

Shropshire Council
Legal and Democratic Services
Guildhall
Frankwell Quay
Shrewsbury
SY3 8HQ

Date: Thursday, 12th March 2026

**Committee:
Pensions Committee**

Date: Friday, 20 March 2026

Time: 10.00 am

Venue: The Council Chamber, The Guildhall, Frankwell Quay, Shrewsbury, SY3 8HQ

You are requested to attend the above meeting.
The Agenda is attached.

There will be some access to the meeting room for members of the press and public, but this will be limited. If you wish to attend the meeting, please email democracy@shropshire.gov.uk to check that a seat will be available for you.

Please click [here](#) to view the livestream of the meeting on the date and time stated above. (Please note that while we strive to live stream meetings, technical issues may occasionally occur. In the event of a technical disruption, the meeting will be paused to try to resolve the issue. Should it not be possible to resume the live stream, the meeting will proceed as scheduled, and a backup recording will be made available after the meeting. Any disruption to the live stream does not affect the legality of the meeting).

The recording of the event will also be made available shortly after the meeting on the Shropshire Council YouTube Channel: [Here](#)

Tim Collard
Service Director – Legal, Governance and Planning

Members of the Committee:

Gary Groves (Chairman)
Alan Holford
Malcolm Myles-Hook
Charles Shackerley-Bennett

Co-opted Members (Voting):

Paul Davis
Zona Hannington (Vice-Chairman)

Co-opted Members (Non-Voting):

Thomas Biggins (Pensioner Representative)

David Burton (Employee Representative Shropshire Council)

Byron Cooke (Employee Representative Telford & Wrekin Council)

Substitute Members of the Committee:

Greg Ebbs (SC)

Carl Rowley (SC)

Beverley Waite (SC)

Fiona Doran (T&W)

Stephen Reynolds (T&W)

Sarah Sweeney (SC Employee Rep)

Vacancy (T&W Employee Rep)

Vacancy (Pensioner Rep)

Your Committee Officer is:

Sarah Townsend Committee Officer

Tel: 01743 257721

Email: sarah.townsend@shropshire.gov.uk

AGENDA

1 Apologies and Substitutions

To receive apologies for absence and notification of any substitutions.

2 Disclosable Interests

Members are reminded that they must declare their disclosable pecuniary interests and other registrable or non-registrable interests in any matter being considered at the meeting as set out in Appendix B of the Members' Code of Conduct and consider if they should leave the room prior to the item being considered. Further advice can be sought from the Monitoring Officer in advance of the meeting.

3 Minutes of the Previous Meeting (Pages 1 - 8)

The minutes of the meeting held on 5th December 2025 are attached for confirmation, marked 3.

Contact: Sarah Townsend (01743 257721)

4 Public Questions

To receive any questions or petitions from members of the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 12 noon on Monday, 16th March 2026.

5 Audit Plan for Shropshire County Pension Fund 2025/26 (Pages 9 - 30)

The report of Grant Thornton is attached, marked 5.

Contact: Avtar Sohal (0121 212 4000)

6 Pension Fund Treasury Strategy 2026/27 (Pages 31 - 42)

The report of the Head of Pensions – LGPS Senior Officer is attached, marked 6.

Contact: Justin Bridges (01743 252072)

7 Pensions Administration Monitoring (Pages 43 - 62)

The report of the Pensions Administration Manager is attached, marked 7.

Contact: Vicky Jenks (01743 252192)

8 Governance (Pages 63 - 212)

The report of the Pensions Administration Manager is attached, marked 8.

Contact: Vicky Jenks (01743 252192)

9 Corporate Governance Monitoring (Pages 213 - 280)

The report of the Pensions Investment and Responsible Investment Manager is attached, marked 9.

Contact: Peter Chadderton (07990 086399)

10 Exclusion of Press and Public

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items 11 to 16 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

11 Exempt Minutes of the Previous Meeting (Exempted by Category 3) (Pages 281 - 286)

The exempt minutes of the meeting held on 5th December 2025 are attached for confirmation, marked 11.

Contact: Sarah Townsend (01743 257721)

12 New Employers (Exempted by Category 3) (Pages 287 - 288)

The exempt report of the Pensions Administration Manager is attached, marked 12.

Contact: Vicky Jenks (01743 252192)

13 Financial Markets Update (Including Equity Protection) (Exempted by Category 3) (Pages 289 - 308)

The exempt presentation of Mr Colin Cartwright and Mr Luke Hammond, Aon, is attached, marked 13.

14 Investment Strategy Update (Exempted by Category 3) (Pages 309 - 340)

The exempt presentation of Mr Colin Cartwright and Mr Luke Hammond, Aon, is attached, marked 14.

**15 Investment Strategy Implementation Update (Exempted by Category 3)
(Pages 341 - 352)**

The exempt report of the Pensions Investment and Responsible Investment Manager is attached, marked 15.

Contact: Peter Chadderton (07990 086399)

**16 Investment Monitoring - Quarter to 31 December 2025 (Exempted by
Category 3) (Pages 353 - 396)**

The exempt report of the Pensions Investment and Responsible Investment Manager is attached, marked 16.

Contact: Peter Chadderton (07990 086399)

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Pensions Committee

20 March 2026

10.00 a.m.

MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 5 DECEMBER 2025 10.00 AM - 12.50 PM

Responsible Officer: Sarah Townsend

Email: sarah.townsend@shropshire.gov.uk Tel: 01743 257721

Present:

Members of the Committee:

Councillors Gary Groves (Chairman), Alan Holford, Malcolm Myles-Hook and Charles Shackerley-Bennett

Co-Opted Members (Voting):

Councillor Zona Hannington

Co-Opted Members (Non-Voting):

David Burton and Byron Cooke

Others Present:

Shropshire Council Officers:

Justin Bridges (Head of Pensions – LGPS Senior Officer) (remotely via MS Teams), Peter Chadderton (Pensions Investment and Responsible Investment Manager) and Vicky Jenks (Pensions Administration Manager).

Aon:

Colin Cartwright

Independent Advisor to the Committee:

Philip Hebson

LGPS Central:

Ethan Phipps and Basyar Salleh

Mercer:

Michelle Doman (remotely via MS Teams) and Mark Wilson (remotely via MS Teams)

Pensions Board Members:

John Hall (remotely via MS Teams) and Rebecca Summerlin (remotely via MS Teams)

36 Apologies and Substitutions

Apologies for absence were received from Councillor Paul Davis.

Mr David Burton was welcomed to his first meeting of the Pensions Committee, having replaced Mr Paul Griffiths as the Co-opted Member (Non-Voting) Employee Representative for Shropshire Council.

The Committee noted with sadness the passing of former Councillor Brian Williams, who had served as a member of the Pensions Committee since 2017. They extended their condolences to his family and expressed gratitude for his dedicated service to the Council.

37 **Disclosable Interests**

None were declared.

38 **Minutes of the Previous Meeting**

RESOLVED:

That the minutes of the meeting held on 19th September 2025 be approved and signed by the Chairman as a correct record.

39 **Public Questions**

Three questions had been received from members of the public. Dr. Jamie Russell and Ms Joanna Blackman were in attendance to ask their questions in person. Mr Paul Cooper's question was read out on his behalf by the Pensions Administration Manager. The responses to each question were read out by the Pensions Investment and Responsible Investment Manager. A full copy of the questions and responses provided are attached to the web page for the meeting.

40 **Valuation and Funding Strategy Statement Update**

Ms Michelle Doman and Mr Mark Wilson, Mercer, were in attendance remotely and provided the Committee with a presentation on the 2025 Valuation and proposed updates to the Funding Strategy Statement.

Members were advised that the Fund's financial position had improved significantly since the previous valuation with the provisional results showing a higher funding level / lower contributions as well as an increase in prudence levels. This meant that the Fund was in an improved position to keep contributions stable in future (although significant risks still remain). It was noted that as of 31 March 2025, the Fund had moved from a small deficit to a surplus of £335 million, equating to a funding level of around 115%.

Members were advised that average employer contribution rates were proposed to reduce, supported by the introduction of a new sustainability reserve to improve contribution stability and reduce the risk of future increases. This would mean that the first 10% of surplus would be retained within the Fund as a buffer against future volatility.

Updates to employer related policies reviewed as part of the valuation were outlined. These including those relating to employers without taxpayer backing – “lower risk” employers, the termination policy and academies.

Regarding the Funding Strategy Statement, it was reported that this had been significantly revised to reflect updated national guidance, with the draft version now including new sections on surplus and asset share policies. Updated sections included the deficit recovery policy, admission and termination policies, employer risk management policy and the notifiable events framework and it was noted that the employer events policy was also now part of the Funding Strategy Statement document. Members were informed that the draft Funding Strategy Statement was required to be circulated to all employers for consultation, with feedback to be considered by the Committee before final approval.

A question was asked about the Fund’s exposure to market downturns and whether contribution increases could coincide with periods of employer financial pressure. In responding, Ms Michelle Doman explained that this systemic risk had been considered and that the sustainability reserve, together with prudent investment return assumptions, was intended to help absorb adverse experience and reduce the likelihood of immediate contribution increases during periods when employers might be least able to afford them.

The Fund’s cash flow position and liquidity, particularly the balance between pension payments, contributions and investment returns as well as the future prevention of optimism bias in assumptions, was queried. In responding, Mercer advised that actuarial assumptions were long term in nature and deliberately prudent, with surplus held back via the sustainability reserve to provide protection. The importance of linking investment strategy to liquidity needs was also highlighted.

Concern was expressed about the scale of the proposed reduction in employer contribution rates and Mercer acknowledged that the reductions were significant but reiterated that they were accompanied by increased prudence, particularly the 10% sustainability reserve. This approach was intended to strike a balance between easing current affordability pressures on employers and maintaining the Fund’s ability to manage future risks in a sensible and controlled way.

41 Pensions Administration Monitoring

The Committee received the report of the Pensions Administration Manager which provided them with monitoring information on the performance of and issues affecting the Pensions Administration Team.

