenarios.

Given it is a stress test, all three scenarios are "bad". Therefore need to consider all three scenarios to understand the strategy's resilience

Purpose is to test resilience, not re-run all the previous analysis.

Climate scenarios give us extra information to help make our decision, they don't replace existing modelling results

Testing "resilience" (TCFD requirement)

What could this mean?

- Does the chosen strategy still meet the chosen targets under all scenarios?
- Does it miss them by an acceptable margin (they are stress tests after all)?
- Does it satisfy other risk measures (e.g. short term downside risk)?
- Is it still the 'best' option even when compared against other options under the climate scenarios?

Use your judgement when deciding how to test resilience

Our scenarios are based on the speed and strength of the response to climate change

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Green revolution	Delayed transition	Head in the sand
Concerted policy action starting now e.g. carbon pricing, green subsidies	No significant action in the short-term, meaning response must be stronger when it does happen	No or little policy action for many years
Public and private spending on "green solutions"	Shorter and sharper period of transition	Growing fears over ultimate consequences leads to market uncertainty and price adjustments
Improved disclosures encourage market prices to shift quickly	Greater (but delayed) transition risks but similar physical risks in the long term	Ineffective and piecemeal action increases uncertainty
Transition risks in the short term, but less physical risk in the long term	High expectation of achieving <2°C	Transition risks exceeded by physical risks
High expectation of achieving <2°C		Low/no expectation of achieving <2°C

Immediate — Timing of disruption → 10+ years

High — Intensity of disruption → Very high

All three scenarios are difficult so we are stress testing the base

In each scenario we assume a disruptive period of high volatility

Our scenarios assume that

- There will be a period of disruption linked either to the response to climate risk (transition risks) or the effects of it (physical risks)
- This disruption will lead to high volatility in financial markets
- The later the period of disruption, the more pronounced it will be

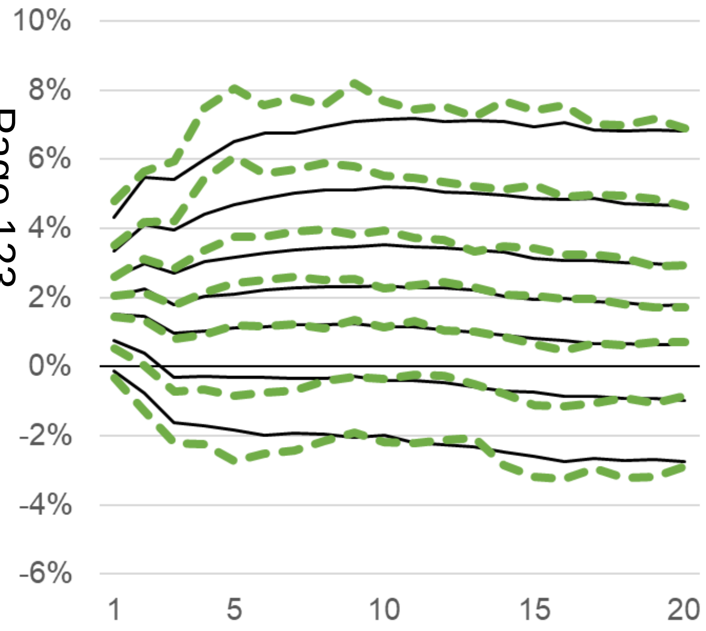
Scenario	Volatility criteria*			
	Years 1-5	Years 6-10	Years 11-15	Years 16-20
Green revolution	Very high	Moderate	Moderate	
Delayed transition		Very high	High	
Head in the sand			High	Very high

*Volatility criteria: Moderate = 60th percentile, High = 75th percentile, Very high = 85th percentile

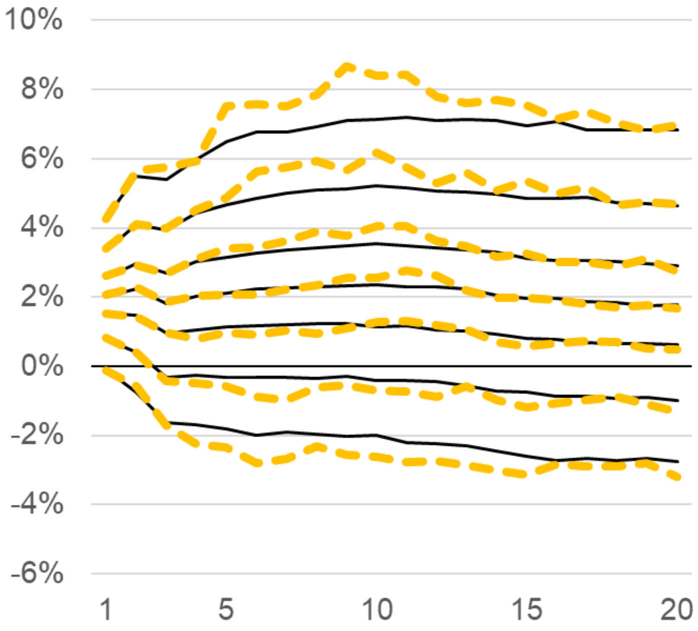
We use volatility criteria to "tilt" the modelling results towards simulations with higher volatility in the periods in question