The Pensions Administration Manager addressed a query regarding the KPI table for the period April 2025 to March 2026 (Appendix A of the report) and specifically the low percentage of ‘communication issued with deferred benefit options’. It was explained that this area represents a high-volume workload and staffing levels had therefore been increased to manage this workload, resulting in some improvement. Additionally, options to automate and bulk process were being explored to further enhance performance.

RESOLVED:

1. That the KPI chart and information on those KPI's not currently meeting the 95% target and the actions being taken to address this (Appendix A) be noted.
2. That the progress and completion of key activities from the business plan 2024-25 up to Q2 (Appendix B) be noted.
3. That the progress of the Pension Dashboard implementation which is provided in the update report (Appendix C) be noted.

42 Corporate Governance Monitoring

The Committee received the report of the Pensions Investment and Responsible Investment Manager which informed them of corporate governance changes including the government's latest "LGPS - Fit for the Future" consultation and updates since the last committee together with a review of socially responsible investment issues arising in the quarter period 1st July 2025 to 30th September 2025. The report also updated the Committee on the latest position in respect of the Palestine Solidarity Campaigns demands.

Members were advised that work was ongoing to reduce the number of appendices in future agenda packs by replacing them with links embedded into the actual report where possible.

It was noted that the Scheme Advisory Board (SAB) was still awaiting a response from central government to their letter on conflict affected areas. The issue remained a priority and would continue to be monitored, with a more detailed update anticipated at the Committee's next meeting. A question was asked regarding whether, once clarification had been received from central government, the Fund's position on investments in conflict affected areas could be published in advance of the next Committee meeting, noting the level of public interest in the issue. In response, the Pensions Investment and Responsible Investment Manager confirmed that this would be done and advised that a wider review of the Fund's website was currently underway to improve transparency and accessibility of key documents, including investment related statements.

Regarding the Local Government Pension Scheme (England and Wales): Fit for the future consultation, Members were informed that since the report had been written, the Pensions Bill which provided the formal legislation for the various changes had cleared through the House of Commons and would now proceed to the House of Lords for consideration.

A question was asked about the security of the defined benefit nature of the Local Government Pension Scheme (LGPS), particularly in light of public commentary suggesting potential future reform. The Independent Advisor to the Committee explained that, while future legislative changes could not be ruled out, historically, where employers had moved away from defined benefit schemes, this had been achieved by closing schemes to new entrants rather than removing accrued benefits. Any changes to the LGPS would require national legislation rather than decisions at local authority or pool level.

A question was asked regarding how the Fund could ensure that Shropshire's responsible investment policies continued to be reflected within LGPS Central, given the increasing number of partner funds within the pool. It was explained that the Committee would retain responsibility for setting its strategic asset allocation and investment beliefs, which would guide responsible investment within the pool and LGPS Central representatives confirmed that its policies were developed through consultation with its partner funds and that this collaborative approach would continue.

RESOLVED:

1. That the position as set out in the report of the Pensions Investment and Responsible Investment Manager in respect of voting and engagement activity be noted and accepted:
 - LGPS Central at Appendix A/A1;
 - Columbia Threadneedle Investments Responsible Engagement Overlay Activity Report at Appendix B; and
 - LAPFF Engagement Report at Appendix C.
2. That the Funds update on companies in conflict affected and high-risk areas be noted and accepted.
3. That the process for responding to the government's latest Local Government Pension Scheme (England and Wales): Fit for the future consultation be noted and approved.

43 2025 Climate Risk Management Report (including TCFD Report)

The Committee received a presentation from Mr Ethan Phipps and Mr Basyar Salleh, LGPS Central, on the Fund's 2025 Climate Risk Management report (including the Task Force on Climate-related Financial Disclosures (TCFD) Report) the purpose of which was to present the findings which analyses the Fund's approach towards climate-related risks and opportunities. Members were advised that the Fund had been reporting on climate risk since 2020 and that since then, the Fund's understanding of how its investment is affected by and have an effect to climate had continued to improve.

It was reported that the Fund had seen a significant reduction in financed emissions since 2020, with the majority of decarbonisation occurring in 2022 following diversification into low carbon transition and climate-focused investment funds.

Progress against the Fund's climate targets as of 31st March 2025 was noted, as was the Climate Stewardship Plan which identified priority companies that were significant contributors to the Fund's financed emissions. LGPS Central explained that these companies were subject to targeted engagement with escalation options including voting against management.

A question was asked about the effectiveness of engagement with Glencore, noting the lack of progress shown in the stewardship plan, as well as the point at which continued lack of progress would lead to divestment. In response, LGPS Central advised that engagement with Glencore had been challenging and that historically, they had been unwilling to participate in collective engagement initiatives such as Climate Action 100+. However, direct dialogue had recently been established with

them outside of this, with several conversations held to better understand their views on climate targets.

In responding to a question about the flexibility available to investment managers to divest from companies quickly where circumstances changed, LGPS Central explained the distinction between passively managed funds and active funds.

The overall scale of the Fund's shareholding in Shell was queried and whether the Fund's level of ownership was sufficient to meaningfully influence them and LGPS Central responded that engagement was not solely about influence but also about understanding companies in their thinking on various issues and how they were managing material risks. It was explained that engagement informed investment decisions and voting, with divestment remaining an option where engagement proved ineffective.

44 Exclusion of Press and Public

RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to Agenda Items 10 to 16, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the categories specified against them.

45 Exempt Minutes of the Previous Meeting (Exempted by Category 3)

RESOLVED:

That the exempt minutes of the meeting held on 19th September 2025 be approved and signed by the Chairman as a correct record.

46 2025 Climate Risk Management Report (including TCFD Report) (Exempted by Category 3)

Mr Ethan Phipps and Mr Basyar Salleh, LGPS Central, were in attendance to present this item.

47 Governance (Exempted by Category 3)

The Committee received the exempt report of the Pensions Administration Manager which provided them with information regarding regulatory breaches arising from 1st April 2025 to 30th September 2025 (Quarter Two) and any stage one or stage two appeals that had been received under the internal dispute resolution procedure (IDRP). Fund policies that had been reviewed in the last quarter and required approval by the committee were also included within the report.

RESOLVED:

That the recommendations as set out in the exempt report of the Pensions Administration Manager be either noted or approved accordingly.

48 New Employers (Exempted by Category 3)

The Committee received the exempt report of the Pensions Administration Manager which provided them with details regarding new Academy admissions to the Fund under Schedule 2, Part 1 (20) of the LGPS regulations 2013.

The report also provided the Committee with details regarding new employer admissions to the Fund under Schedule 2 Part 3 Regulation 1(d) (i) of the Local Government Pension Scheme Regulations 2013 as well as details regarding parish councils who had made a resolution to join the Fund under Schedule 2 Part 2 Scheme Employers (designated bodies).

RESOLVED:

That the recommendations as set out in the exempt report of the Pensions Administration Manager be either noted or approved accordingly.

49 Investment Portfolio Update (Exempted by Category 3)

The Committee received a presentation from Mr Colin Cartwright, Aon, which provided them with an investment portfolio update.

50 Investment Strategy Implementation Update (Exempted by Category 3)

The Committee received the exempt report of the Pensions Investment and Responsible Investment Manager which provided them with an Investment Strategy Implementation update.

RESOLVED:

That the recommendations as set out in the exempt report of the Pensions Investment and Responsible Investment Manager be approved.

51 Investment Monitoring - Quarter to 30 September 2025 (Exempted by Category 3)

The Committee received the exempt report of the Pensions Investment and Responsible Investment Manager which provided them with monitoring information on investment performance and managers for the quarter period to 30 September 2025 and reported on the technical meetings held with managers since the quarter end.

RESOLVED:

That the recommendations as set out in the exempt report of the Pensions Investment and Responsible Investment Manager be approved.

Signed (Chairman)

Date:

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The Audit Plan for Shropshire County Pension Fund

Page 9

Year ending 31 March 2026

March 2026



Page 10

Contents

Section	Page
Introduction and headlines	03
Significant risks identified	05
Other matters	08
Our approach to materiality	10
IT audit strategy	12
Interim audit work	13
Logistics	14
Our team and communications	15
Our fee estimate	16
Independence considerations	18
Communication of audit matters with those charged with governance	19
New and future standards and reporting requirements	21

Introduction and headlines



Page 11

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire County Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end, and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Fund. We draw your attention to these documents in the links below.

- [Terms of Appointment from 2023/24 - PSAA](#)
- [Statement of responsibilities of auditors and audited bodies from 2023/24 audits - PSAA](#)

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Pensions Committee), and we consider whether there are sufficient arrangements in place at the Fund.

The audit of the financial statements does not relieve management or the Pensions Committee of their responsibilities. It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk-based.

Introduction and headlines (Continued)



Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of control
- valuation of level 3 investments.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £44.9 million (PY £38.8 million) for the Fund, which equates to 1.71% of your gross investment assets as at 31 March 2025.

We have determined a lower specific planning materiality for the Fund Account of £14.3 million (PY £14.3 million), which equates to 10% of prior year gross expenditure on the fund account.

Clearly trivial has been set at £2.2 million (PY £1.9 million).

Audit logistics

Our interim visit will take place in March 2026, and our final visit will take place in June and July. Our key deliverables are this Audit Plan, Auditor's Report, Auditor's Consistency Statement and our Audit Findings Report.

Our proposed fee for the audit is £90,404 (PY: £87,340) for the Fund, subject to the Fund delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) and we, as a Firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Audit team's assessment	Planned audit procedures
<p>Management override of controls</p> <p>Significant</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Page
13



“In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgement, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK).” (ISA (UK) 315).

In making the review of unusual significant transactions “the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks.” (ISA (UK) 550).

Significant risks identified (continued)

Significant risk	Audit team’s assessment	Planned audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Rebutted</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue</p>	<p>We have identified and completed a risk assessment of all revenue streams for the Fund. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including the Fund, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Fund.</p>	<p>We do not consider this to be a significant risk for the Fund and have therefore rebutted it. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.</p>

Page 14



Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgemental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgements and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Significant risk

Significant

Valuation of level 3 investments

The valuations of level 3 investments are a significant accounting estimate based on unobservable inputs and hence there is a risk of material misstatement due to error and/or fraud.

Audit team's assessment

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant accounting estimate by management in the financial statements due to the size of the balance (£606.6 million as at 31 March 2025) and the sensitivity of the estimate to changes in key assumptions. We have therefore identified the valuation of Level 3 investments as a significant risk.

Planned audit procedures

We will:

- document and evaluate management's processes for valuing Level 3 investments
- obtain and review the audited financial statements of the investment accounts, where these are at a different reporting date to the Fund's financial statements:
 - the valuations will be compared to the year-end reporting date after accounting for cashflows, and
 - obtain and review the corresponding investment manager report (capital statement) as at the investment accounts audit date with the audited accounts and follow up significant differences
- independently obtain and review the corresponding investment manager reports (capital statements) as at the reporting date and compare to the financial statements
- review purchase and sale transactions of investments near the reporting date where appropriate
- review the guidelines under which investments have been valued at the date of the investment accounts and the Fund accounts
- review management's classification of the assets
- obtain and review investment manager service auditor report on design and operating effectiveness of relevant internal controls where appropriate
- undertake sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances.

Other matters

Other work

The Fund is administered by Shropshire Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund's financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2025/26 financial statements, consider and decide upon any objections received in relation to the 2025/26 financial statements
 - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State
 - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - issuing an advisory notice under Section 29 of the Act.

- We carry out work to satisfy ourselves on the consistency of the Fund's financial statements included in the Fund's annual report with the audited Fund's accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Other matters (Continued)

2025 triennial valuation

Under Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund must obtain an actuarial valuation of its assets and liabilities every three years. The latest valuation is as at 31 March 2025 (due to be published in April 2026). The purpose of the valuation is to set employer contribution rates for the period from 1 April 2026 to 31 March 2029. It also provides the source data for actuaries to prepare their estimate of the actuarial present value of promised retirement benefits at the Fund level, as required under *IAS 26 - Accounting and Reporting by Retirement Benefit Plans*, and provides the base for actuaries to roll forward their estimates and assumptions from the triennial valuation to annually estimate individual employers' pension liabilities between triennial revaluations as required by *IAS 19 - Employee Benefits*.

The data used by actuaries to produce IAS 19 liabilities and assets can be broadly split into two categories:

- 1) Individual member data used to calculate the triennial valuation liabilities and assets which the IAS 19 liabilities and assets are based on.
- 2) Data used to carry out the roll-forward calculation from the triennial valuation liabilities and assets to the IAS 19 liabilities and assets. This data is provided by administering authorities and the relevant employers.

As auditors, we therefore need to test the individual member data used by the actuaries in their triennial valuation calculations (Item 1) against independent records every three years and Item 2 testing is carried out annually. The work for Item 1 will involve picking a sample of members across actives, deferrals and pensioners and testing a number of separate data sets within each category. Item 2 testing is included within the annual scale fee but Item 1 is additional work that will be need to be subject to a fee variation of £5,000. Our proposed fee variation is included on Page 16.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter & Description

Determination

We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Fund, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements

Page 18

Other factors

An item does not necessarily have to be large to be considered to have a material effect on the financial statements

Reassessment of materiality

Our assessment of materiality is kept under review throughout the audit process

Planned audit procedures

We determine planning materiality in order to:

- establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements
- assist in establishing the scope of our audit engagement and audit tests
- determine sample sizes, and
- assist in evaluating the effect of known and likely misstatements in the financial statements.

An item may be considered to be material by nature when it relates to instances where greater precision is required.

Additionally, there may be items which we feel would benefit from a lower specific materiality for those account balances (e.g. benefits payable within the Fund Account). Details of lower specific materialities applied can be found on the next page.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Our approach to materiality (Continued)

Materiality	Amount (£)	Qualitative factors considered
Headline materiality for the Fund's financial statements	44.90m	Headline Materiality for planning equates to 1.71% of your gross investment assets as at 31 March 2025. We deem this to be a level above which errors or omissions would alter the economic decisions of users of the accounts.
Specific materiality for Fund Account: a lower specific materiality for the fund account will be applied to the audit of all fund account transactions, except for investment transactions, for which headline materiality will be applied.	14.25m	Materiality for the Fund Account for planning equates to 10% of gross expenditure (in the fund account) as at 31 March 2025. We deem this to be a level above which errors or omissions would alter the economic decisions of users of the accounts.
Page 19 Trivial matters - reporting threshold	2.20m	We will report to you all misstatements identified in excess of the reporting threshold, in addition to any matters considered to be qualitatively material. Trivial threshold is based on a percentage (5%) of the overall materiality. No significant issues noted in prior year and no significant change in business processes or control environment.



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

We plan to rely on the operation of those business process controls and will therefore also carry out testing on the operation of the ITGCs in use to mitigate the risks from IT relevant to those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

Page 20

IT application	Audit area	Planned level IT audit assessment
Business World – Unit 4	Financial reporting	<ul style="list-style-type: none"> ITGC assessment (design, implementation and operating effectiveness)
Altair	Member Data	<ul style="list-style-type: none"> ITGC assessment (design, implementation and operating effectiveness)

Interim Audit Work

Details of work to be conducted at interim:

The backstop date is moving earlier in the year, as a result and to ensure that all work can be completed by this date, we will be using interim visit as a key part of the audit approach. Interim visits should be treated with the same importance as final accounts and will include regular catch-ups between management and the audit team to facilitate this visit.

Description	Work commentary
Advance testing areas	<p>We have selected a sample for detailed testing for M1-9 based on interim data provided for the following areas:</p> <ul style="list-style-type: none"> • Employees and Employers contributions • Benefits paid • Investment purchases and sales • Lump sums • Triennial member data • Member data movements

Logistics

The audit timeline

Key Dates:

Pensions Committee:
20 March 2026

Year end:
31 March 2026

Pensions committee:
18 Sept 2026

Sign off:
Work complete by September 2026, sign off by November 2026

Audit phases:

Planning – 1 week
Jan 2026

Interim – 2 weeks
March 2026

Final – 7 weeks
June – July 2026

Completion – 1 week
September 2026

Page 22

Key elements

- Planning meeting with management to set audit scope
- Planning requirements checklist to management
- Agree timetable and deliverables with management and Pensions Committee

Key elements

- Document design effectiveness of systems and processes
- Any planned advance testing
- Issue the Audit Plan to management and Pensions Committee

Key elements

- Audit teams onsite to complete fieldwork and detailed testing
- Weekly update meetings with management

Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Pensions Committee
- Audit Findings presentation to Pensions Committee
- Finalise and sign financial statements and audit report

Our team and communications

Grant Thornton core team

Avtar Sohal

Key Audit Partner

- Key contact for senior management and Pensions Committee
- Overall quality assurance

Elliot Baker

Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Zizipho Khonza

In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

Page 29

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	<ul style="list-style-type: none"> • Client Surveys 	<ul style="list-style-type: none"> • The Audit Plan • The Audit Findings • Auditor’s Annual Report 	<ul style="list-style-type: none"> • Audit planning meetings • Audit clearance meetings • Communication of issues log 	<ul style="list-style-type: none"> • Technical updates
Informal communications	<ul style="list-style-type: none"> • Open channel for discussion 		<ul style="list-style-type: none"> • Communication of audit issues as they arise 	<ul style="list-style-type: none"> • Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the In-charge and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

Our fee estimate

Our fee estimate:

We have set out below our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made while preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Page 24

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2024\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Shropshire County Pension Fund to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2025/26 audit is £90,404.

Description

Description	Audit Fee for 2024/25 (£)	Proposed fee for 2025/26 (£)
Shropshire County Pension Fund Audit	86,240	90,404
IAS 19 letters to auditors of bodies outside the NAO code	1,100	1,100
2025 triennial valuation data testing	-	5,000
Other	-	-
Total (Exc. VAT)	87,340	96,504

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year or opinion issued
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here [Fee Variations Overview – PSAA](#)

Fees and non-audit services

The following tables below sets out the non-audit services charged from the beginning of the financial year to year end ie 31 March 2026, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the Fund's policy on the allotment of non-audit work to your auditor

None of the below services were provided on a contingent fee basis

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Shropshire County Pension Fund. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees as detailed in the table below.

Grant Thornton UK LLP also acts as the statutory auditor of Shropshire Council. The fees for the audit and non-audit services charged for this entity are reported in its Audit Plan. We consider that such services and fees do not impair our independence.

Assurance Service Fees

Service	£	Threats Identified	Safeguards applied
Audit Related Assurance			
2025 IAS 19 Assurance letters for Admitted Bodies outside of the NAO Code of Audit Practice (£1,100 per letter and received one request in 2024/25 which we anticipate being repeated)	£1,100 per letter	Self-Interest (because this is potentially a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the total fee for this work is £1,100 in comparison to the total proposed fee for the audit of £90,404 and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>We have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management.</p> <p>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We may make recommendations to the Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.</p>
Total	£1,100		

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, there are no matters that we are required to report:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Fund and/or Administering Authority that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Fund and/or Administering Authority or investments in the Fund and/or Administering Authority held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Fund/Administering Authority as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Fund and/or Administering Authority.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Fund's and/or Administering Authority's board, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence at planning as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Communication of audit matters with those charged with governance

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Page 27

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●

Communication of audit matters with those charged with governance (continued)

Our communication plan	Audit Plan	Audit Findings
Views about the qualitative aspects of the Fund’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●

Page 28

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

New and future standards and reporting requirements

New or revised accounting standards that have been adopted by the CIPFA Code for 2025/26

Amendments to IAS 21 – Lack of Exchangeability

IAS 21 *The Effects of Changes in Foreign Exchange Rates* has been amended by the IASB to clarify how an entity should assess whether a currency is exchangeable and how it should determine an appropriate spot exchange rate when exchangeability is lacking. The amendments introduce more detailed guidance on identifying a lack of exchangeability and on estimating a spot exchange rate in such circumstances. These amendments have been adopted by the Code from 1 April 2025.

IFRS 17 – Insurance Contracts

IFRS 17 Insurance Contracts was issued by the IASB in May 2017 and has been adopted by the CIPFA Code for local authority accounting from 1 April 2025. The standard introduces a new comprehensive framework for the recognition, measurement, presentation and disclosure of insurance contracts, replacing IFRS 4. Key features of IFRS 17 include the introduction of revised measurement models for insurance liabilities, the contractual service margin to defer unearned profit, new presentation requirements and significantly enhanced disclosures aimed at improving transparency and comparability.