Example of scenario impact: CPI inflation

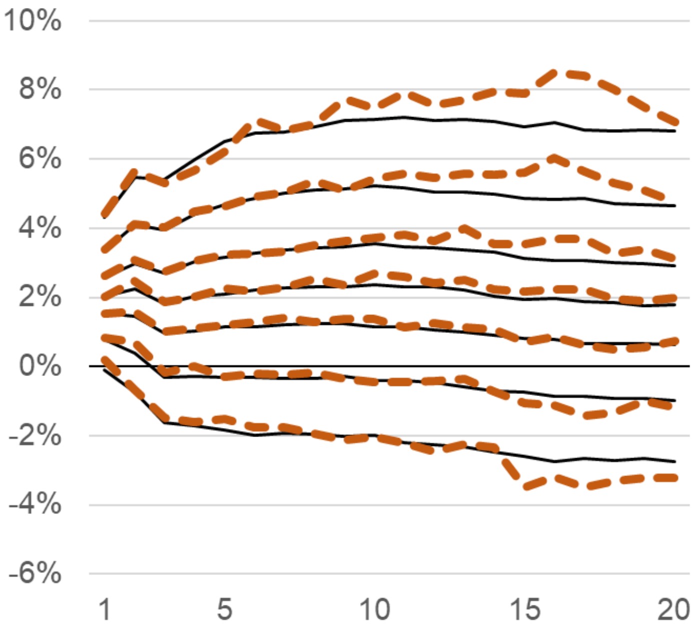
Green revolution



Delayed transition



Head in the sand

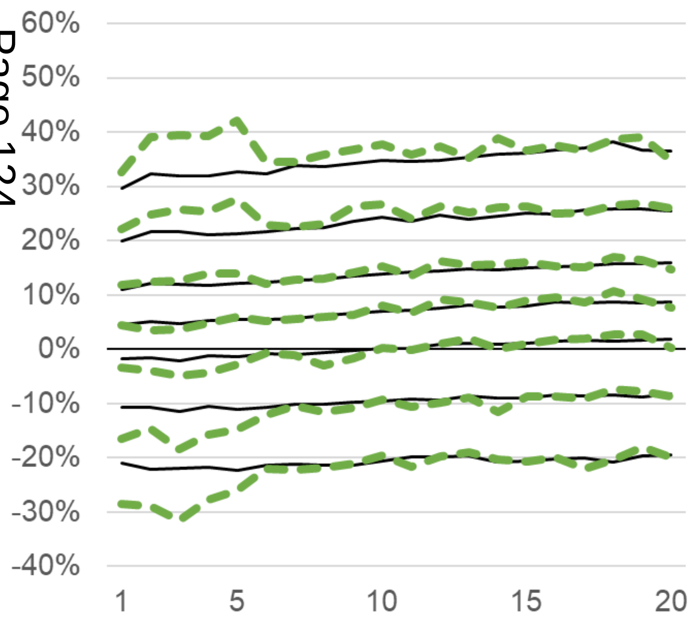


Scenario views widen the distribution of key variables in different time periods

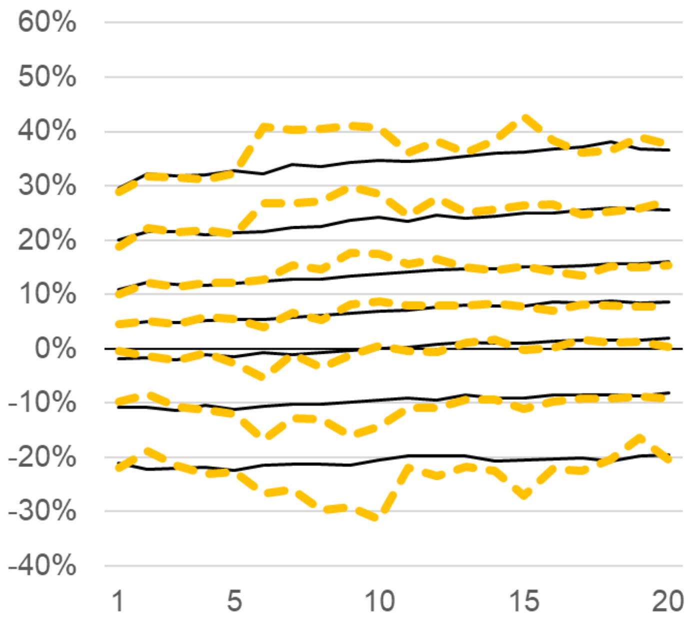
Solid black lines are the unweighted base case

Example of scenario impact: Global equity returns

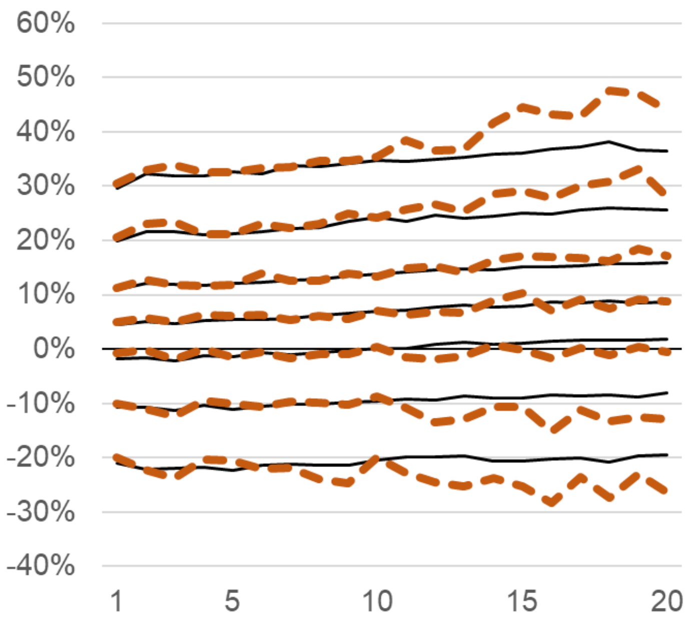
Green revolution



Delayed transition



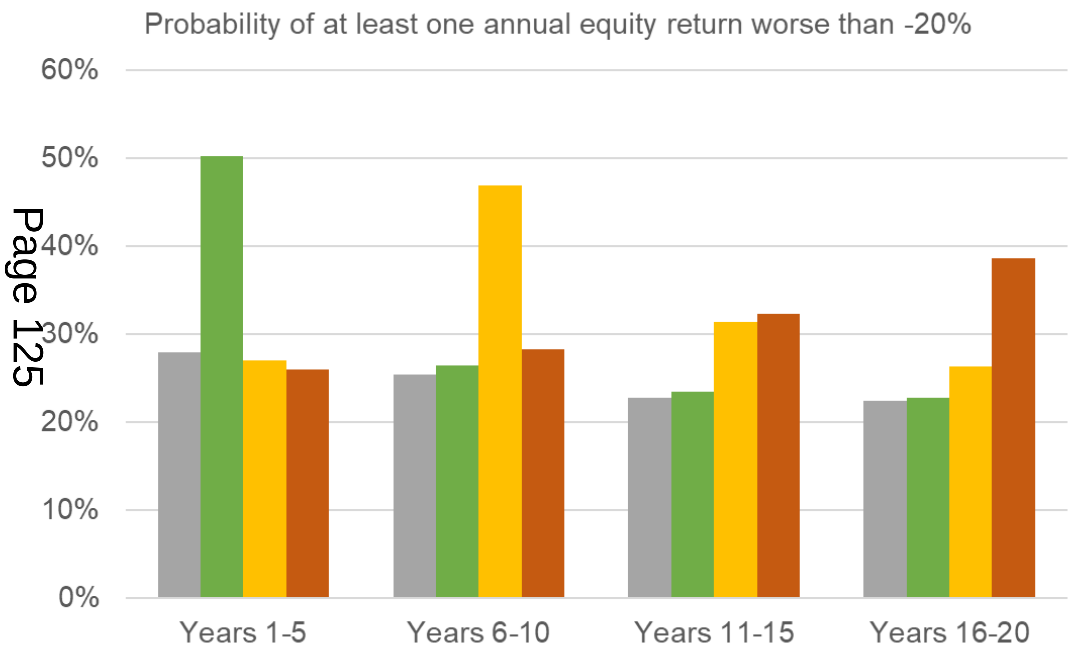
Head in the sand

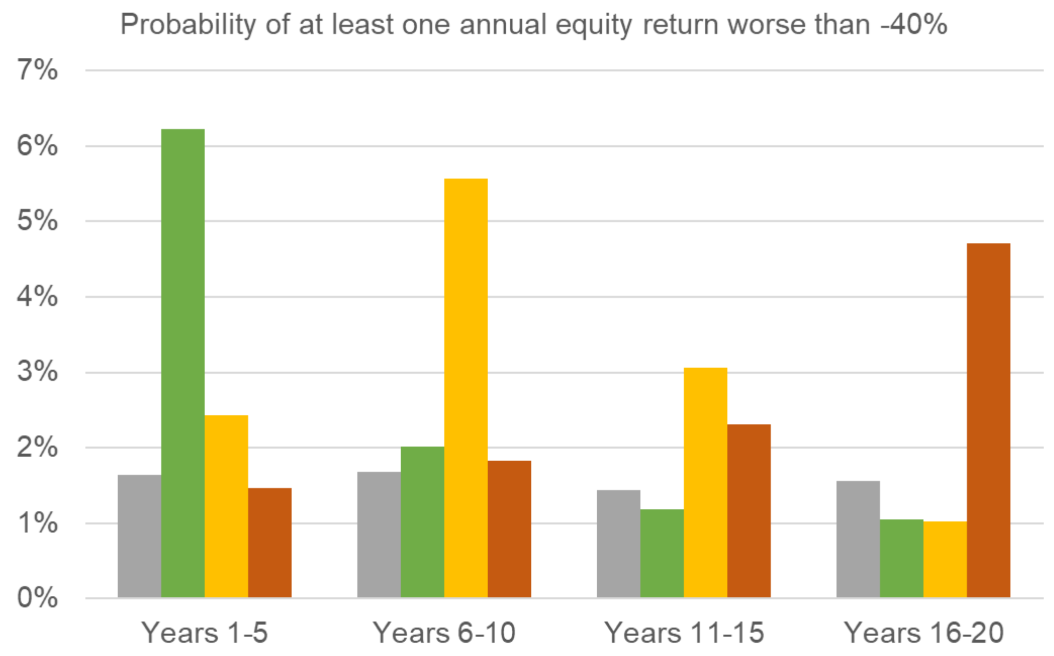


Scenario views widen the distribution of key variables in different time periods

Solid black lines are the unweighted base case

Example of scenario impact: equity shock





Bars from left to right: Unweighted base case (grey), Green revolution, Delayed transition, Head in the sand