New or revised accounting standards that are expected to be adopted by the CIPFA Code in future years.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities (including settling financial liabilities using an electronic payment system), adds guidance on the solely payment of principal and interest (SPPI) criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the CIPFA Code for [2026/27](#).



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<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
20 March 2026	
10.00am	Public

PENSION FUND TREASURY STRATEGY 2026/27

Responsible Officer Justin Bridges

e-mail: Justin.bridges@shropshire.gov.uk Tel: (01743) 252072

1. Synopsis

- 1.1 Shropshire Council as the Administering Authority maintains a small working cash balance for the Pension Fund that is invested separately to the Council's own cash and is managed under the defined Treasury Strategy set out in this report.

2 Executive Summary

- 2.1 This report proposes the Pension Fund Treasury Strategy for 2026/27 for the small cash balances that the Administering Authority maintains to manage the daily transactions of the Fund. These transactions include the payment of pensions and transfers out together with the receipt of contributions from employers and transfers into the Fund. From the 1 April 2010 these balances have been invested separately in accordance with the Pension Fund Treasury Strategy.

3 Recommendations

- 2.1 Members are asked to delegate authority to the LGPS Senior Officer to manage the Pension Funds day to day cash balances.
- 2.2 Members are asked to approve, with any comments, the Pension Fund Treasury Strategy.
- 2.3 Members are asked to authorise the LGPS Senior Officer to place deposits in accordance with the Pension Fund's Treasury Strategy.
- 2.4 Members are also asked to delegate authority to the LGPS Senior Officer to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 Compliance with the CIPFA Code of Practice on Treasury Management, adhering to the Council's Treasury Policy Statement and Treasury Management Practices together with the rigorous internal controls will enable the Fund to manage the risk associated with Treasury Management activities and the potential for financial loss
- 3.4 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Climate Change Appraisal

- 5.1 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The investment managers vote on the Fund's behalf, CTI engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and is a signatory to the UK Stewardship Code. The Pension Committee have also agreed a net zero target by 2050 or before as part of its climate strategy.

6. Background

- 6.1 The Fund has assets of £2.858 billion which are managed by the Funds Global Custodian, Northern Trust. Shropshire Council as the Administering Authority maintains a small working cash balance (currently around £7 million). This Treasury Strategy relates solely to the Pension Fund cash managed by Shropshire Council as the Administering Authority.
- 6.2 The Administering Authority aims to keep the Pension Fund cash held for day-to-day transactions to a minimum level. Fund cash is currently managed separately and invested on the money markets in accordance with Shropshire Council's Treasury Strategy. A separate Pension Fund account is credited with investment income.

- 6.3 Investment regulations issued by the DLUHC (now MHCLG) in December 2009 no longer permit pension fund cash to be pooled with the cash balances of Shropshire Council from 1st April 2010. In view of these changes a separate Pension Fund Treasury Strategy must be approved each year.

7. Investment Policy

- 7.1 The Fund's investment policy is based on the Treasury Strategy adopted by Shropshire Council. The investment policy will have regard to the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments, and the CIPFA Treasury Management Code of Practice.
- 7.2 The investment priorities for the management of Pension Fund cash balances are the security of capital and the liquidity of its investments. The Fund will also aim to achieve the optimum return on its cash investments commensurate with proper levels of security and liquidity.
- 7.3 The DLUHC guidance requires Shropshire Council to categorise their investments as either "specified" or "non specified" investments. Shropshire Council as Administering Authority for the Pension Fund will adopt these same categorisations for the investment of Pension Fund cash. Specified investments are deemed as "safer" investments and must meet the following conditions:-
- be denominated in Sterling
 - have less than 12 months duration
 - not constitute the acquisition of share or loan capital
 - be invested in the government or a local authority or a body or investment scheme with a "high" credit quality.
- 7.4 The Fund is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.
- 7.5 The Fund is required to look at non specified investments in more detail. It must set out:
- Procedures for determining which categories of non-specified investments should be used
 - The categories deemed to be prudent
 - The maximum amount deemed to be held in each category
 - The maximum period for committing funds
- 7.6 As all of the Funds' investments will be placed in sterling for periods up to 12 months with highly credit rated institutions all investments

will be classified as specified investments. It is recommended that the maximum limit of £4 million is set for institutions which are part nationalised and for institutions which meet the minimum credit ratings but are not supported by the Government and a limit of £5m for AAA rated Money Market Funds. Any changes to the minimum credit ratings or maximum limits must be approved by the LGPS Senior Officer.

- 7.7 The Fund may use for the prudent management of its cash balances any of the specified investments detailed on Appendix A.
- 7.8 In order not to rely solely on institutions credit ratings there have also been a number of other developments since the credit crunch crisis which require separate consideration and approval. Part Nationalised Banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. MUFG Corporate Markets are still supportive of the Fund using these institutions with a maximum 12 month duration. For this reason National Westminster Bank which are part of the RBS group are included on the approved counterparty list.

8. Creditworthiness Policy

- 8.1 It is proposed that the Fund will adopt the same methodology as Shropshire Council when determining the minimum credit ratings to be used. The Creditworthiness policy has been adopted from Shropshire Council's Treasury Strategy who use information provided by their treasury advisor, MUFG Corporate Markets. This service has been progressively enhanced following the problems with Icelandic Banks in 2008. MUFG use a sophisticated modelling approach with credit ratings from all three rating agencies Fitch, Moody's and Standard and Poor's. In accordance with the revised Treasury Management Code of Practice they do not rely solely on the current credit ratings of counterparties but also use the following as overlays:-
- Credit watches and credit outlooks from credit rating agencies
 - Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings
 - Sovereign ratings to select counterparties from only the most creditworthy countries
- 8.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used to determine the duration of investments and

are therefore referred to as durational bands. The Fund is satisfied that this service gives a much improved level of security for its investments. It is also a service which would not be able to replicate using in-house resources.

8.3 The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with MUFG's weekly list of worldwide potential counterparties. The Fund will therefore use counterparties within the following durational colour bands:-

- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
- Dark Pink – 5 years for Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
- Light Pink - 5 years for Enhanced Money Market Funds with a credit score of 1.5 (Not currently used)
- Purple - 2yrs (Council & Pension Fund currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days
- No colour – not to be used

8.4 Although the maximum period limit is currently 5 years the Fund will take a more prudent approach and not invest for any longer than 12 months.

8.5 All credit ratings are monitored continuously and formally updated as and when changes are required by the Administering Authority. The Administering Authority is alerted to changes to ratings of all three agencies through its use of the MUFG's creditworthiness service. The Fund will use the same policy when constructing its approved lending list. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Funds minimum criteria, the further use of that counterparty will be withdrawn immediately.

8.6 Sole reliance will not be placed on the use of this external service. Officers also use market data and information and regularly monitor the financial press.

9. Country Limits

9.1 It is recommended that the Fund will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies).

It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The LGPS Senior Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with MUFG's revised creditworthiness policy if required.

10. Investment Strategy

- 10.1 At the November meeting the Monetary Policy Committee (MPC) decided to keep the Bank Rate at 4% and at its December meeting the MPC voted to reduce interest rates to 3.75%. It is felt that the bank rate could potentially reduce further to 3.5% by April 2026 and then remain at this level until June 2027. This view is based on the latest forecasts obtained by the Authority's treasury advisor, MUFG Corporate Markets.
- 10.2 It is anticipated that balances available for investment will be between £1 - 12 million which will be invested short term in accordance with the approved lending list. Separate lending and period limits have been approved for investment of Pension Fund cash.
- 10.3 Short term cash flow requirements limit the scope for longer term investments. For cash flow generated balances we will seek to utilise the instant access account with Svenska Handelsbanken and Natwest, the Money Market Fund with Insight and short dated deposits (overnight - 3 months) in order to benefit from the compounding of interest.
- 10.4 All investments will be made in accordance with the Funds treasury strategy and in accordance with the DLUHC investment regulations.

11. Short Term Borrowing

- 11.1 The current banking and investment arrangements mean the Fund has not needed to borrow on the money markets to fund day to day transactions. The investment regulations give the Administering Authority an explicit power to borrow for up to 90 days, for the purpose of the pension fund. This will enable borrowing for cash flow purposes such as to ensure that scheme benefits can be made on time. Any borrowing needs to have an identifiable income from which repayment of the borrowed amount and related interest can be funded.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Pension Fund Treasury Strategy 2025/26, Pensions Committee 21 March 2025

Cabinet Member

N/A

Local Member

N/A

Appendices

A. Specified Investment Schedule

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SPECIFIED INVESTMENTS***All investments listed below must be sterling-denominated.***

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with English local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band Green	NO	In-house	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) up to 1 year. <i>Custodial arrangement</i>	No	Yes	Yes – Minimum colour band Green	NO	In house buy and hold	1 year

<i>required prior to purchase</i>						
Banks nationalised by high credit rated (sovereign rating) countries	No	Yes	Minimum Sovereign Rating AA-	No	In house	1 year
UK Part Nationalised banks	No	Yes	Yes – Minimum colour band green	No	In house	1 Year
Government guarantee on all deposits by high credit rated (sovereign rating) countries	No	Yes	Yes – Minimum Sovereign Rating AA-	No	In house	1 year
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) or issued by a financial institution guaranteed by UK government with maturities under 12 months.	No	Yes	AAA	NO	In-House on a buy and hold basis after consultation/advice from Capita&	1 year
<i>Custodial arrangement required prior to purchase</i>	No	Yes	AAA	NO		1 year

Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds)					In House	
Gilts : up to 1 year <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed UK Sovereign Rating	NO	In House on a buy and hold basis	1 year
Money Market Funds (CNAV) & Government Liquidity Funds (including CCLA Fund) & Enhanced Money Market Funds (LVNAV & VNAV)	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	NO	In-house	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call.
Treasury bills <i>[Government debt security</i>	No	Yes	Govt-backed UK Sovereign	NO	In House	1 year

<p><i>with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i></p> <p><i>Custodial arrangement required prior to purchase</i></p>			<p>Rating</p>			
--	--	--	---------------	--	--	--

Monitoring of credit ratings:

All credit ratings will be monitored continuously. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Pension Fund’s minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Pension Fund has identified that affects the Pension Fund pre-set criteria will also be similarly dealt with.