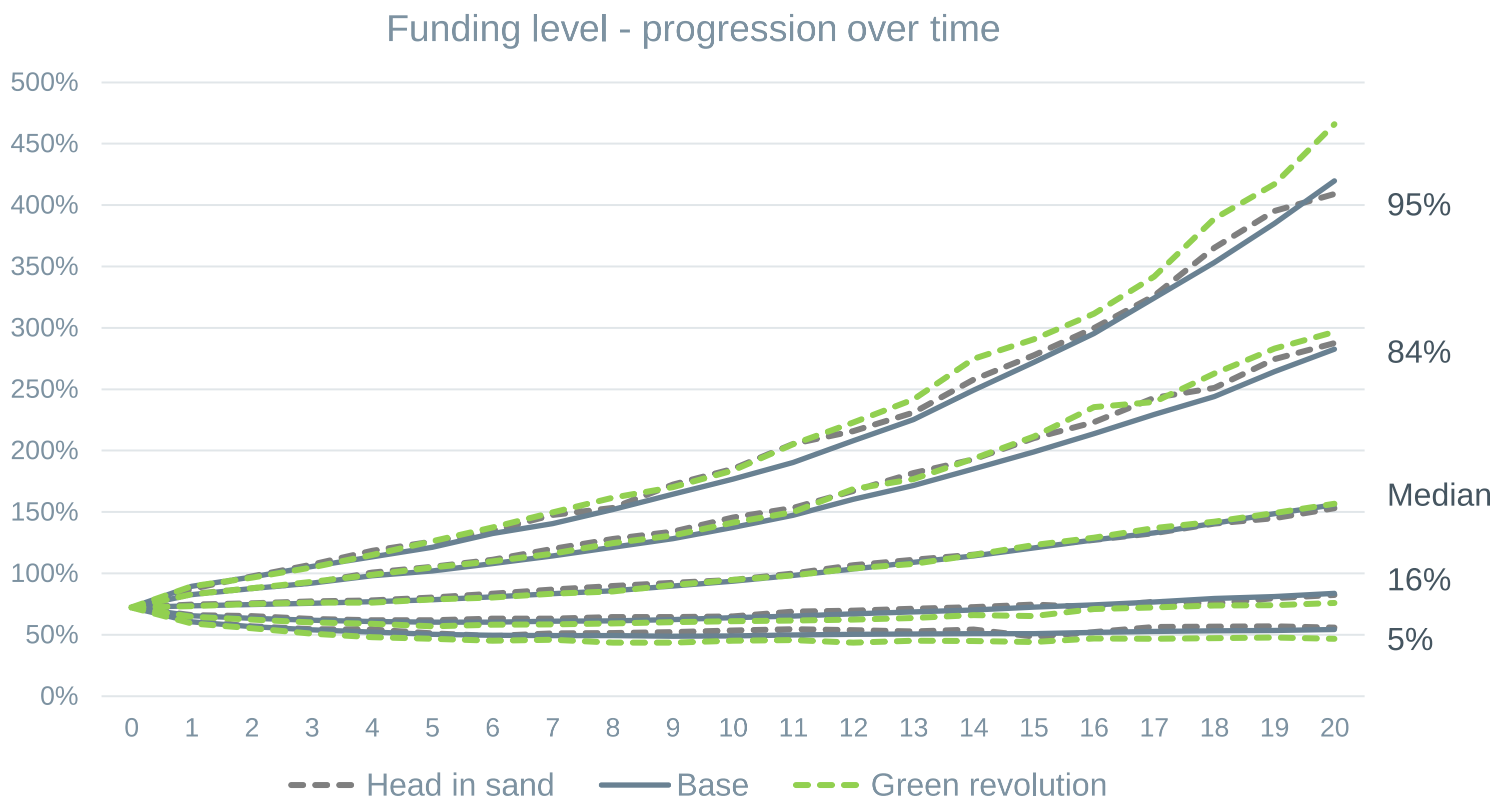
Increased volatility gives a much higher chance of significant equity shocks

Results: impact on future funding outcomes

No significant alteration to the funnel of future funding outcomes under climate change scenarios

Funnel is slightly wider under climate change scenarios due to increased (upside and downside) volatility

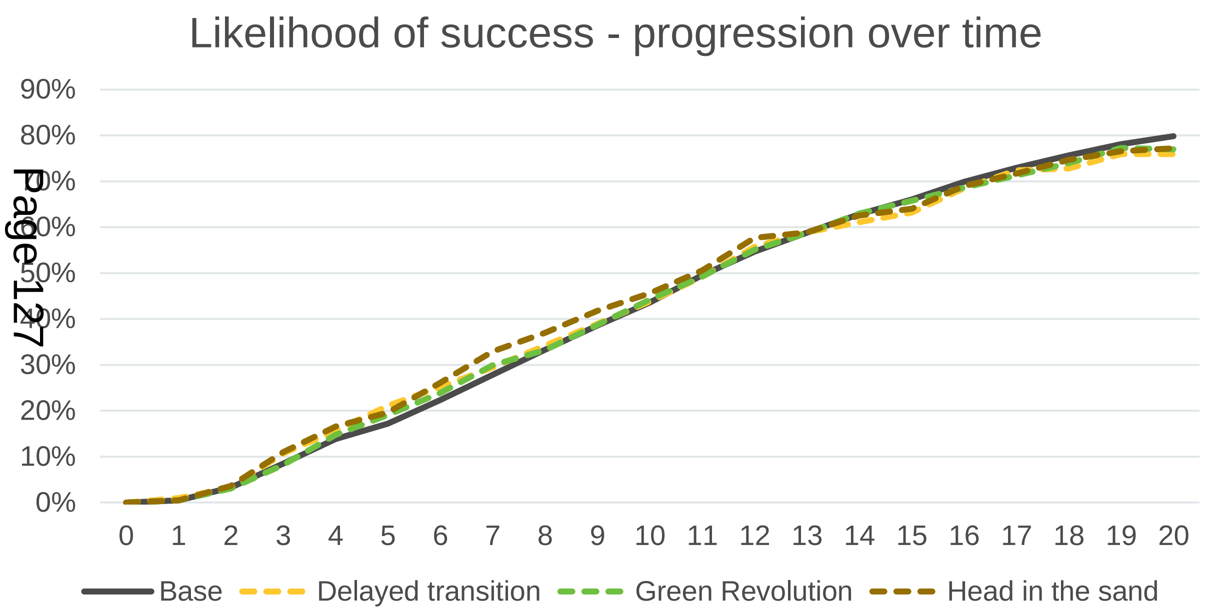
Downside risk under Green Revolution slightly higher (due to timing of impact), but not a significant difference