Page 42



Pensions Committee
Date 20 March 2026

Item

Public

Pensions Administration Monitoring Report

Responsible Officer:	Vicky Jenks		
email:	Vicky.jenks@shropshire.gov.uk	Tel:	01743 252192
Cabinet Member (Portfolio Holder):			

1. Synopsis

The report provides members with monitoring information on the performance of and issues affecting the pensions administration team.

2. Executive Summary

- 2.1. Detail is provided on team workloads and performance, and projects currently being undertaken, including valuation 2025 and Pension Dashboards.
- 2.2. Information is also included regarding regulatory changes. Impacting on the work of the administration team.

3. Recommendations

- 3.1. Members are asked to note the KPI chart and information on those KPI's not currently meeting the 95% target and the actions being taken to address this. (Appendix A).
- 3.2. Members are asked to note the progress and completion of key activities from the business plan 2025-26 up to Q3. (Appendix B).
- 3.3. To note the progress of the Pension Dashboard implementation which is provided in the update report (Appendix C).
- 3.4. To note the regulatory updates coming up that will have a significant impact on the work of the team.

Report

4. Risk Assessment and Opportunities Appraisal

4.1. Risk Management

Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

4.2. Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

4.3. Environmental Appraisal

There is no direct environmental, equalities or climate change consequences of this report.

5. Financial Implications

- 5.1. Managing team performance, collaborating with other administering authorities, and making best use of the technology that is available to use ensures costs to scheme employers for scheme administration are kept to a minimum.

6. Climate Change Appraisal

- 6.1. Energy and fuel consumption: No effect
Renewable energy generation: No effect
Carbon offsetting or mitigation: No effect
Climate Change adaptation: No effect

7. Performance and Team Update

- 7.1. The team's output and performance level for the period 1 April 2025 to 30 December 2025, up to the end of Q3 is attached at Appendix A. The chart shows that 10 of the 14 KPIs are achieving at least 95% of cases being completed by the legal time limits.
- 7.2. In December, the office closed from 24 December and re-opened on 5 January, this meant there was less time to process cases. We also had one pensions assistant resign and another has now gone on maternity leave; this has impacted on the KPI for deferred benefits. Following our return to the office after the Christmas break, we

are in the process of recruiting to these posts and a plan for training has been created.

- 7.3. It is worth noting the improvement to the KPIs for transfers, this has been down to a change to how we resource these cases.
- 7.4. From February 2026, we have introduced a new process for allocating work within the Membership and Benefits team. Cases will now be distributed according to individual skill sets and capacity, rather than the current alphabetical split, where all Officers manage multiple types of casework such as retirements, deaths, and transfers. This new approach will also consider staff absences and project commitments. After implementation, we will review and set customer service targets for providing information to members. We will update the information shared with both the committee and board to reflect our performance against these targets.
- 7.5. We have also considered the resources needed for additional work that will be created from 1 April 2026 when the implementation of changes from the recent consultations for Access and Fairness, Access and Protections and Fit for the Future will begin. A business case for an additional Pensions Officer has been approved, and we have recruited an existing member of the team to this role.

8. Mortality Screening

- 8.1. In June 2025 we changed our provider for mortality screening purposes, the chart below provides data on the number of cases where member deaths have been picked up via the screening service:

Number of Death	June 2025	July 2025	Aug 2025	Sept 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026	Feb 2026
Pensioner/Dependents*	12	2	3	6	5	3	3	4	2
Deferred Members**	3	0	2	1	1	1	0	0	1
Frozen Refund***	1	0	0	0	0	0	1	0	0

* Deceased in receipt of a monthly pension

** Deceased has left and has deferred benefits in the Fund waiting to be paid at Normal Retirement Date

*** Deceased has left less than 2 years membership and is due a refund of contributions

- 8.2. Mortality screening is just one process we have to identify death cases; we also have access to the 'Tell Us Once' Service operated by DWP, the National Fraud Initiative and run annual existence checks for our pensioners living overseas. This helps to reduce the number of cases where an overpayment of pension may occur.
- 8.3. The fund pays out on average over £7m each month in pension payments, overpayments for 2024-25 totalled £66,177.24 of which £60,492.52 was recovered and £5,684.72 written off. In addition, invoices raised to recover overpayments that have not yet been paid totalled £22,728.20.

9. Communications

9.1. The following chart shows statistics on the work undertaken by the helpdesk team not covered by the workflow system or reported with the wider team statistics in Appendix A.

	April 25	May 25	June 25	July 25	Aug 25	Sep 25	Oct 25	Nov 25	Dec25
Telephone calls received to helpdesk team	696	618	552	628	523	608	575	514	**449
% of calls answered	94%	96%	97%	97%	95%	98%	97%	94%	94%
Contact us forms/Emails received to pensions@shropshire.gov.uk	681	814	680	798	756	907	767	778	524
% responded to within 10 working days	100%	100%	100%	100%	100%	100%	100%	100%	100%
My Pension Online activation keys issued	70	102	67	102	97	113	90	75	61
Incoming post received and indexed to the pensions administration system (items per day)	103	102	109	105	94	92	123	85	104
1-2-1 video appointments held with scheme members	11	5	4	6	5	4	2	4	3
Users visiting the website*	3,759	758	797	794	769	812	804	617	562

* This number indicates the number of users who have clicked to accept the cookie, which will then record their visit to the website. If members do not click this their visit is not recorded. This accounts for the drop in visit numbers from April 2025.

** Office was closed from 24-31 December

9.2. Penny the Pensions Bot which can be accessed via our website, continues to support members by answering questions, the chart below shows the accuracy rate for the responses provided.

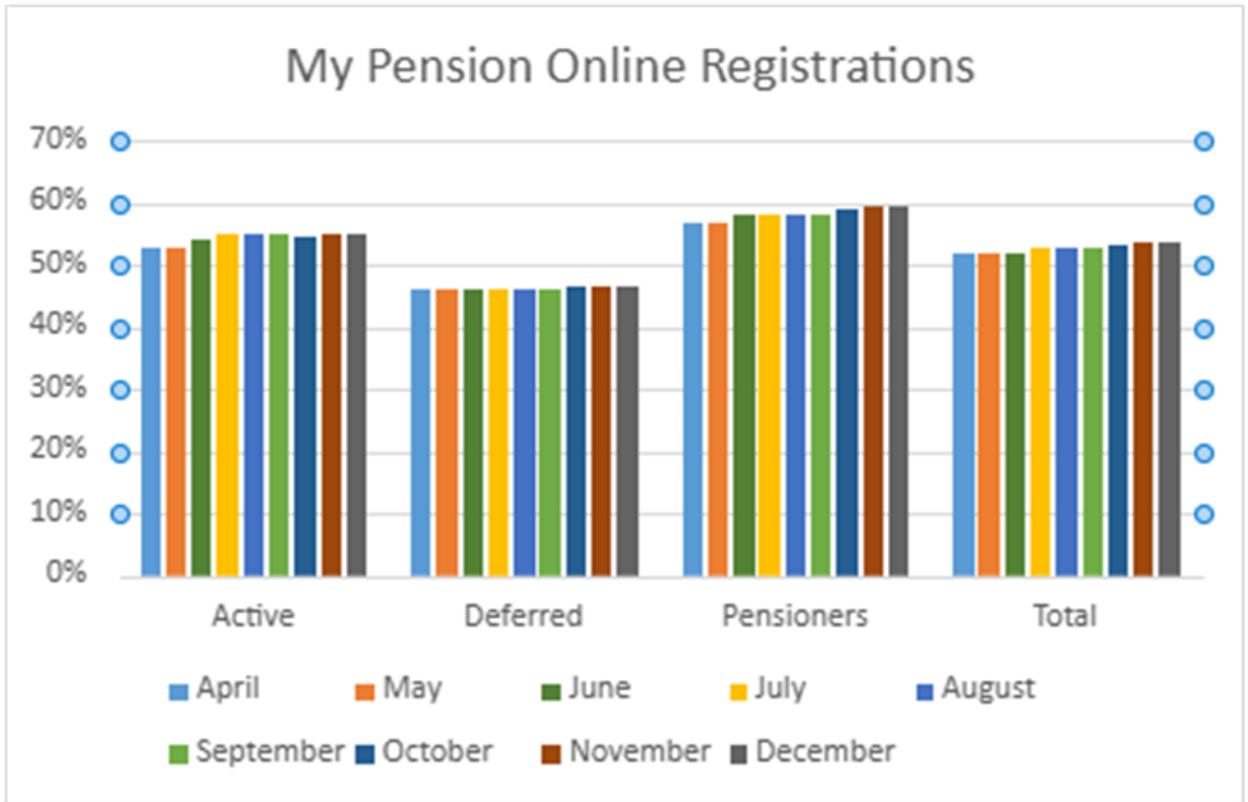
9.3. The team continue to develop the information bank to improve the accuracy level however, the way questions are phrased by members can sometimes confuse the BOT.

9.4. A more sophisticated BOT is currently being developed by the Council ICT team which we will look to adopt later in the year. This should then help to improve the accuracy level.

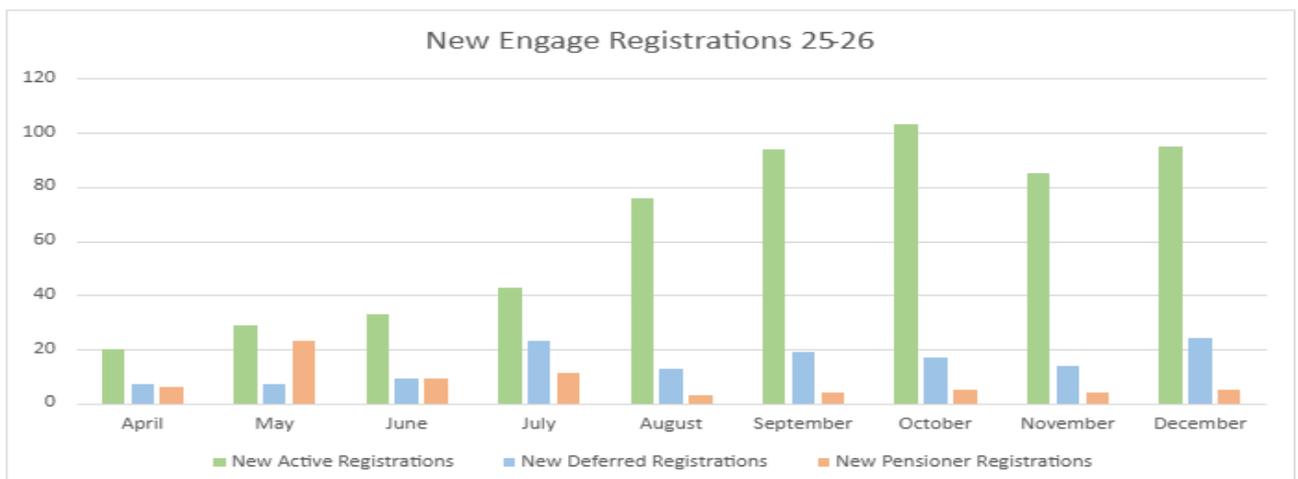
2025	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Questions submitted	96	99	116	81	113	133	119	147	75
Asked an expert	6	5	10	9	5	14	8	19	6

Accuracy %	83%	79%	83%	75%	78%	72%	73%	73%	73%
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9.5. The table below shows the percentage of members who have registered for ‘My Pensions online’ by the different member types in the fund. It encouraging to see that we are seeing a steady increase in the numbers registering for the service for active and pensioner members.



9.6. The chart below shows the number of new registrations we have received since April 2025. The spike in numbers correlates with campaigns where we have sent out information to members, i.e. May – Pensioner P60s are sent out, July to September, Annual Benefit Statements are sent to active and deferred members.



10. Employer Performance

10.1. In line with the Shropshire County Pension Fund administration strategy, employers must pay their contributions and lump sum deficit payment by the 19th of the month. Accompanying data must also be submitted via i-Connect by this date. The below table shows the percentage of employers who have made payments by the deadline over this quarter.

10.2. We have been working with two employers who have changed their payroll provider. This has proved challenging as there have been issues with data supplied and delays with getting a satisfactory submission provided. The team are looking at creating an information guide for employers which will clearly set out the requirements to help make this process smoother for both the Fund and employers.

10.3. Although the contributions have been received for those employers who have moved payroll provider, the difficulty has been the data uploads, and this is reflected in the table. One of the employers is a Multi Academy Trust with 12 schools treated separately for pension purposes, so the payroll moves make up 13 of the late submissions for September, October, and November. As of February 2026, both employers who have changed payroll provider are now up to date with their data submissions.

	July 2025	August 2025	September 2025	October 2025	November 2025	December 2025
i-Connect data received on time	98%	99%	87%	90%	90%	90%
Monthly contributions received on time	98%	98%	98%	98%	97%	97%
Monthly deficit lump sum payments received on time	96%	96%	90%	100%	100%	89%

11. Projects

11.1. **Valuation** - The individual employer results have been distributed to employers and have been signed off by all employers. The rates confirmed in the schedules will now be implemented from 1st April 2026.

11.2. **Pension Dashboards Project report** –Appendix C. We are currently assessing further work areas and considering any necessary changes to processes or staffing in preparation for launching Dashboards to the public, this is expected as early as April 2027 (six months after all pension schemes have connected).

- 11.3. With greater public engagement, there may be an increase in benefit payment requests and transfers out of the scheme for members who hold deferred benefits. We have recruited an additional Pensions Officer to ensure we have enough capacity to manage any extra workload.
- 11.4. More information can be found on the Pensions Dashboard Programme website: [Homepage | UK Pensions Dashboards Programme](#)
- 11.5. **Pensions Increase 2026** - The team are preparing to implement Pensions Increase to all pensions in payment ready to be paid in April. The increase this year is 3.8% payable from 6 April 2026.
- 11.6. **Year End** – The Team is preparing for year end where data and payments received must all be reconciled and signed off by all employers who are in the fund.

12. CIPFA Benchmarking

- 12.1. The fund has taken part in the 2025 CIPFA benchmarking exercise, this looks to compare the cost for running the administration of LGPS funds across the country.
- 12.2. The table below shows the costs for Shropshire compared to the average of all administrators that completed the survey:

Pension Fund	Admin Cost per Member	Net Admin Cost per FTE	LGPS Members per FTE	% of Pensioner Members	% of Active Members	Pensioner Payroll Cost per Pensioner
Shropshire	£30.34	£53,500	1,583	28.3%	30.4%	£6.35
Average	£40.52	£225,091	3,877	30.2%	28.2%	£6.58

- 12.3. The fund aims to provide value for money and excellent service for all stakeholders, as shown by its low admin cost per member and net cost per FTE.

13. Regulatory updates

Access and Fairness Consultation – The government has published its response, with most regulatory changes set to take effect from 1 April 2026 these are:

Death grants and survivor benefits

- equalisation of survivor benefits
- removal of the upper age limit of 75 to qualify for a death grant
- removal of the requirement to pay a death grant to personal representatives if the administering authority has not paid it using their discretion within the 'Two-year period'. The 'two-year period' is the two years after the member's death, or the two years after the date on which the administering authority

- could reasonably be expected to have become aware of the death
- removal of the requirement to have nominated a cohabiting partner for deaths between 1 April 2008 and 31 March 2014
- minor changes to the rules covering short term children's pensions.

Qualifying additional pension arrangements (QAPAs)

- the cost of buying back pension 'lost' during a period of authorised unpaid absence of more than 14 days to be based on the member and employer's normal contribution rates. These contracts will be known as QAPAs.
- the time limit to apply for a QAPA will be one year after returning to work. This is an increase from the current limit of 30 days, but will only be possible while the member is an active member in the same employment
- allowing employers to contribute to the cost of a QAPA for the whole of an unpaid absence that lasts more than three years
- the pension bought through a QAPA will mirror normal pension built up: it will count towards the calculation of survivor pensions, and will not be reduced if the member retires on redundancy or efficiency grounds
- these new rules will only apply to a continuous period of authorised unpaid absence that started after 31 March 2026
- The existing rules will apply to unpaid breaks that started before 1 April 2026:
 - cost to buy 'lost' pension is based on age-related factors
 - employer funds two thirds of the cost if the member elects to buy the lost pension within 30 days of returning to work (or such a longer period allowed by the employer)
 - added pension reduced on redundancy or efficiency retirement before Normal Pension Age
 - the added pension does not count towards survivor pensions.

Gender pensions gap – other provisions

- compulsory pension contributions during authorised unpaid absences of 14 days or less, with contributions based on 'lost' pay and the member and employer's normal contribution rates. This applies to authorised absences that start after 31 March 2026. The current rules continue to apply to an unpaid break that started before 1 April 2026.
- assumed pensionable pay (APP) to apply during unpaid additional adoption leave, unpaid additional maternity leave and unpaid shared parental leave. APP will apply during these types of absences only if the unpaid period starts after 31 March 2026. The current rules will apply to any unpaid additional maternity or adoption leave, or unpaid shared parental leave that started before 1 April 2026.
- compulsory gender pension gap reporting from the 2025 valuation report. Simple reporting in 2025 will be replaced by more in-depth reporting from 2028 onwards.

Abolition of the lifetime allowance

- removal of references to the lifetime allowance
- withdrawing the GAD guidance on 'Limit on total amount of benefits – Lifetime allowance'
- replacing 'benefit crystallisation event' with 'relevant benefit crystallisation event', where appropriate
- introducing the long-term approach to the maximum pension commencement excess lump sum (PCELS). The new maximum will be 25% of the capital value of the benefits being crystallised, subject to the contracting-out limits.

- the new PCELS limit will apply to all PCELS paid after 31 March 2026.

Amendments related to McCloud protection

- introducing an underpin date for members who joined the LGPS after age 65, and transferred in remediable service from a different public service pension scheme, and providing for the provisional amounts to be calculated using GAD guidance
- minor change to ensure deaths on 30 September 2023 are correctly treated in calculations related to McCloud protection
- changes related to how McCloud is reflected in past pension debit calculations
- further detail about how McCloud protection affects certain calculations in respect of a pension credit member
- correcting the rules on special interest on Club transfer top-up payments
- rules for paying interest on McCloud compensation payments.

Other changes

- minor wording changes related to the revaluation adjustment
- adding a combined county authority created under section 9 of the Levelling-up and Regeneration Act 2023 to the list of employers in Part 1 of Schedule 2
- minor change in the definition of paternity leave
- allowing a de-minimis payment, sometimes referred to as a 'small pot payment', to be paid under the Registered Pension Scheme (Authorised Payments) Regulations 2009 where membership ended before 1 April 2008, subject to meeting the remaining criteria.

The Secretary of State issued actuarial guidance on reporting the gender pensions gap (GPG) on 3 February 2026. The guidance sets out how the GPG should be reported for the 2025 actuarial valuations.

The Government has not yet published the statutory instrument (SI) that will amend the LGPS Regulations to deliver these changes. We expect this early in March.

We also expect MHCLG to issue statutory guidance and new actuarial guidance in response to the changes.

The Government plans to implement the remaining proposals from the Access and Fairness consultation, including removing the requirement to pay refunds automatically at the end of five years, later in 2026

Access and Protections Consultation – We are expecting the response to this consultation before April, where some of the proposals are suggested to be implemented from, these include Councillors having access to the LGPS pension Scheme and the change to the normal minimum pension age.

We have received a partial response regarding access to the LGPs for elected members. The regulations are expected to come into force on 11 May 2026, the first Monday after the local elections. The Government acknowledges that bringing elected members into the LGPS will place additional administrative demands on administering authorities and employers. However, the Government believes this

will help talented people come into public service and ensure consistent treatment in terms of pension provision across the UK.