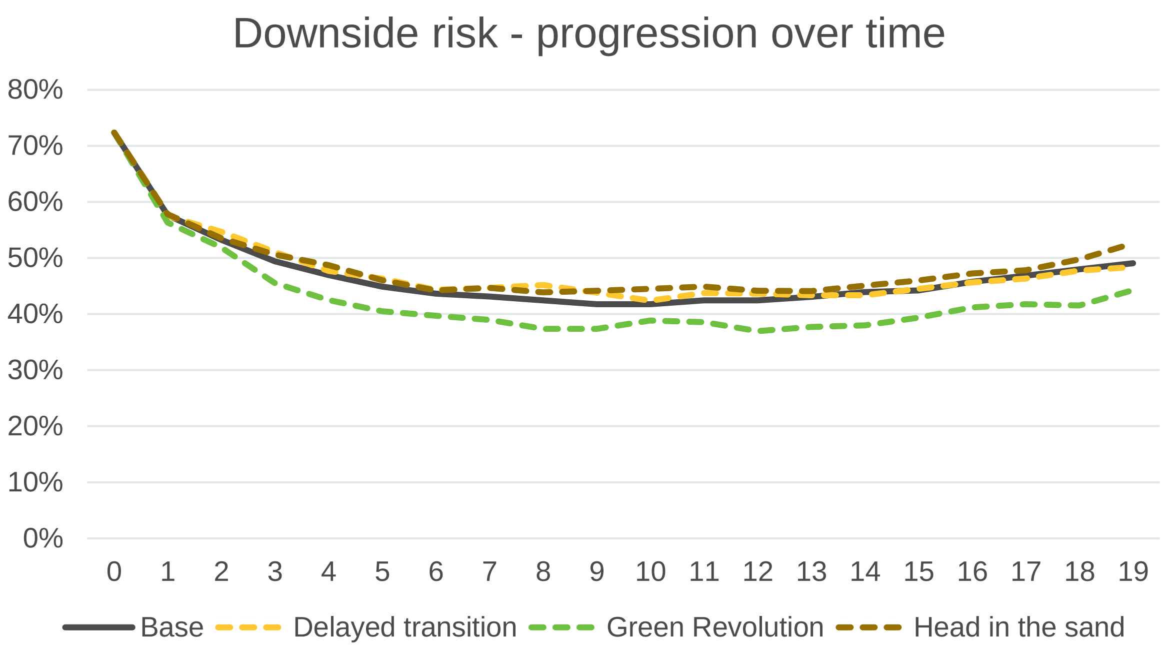


Results for Wiltshire Council pool, based on “Current” investment strategy and “Fixed (current)” contribution strategy.

Absolute starting point of funding level should be ignored, focus of this analysis is on relative differences

Results: impact on risk metrics





Results for Wiltshire Council pool, based on “Current” investment strategy and “Current rate – 1% until 2026” contribution strategy.

Results – summary risk metrics

Downside risk is increased under ‘Green revolution’ scenario. This will be due to compounding effect on the early period of volatility in the scenario.

No material difference in results (bearing in mind nature of stress testing) to suggest “Current rate – 1% until 2026” strategy is currently not appropriate.

However, Fund should be aware of the sensitivity of its strategy to potential climate change risk and monitor as part of its risk management framework.

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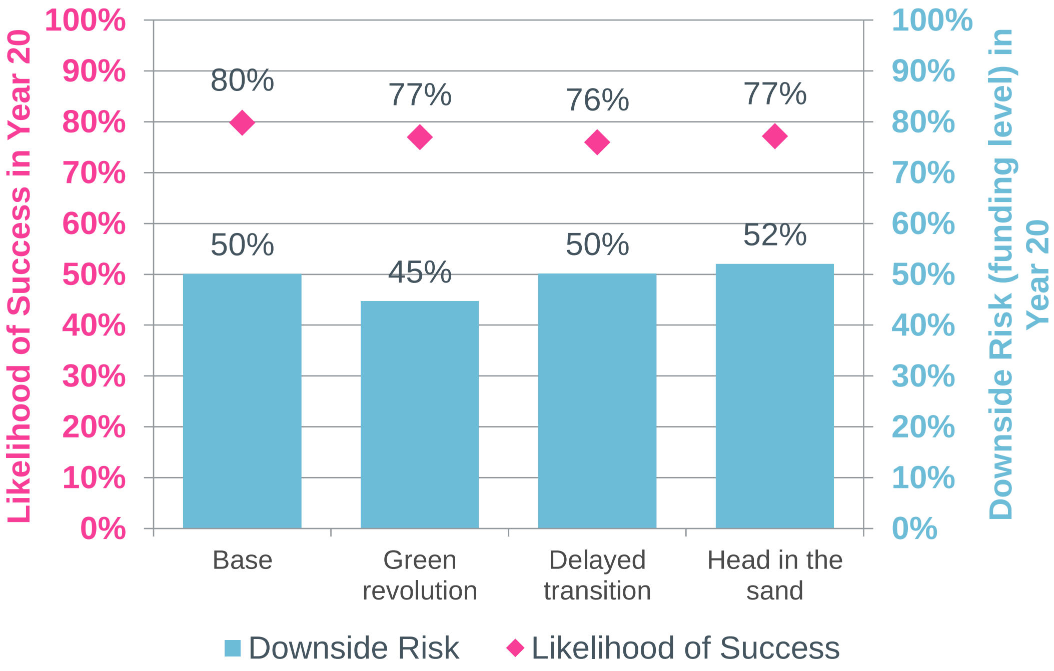

Results for Group 1 Councils, based on “Current” investment strategy and “Current rate – 1% until 2026” contribution strategy.

The approach used to model the different contribution rate strategies ensures that the strategy is robust when considered alongside climate change risk

HYMANS # ROBERTSON

Wiltshire Council

Wiltshire Pension Fund Committee

17 November 2022

Referral From Local Pension Board

Corporate Recharge - Calculation of Annual Charge by Wiltshire Council for support services provided to the Wiltshire Pension Fund, and the formulation of a Service Level Agreement

Purpose of the Report

1. The purpose of this report is:

   a) To highlight to the Committee concerns of the Pension Board regarding the transparency of the calculation of recharges (circa £0.5 million in 2022/23) from Wiltshire Council to the Pension Fund, for Support Services provided by the Council; and
   b) To ensure a more transparent process is introduced for the 20223/24 financial year, with a supporting service level agreement.

Recommendation

2. It is recommended that the Committee formally request a report from the Chief Financial Officer and Deputy Chief Executive, to their December 2022 administration focused meeting, setting out the detailed basis of the proposed recharge for support services to the Wiltshire Pension Fund for the 2023/24 financial year, and the timetable for the production of a Service Level Agreement.

Background

3. For a number of years officers have, unsuccessfully, sought details of the calculation methodology related to the annual recharge, and expected service standards, in relation to support services provided by Wiltshire Council to the Fund.

4. This issue has been reported to all of the Local Pension Board meetings held during 2022/23, with the Board being given assurances that progress was being made, and that a more transparent system should be implemented for the 2023/24 financial year.

5. The update provided to the Board at the October 2022 meeting was:

   “Pension Fund Officers have received and reviewed a freshly calculated SLA charge from the Council finance team. Further work is required to revise some of these calculations and then produce a full SLA document, officers are awaiting a response from the council team”.

   Unfortunately, this is exactly the same update that was provided to the August 2022 meeting of the Board. Subsequently, following the October 2022 meeting of the Board, it has been highlighted that this project has again stalled.

6. The Pension Board believes that the current situation, whereby the Fund receives a charge of around £0.5 million pa, without any supporting calculation methodology or service information, is unsatisfactory from a governance viewpoint. To ensure that a more

transparent system is in operation for the 2023/24 financial year, urgent action is now required before budgets are set for the new financial year.

7. The Board is now aware that progress has been made on this issue, but feel that it is essential that officers from the Council finance team, in conjunction with officers from the Pension Fund, produce the report which is the subject of the recommendation at paragraph 2, to be submitted to the December 2022 meeting of the Pension Committee.

Mark Spilsbury
Independent Chair of the Wiltshire Local Pension Board

Wiltshire Council

Wiltshire Pension Fund Committee

17 November 2022

REPORTING OF CLIMATE CHANGE RISKS

Purpose of the Report

1. The purpose of this report is to present a draft response to the "LGPS (England and Wales): Governance and reporting of climate change risks" consultation for the Committee's review and approval.

Key Considerations for Committee

Background

2. On 1 September 2022, the Department for Levelling Up, Housing and Communities (DHLUC) published a consultation on climate change risk reporting. The consultation seeks views on proposals that will require Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

3. The full consultation document can be read here: LGPS (England and Wales): Governance and reporting of climate change risks - GOV.UK (www.gov.uk).

4. In summary, it invites views on policy proposals to require administering authorities of the LGPS to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities. It also invites responses on proposals to disclose these in line with the recommendations of the international industry-led Taskforce on Climate-related Financial Disclosures (TCFD).

5. It is proposed that LGPS administering authorities would calculate the 'carbon footprint' of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement.

6. It is proposed that administering authorities should report on this annually, and that these reports will be summarised in an LGPS-wide report, including the overall carbon emissions of the scheme.

7. Wiltshire Pension Fund began to make disclosures in line with TCFD in 2021 and has completed scenario analysis. The Fund is therefore in a good position both to respond to the consultation, and prepared for regulations that will follow.

8. A draft response is attached as an appendix. The Committee is asked to approve the draft response to the consultation.

Environmental Impacts of the Proposals

9. The “Governance and reporting of climate change risks” consultation response includes specific plans and targets to address climate change risk in the investment portfolios.

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Proposals

11. The Committee is asked to approve the draft response to the consultation.

Report Author: Liam Robson (Accounting and investment officer)

Unpublished documents relied upon in the production of this report: None

Appendices:
Appendix 1 – Draft response to consultation

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