Fund Officers are in the process of evaluating these requirements and will report on progress in these areas at upcoming committee meetings later this year following the completion of the regulatory changes and receipt of guidance to support us in the administration of these changes.

LGPS England & Wales Scheme Advisory Board (SAB) 2025/26 Board Annual Review

[The Board's 2025/26 Annual Review](#) has now been published. The review focuses on the Board's key workstreams in the past year and the expected workstreams for the year ahead. Amongst other topics, the future workstreams will include:

- assisting the Scheme with embedding the Fit for the Future investment, pooling and governance changes
- increased engagement with pension committees and boards
- reviewing guidance for local pension boards
- undertaking peer support pilot events
- closing down the central Code of Transparency data system and launching a new Code of Transparency framework.

Pensions Committee: Administration and Regulatory Update December 2025

Local Member:

Appendices [Please list the titles of Appendices]

Appendix A – KPI tables Q3 2025

Appendix B – Business Plan Q3 2025

Appendix C – Dashboard Project update to February 2026

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Appendix A KPI table for the period April 2025 to March 2026

Category	Q1 Complete at End of Period Apr 25 to Jun25	Q2 Complete at End of Period Jul25 to Sep25	Q3 Complete at End of Period Oct25 to Dec25	Q4 Complete at End of Period Jan26 to Mar26	Legal target	Q1 Complete Within Legal Target Apr25 to Jun25	Q2 Complete Within Legal Target Jul25 to Sep25	Q3 Complete Within Legal Target Oct25 to Dec25	Q4 Complete Within Legal Target Jan26 to Mar26
Communication issued with acknowledgement of death of active, deferred, pensioner and dependent member	145	103	84		2 months	99.3%	93.2%	92.1%	
Communication issued confirming the amount of dependents pension	96	91	75		2 months	97.9%	96.7%	93.3%	
Communication issued to deferred member with pension and lump sum options (quotation)	34	30	26		2 months	100.0%	100.0%	100.0%	
Communication issued to active member with pension and lump sum options (quotation)	48	48	37		2 months	100.0%	100.0%	100.0%	
Communication issued to deferred member with confirmation of pension and lump sum options (actual)	243	198	124		2 months	98.4%	93.9%	97.5%	
Communication issued to active member with confirmation of pension and lump sum options (actual)	102	131	102		2 months	99.0%	97.7%	98.3%	
Payment of lump sum (both actives and deferreds)	322	324	243		2 months	99.1%	98.8%	99.1%	
Communication issued with deferred benefit options	392	243	74		2 months	44.9%	57.6%	50.4%	
Communication issued to scheme member with completion of transfer in	96	54	20		2 months	66.7%	79.6%	62.5%	
Communication issued to scheme member with completion of transfer out	69	76	28		2 months	78.3%	88.2%	95.6%	
Payment of refund	105	77	67		2 months	99.0%	98.7%	100.0%	
Divorce quotation	22	24	17		2 months	100.0%	95.8%	100.0%	
Member estimates requested by scheme member and employer	157	134	86		2 months	93.6%	97.8%	94.2%	
Aggregation cases	269	375	313		2 months	89.2%	96.0%	96.4%	
Grand Total	2100	1908	1296	0					

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Pensions Administration & Investment Business Plan Update 25/26

Project Name		Context		Actions		June 2025 Update Q1		September 2025 Update Q2		December 2025 Q3 update	
						Progress	Status	Progress	Status	Progress	Status
Administration											
Year-end 2024/2025	All records to be checked from postings. All employer forms to be reconciled to total of monthly postings	Data cleansing to be undertaken following last i-Connect submission for March 2024. Reconciliation forms and communication to employers to be issued February 2024. Forms reconciled to accounts. Project to completed by 30th June 2025.					Complete		Complete		Complete
Annual Benefit Statements (Active and Deferred)	All Annual Benefit Statements issued by 31 August	Project plan to be put in place by 31st March 2025. Statement preparation to commence following completion of year end processes.		Plan completed in Q1 and project completion will be Q2		G - On Track			Complete		Complete
Preparation of Pension Fund Annual Report	To produce annual report by statutory deadline of 1st December 2025	Project plan to be put in place by March 2025. Review new guidance when available. This will be compulsory from 2025. Draft version available to be signed off by September 2025 pension committee.		Majority of content gathered and formatted in Q1 and final version will be completed in Q2		G - On Track		Still awaiting report from Audit and a couple of other corrections.	G - On Track		G - On Track
SAB Good Governance Review Outcome	To demonstrate compliance with any recommendations/regulation changes put in place	Review guidance when available. Some of the recommendations were part of the Fit for the Future consultation and will be taken forward following the Government's response to this.		Having done a light touch review on recommendations, the Fund already has a number of these in place and will create an action plan.		Ongoing		Waiting for further information on the independent review.	Ongoing		MHCLG consultation (part 2 of Fit for the Future) closed 2 January, this covers off Good Governance recommendations, we will need to wait for final outcome from MHCLG before we can progress with this.
McCloud Remedy	To implement the 1st October 2023 McCloud legislation and to ensure any guaranteed amounts are paid to protected members.	Ensure the system is configured to allow all calculations to perform the underpin calculation. All relevant documentation to be amended. Disclosure requirements to be met by 31st December 2023 due to the change in legislation. Rectification cases of past cases during the remedy period to be undertaken.		McCloud now forms part of business as usual for all future cases and the team are working through rectification cases to clear these by the end of March 2026. There is still ongoing system development and guidance for some of the rectification cases. Officers requested delegation from the Committee to extend the timeframe for these cases which was approved in June Committee.		G - On Track		Awaiting casual hours for the remaining five cases - will be completed by end of 2025. LGA have provided information on prioritisation.	G - On Track		Work on rectification cases continues and is due to be completed by August 2026
Review of Bonds (Employer guarantor)	For certain types of admitted bodies a Bond is required to provide an assurance that contributions can be collected in the event of an employer having financial difficulties	As part of the valuation process Bond values are reviewed. The administration team need to liaise with employers to ensure bonds are put in place and reviewed before they expire		All outstanding bonds prior to 01/04/25 have been put in place however, the review of bonds will form part of the valuation process.		G - On Track		All outstanding bonds prior to 01/04/25 have been put in place however, the review of bonds will form part of the valuation process.	G - On Track		All outstanding Bonds in place, results of valuation will lead to less Bonds being required for the next valuation period.
External Audit of Pension Fund	Annual requirement	Providing information required within the agreed timescales.		Preparation work for the external audit began January 2025. The actual audit commenced first week of July and actions for this will be completed in Q2.		Ongoing		Presented to September Committee.	Complete		Presented to September Committee.
Production of Pension Savings Statements	Comply with HMRC regulations	Identify the members who have breached the annual allowance. Provide a pension saving statement by the 5th October 2025 deadline.		Preparation and production of PSS commences in Q2.		Not Started		Nine PSS sent this year and one with taxable input.	Complete		Nine PSS sent this year and one with taxable input.
Pensions Increase 2025	To ensure pensioners and deferred are uprated with annual increase amount	Bulk process to update the system with the confirmed CPI increase on 8th April 2025.		Completed and run in April 2025 with increase applied to Pensioners' records.		Complete			Complete		Complete
Pensions Dashboard Implementation	Implement in line with national guidelines by October 2026.	Implementation of the ISP in order to connect to Dashboards. Implementation of address tracing, mortality and bank account verification included as part of this project.		Phase 1 completed and Phase 2 being implemented. Mortality screening has been implemented. Address tracing and bank account verification is scheduled for Q2/3.		G - On Track		Looking at policy for Find Data and testing of data. AVC single source connection to be established.	G - On Track		New Governance and Communications Team Leader will be drawing up policy documents for Dashboard, work progresses for testing AVC single source.
Bulk Revaluation	Annual CARE uprating to be applied to active records	Bulk process to be run after year end postings are complete in May/June 2025.				Complete			Complete		Complete
P60 to Pensioners	To produce a P60 for pensioner members by 31st May	Following year end 2024/25 payroll processes run P60 production in end March/April 2025.				Complete			Complete		Complete
Investment											
UK Stewardship Code	Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code 2020 comprises a set of 12 'apply and explain' Principles for asset owners. As part of the Fund's desire to demonstrate its good governance and stewardship of its assets, the Fund submitted its first report in October 2022. The Fund was successful in its submission and is now a signatory to the UK Stewardship Code. The Fund has received feedback from the FRC on its submission and the Fund will develop its submission following this feedback. The Fund will submit a report annually to the Financial Reporting Council ("FRC") to maintain its status as signatory to the Code. As part of the work on the Stewardship Code the Fund will review its approach to stewardship and engagement to ensure that it continues to meet the requirements of the Committee.	ESG monitoring is in place as part of business as usual. Resources have been allocated to review positions with Investment Managers annually to address any points. Lead Officer: Pensions Investment and Responsible Investment Manager		Work has commenced on Stewardship application for this year.		G - On Track		Draft went to September Committee and final version being circulated to members for submission by 31/10/25.	Complete		Application complete, we await results in Q1 2026

Pensions Administration & Investment Business Plan Update 25/26

Project Name	Context	Actions	June 2025 Update Q1	September 2025 Update Q2	December 2025 Q3 update
Triannual Valuation Results	Work with Actuary to prepare and consider the Actuarial valuation results. The next valuation date is the 31st March 2025 alongside the Fund's Funding Strategy Statement.	Regular update meetings are held with the Actuary. Communications will be issued to scheme employers in 2024/25 in respect of the valuation process. The Funding Strategy Statement has been updated as part of the 2022 valuation and will be reviewed and issued for consultation following the 2025 valuation. Lead Officer: Head of Pensions – LGPS Senior Officer	Regular meetings with Mercer and plan in place. G - On Track	Regular meetings with Mercer and plan in place. Results expected end of October and Employer Meeting 24/11/25. G - On Track	Employer meeting held on 24 November with an excellent turn out from Fund employers. Funding Strategy Statement (FSS) is out for consultation and has been shared with DoE, Committee and Fund Employers. Employers need to sign off new rates by 31 January 2026, consultation on FSS also closes on this date G - On Track
Covenant Review	Work with Actuary to review Employer covenants on an annual basis to monitor risk to fund.	Meetings have been held with Actuary to discuss employers subject to review and the terms and reference of the reviews. Lead Officer: Pensions Investment and Responsible Investment Manager	Information to be requested from employers as at the end of July. G - On Track	Data has been provided to Mercer for inclusion in the Valuation. Not yet seen the outcome. G - On Track	Data has been provided to Mercer for inclusion in the Valuation. Not yet seen the outcome. G - On Track
Climate Change Risk	The Fund issues an annual climate risk report and TCFD report as part of its commitment to net zero. In addition, the Fund supports these reports by undertaking Climate scenario analysis on a bi-annual basis to ensure that developments in this field are fed into ongoing analysis.	Climate Risk reports and TCFD reports have been commissioned with LGPS Central. Alternative Investment managers ESG policies and progress on Climate Risk monitoring are reviewed periodically with a view to establishing full portfolio monitoring. Lead Officer: Pensions Investment and Responsible Investment Manager	Provisional dates have been agreed with LGPS Central for data provision. G - On Track	Provisional dates have been agreed with LGPS Central for data provision. Climate training agreed for 21/11/25. G - On Track	Climate training was delivered in November 2025 as planned. Climate reports for 2025 have been made available on Pension Fund Website. G - On Track
Biodiversity Risk	The Government is currently consulting on TNFD (Taskforce for Nature related Financial Disclosures). The Fund is monitoring the position and discussing potential data sources with investment managers and other Funds with a view to be able to report in a similar context to TCFD on climate.	Discuss the format of TNFD reports with LGPS Central to establish what can be accurately reported. Consider integration of Biodiversity risk into climate change strategy as whilst different risks there is an underlying fundamental link. Liaise with Investment Managers with a view to establishing full portfolio monitoring. Lead Officer: Pensions Investment and Responsible Investment Manager	Still awaiting guidance on TNFD reporting within the LGPS. Y - On Hold	 Y - On Hold	Natural Capital as an asset class is still to be developed by LGPS Central and remains on hold as they deal with fit for the future Y - On Hold
Investment Strategy Statement	The Fund sets a triannual investment strategy which was last reviewed in June 2023 and the Fund is currently working on transition plans to meet the new strategic asset allocation. The investment strategy review took place concurrently with the review of the Funding Strategy Statement in 2022/23. The outstanding actions now are implementing the agreed changes to the investment strategy. The implementation of the revised investment strategy will occur over a period to manage transition risks.	Reports on the Investment transition to meet the new ISS were presented to Pensions Committee in September 2023. The transition will take approx. 18 to 24 months to fully implement given some of the illiquid asset classes involved. A full timetable is in place and Pensions Committee will be updated on a quarterly basis of major changes. Lead Officer: Head of Pensions – LGPS Senior Officer	Quarterly update taken to June Committee and will continue to be monitored quarterly pending the valuation results. G - On Track	Quarterly update taken to June Committee and will continue to be monitored quarterly pending the valuation results. Training will be provided in the new year following the valuation results. G - On Track	Quarterly update taken to December Committee and will continue to be monitored quarterly. Strategy training will be provided in the new year following the valuation results. G - On Track
Pooling	The Fund works directly with LGPS Central to ensure that appropriate products are available to meet future investment requirements and allow transition from legacy managers as investments mature. Following the General Election, the new Pensions Minister has instigated a pensions review with phase 1 including the Local Government Pension Scheme, in particular the pooling of investments. The recommendations to this will be know towards the end of 2024	The Fund Continues to work with LGPS Central to ensure that appropriate investment vehicles are available to allow the transfer of the Funds uncommitted assets. The transition of illiquid assets will continue to be reviewed based on maturity profiles and investment opportunities available. The Fund has responded to the consultation on moving pooling forward. Lead Officer: Head of Pensions – LGPS Senior Officer	Fit for the Future consultation results have been received and reported to Committee. Fund will work with LGPS Central in Q2 to establish position and requirements. G - On Track	Update report provided to September Committee. Work continues on integration of new partner funds to LGPS Central. G - On Track	Update report provided to September Committee. Work continues on integration of new partner funds to LGPS Central. G - On Track

Project Highlight Report

Pensions Committee



Project Name:	Pensions Dashboard	Report Number:	007
Period	November 2025 to February 2026	Date Completed:	02/03/2026
Completed By:	Jake Glover Senior Pensions Project Officer		

TREND SINCE LAST REPORT	On Track
CURRENT STATUS	Green
EXPECTED STATUS AT NEXT REVIEW	Green

Previous progress	Progress made this period
<ul style="list-style-type: none"> An ISP (Integrated Service Provider) has been procured and signed off by Legal. Monthly meetings are in place for the Pensions Admin Manager, Team Leaders, and Senior Pensions Project Officer. Vicky and Jake have completed all the required invitations to tender documentation, and this has been released to providers. Risks, Issues and Decisions reviewed at November project catch-up. Member Data Tools Invitation to Further Competition to run until 28th November for providers to submit bids for each lot. Review provider bids for Member Data Tools and carry out scoring. Contract to be awarded on 18/12/24. Contract awarded to Heywood Pension Technologies for the data tools software. ISP DPIA reviewed and signed off by Information Governance. Complete User Acceptance Testing (UAT) for phase 1 implementation of the ISP. UAT acceptance issued and signed off. Project kick-off call booked for 6th March for the Data Tools implementation project. Implementation study issued for Mortality Screening, signed and returned. Mortality Screening testing is completed, and a meeting to be booked with Heywood to discuss the next steps for the project. 	<ul style="list-style-type: none"> AVC process has now been tested end to end from receiving a file from Prudential to uploading and viewing in Altair. Small issue with regards the date format in the Prudential file however, Systems team found a simple fix for this. All the testing has been completed for the address tracing and we're waiting on a date for it to go into live. We've had a call with Heywood to clarify the filtering on the Insights reports to get the High matches. Decisions need to be made on what to do with these with regards to a letter to the member. Further decisions to be made on medium matches but low matches will be ignored - so rejected. However, the data for rejected cases still stays on a data view on the records so this is being raised with Heywood. Only High matches will update the address data view.

<ul style="list-style-type: none"> • Mortality Tracing go live was delayed on the Heywood side and some extra workflow needed to be put in place for Status 9 records. Went live on 04/06/25. • ISP Phase 2 kick-off call booked in for 16/07/25. The questionnaire and connection template completed and sent back to Heywood ahead of the call. • ISP Phase 2 implementation completed, and connection confirmation signed and returned. Project closure call held 07/08/25. • AVC template has been shared with Heywood, awaiting a response re costings. • First mortality tracing completed. • Bank Account Verification is in Live however there are issues with the number of errors and referrals. This has been fed back to Heywood and another fund has been contacted. • Address tracing kick-off call has been booked for 12th November with Heywood. • AVC single source data: <ul style="list-style-type: none"> • Upmost have sent across an encrypted file which has been checked and confirmed. This will be sent annually. • Prudential have sent across a test file through their Secure File Transfer Protocol (SFTP). This has all been setup and members of the Systems team are able to access this. • Heywood have finalised testing on their AVC interface for Altair having discovered issues with the Managed File Transfer (MFT) for AVC uploads. This has been deployed to Altair Test (07/11/25) with a handover email containing information required. The Systems team will ensure it is working prior to it being deployed to Altair Live. 	
--	--

Slippage and Remedial Action

<ul style="list-style-type: none"> • Mortality screening delayed due to staff shortages at Heywood; this has delayed implementation of address tracing as we have now hit the valuation project which the team need to focus on. • After escalating this with CRM eventually went live 4 June 2025. • Implementing the Address Tracing module and the AVC interface have been delayed due to Heywood staffing pressures and not as a result of any delays/issues within the Fund. • Continued delays with the AVC interface in Altair as Heywood are investigating some issues. • Delays with Address Tracing continue and working with Heywood to resolve the issues. 	
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Key Risks and Issues

R/I	Detail	Rating	Open / Closed
R	Suitable ISP is not obtained and so can not connect to dashboard	Very Low	Closed

R	Data quality is low, leading to poor matching criteria and members having to contact the fund to find their pension (rather than finding it directly through the dashboards)	Low	Open
R	Procurement of new tracing and mortality screening provider (gap in service as current provider current ends in September)	Very Low	Closed
I	Decide on implementation dates	N/A	Closed
I	How do we resource queries from Dashboard to reduce the team being overwhelmed and to meet required timescales	N/A	Open
I	What to use for Find Data and how AVC information will be accessed	Medium	Open
R	ISP connection deadline not met	Low	Closed
R	Having adequate resource to deal with any additional work created	Medium	Open
I	Delays with the AVC interface	Medium	Closed
I	Delays with Address Tracing implementation	Medium	Open

High Level Milestones

Action	Date Completed / Target Date	Status	Comments
Procure ISP	19/08/2024	Complete	ISP procured and approved.
Data Tools Procurement	February 2025	Complete	Procurement complete and contract awarded
ISP UAT	March 2025	Complete	UAT acceptance issued and signed off
Mortality Screening	June 2025	Complete	Module went live following a delay on the Heywood side

Project Highlight Report

Pensions Committee



Data Tools Implementation	April/May 2025	Complete	Address Tracing to commence November – delayed due to staff pressures at Heywood working on the ISP
ISP Phase 2	July/August 2025	Complete	
Single Source File connection with Prudential	September/October 2025	Complete	Connection made to the Prudential SFTP and test file gained
Single Source Solution Testing with Heywood	September/October 2025	Slipping	Implementation dates slipped due to issues with the Heywood Altair interface. AVC solution now in place in Altair Test however, issues being investigated by Heywood so not yet deployed to Live.
Address Tracing	January/February 2026	Complete	Tested end to end with one issue that has been resolved.
Dashboard Policy	September/October 2025	On Track	This will be looked at once Martin starts in January. Matching criteria decided and agreed on.
Bank Account Verification	September 2025	Complete	



Pension Board
Date 20 March 2026

Item

Public

Governance Report

Responsible Officer:	Vicky Jenks		
email:	Vicky.jenks@shropshire.gov.uk	Tel:	01743 252192
Cabinet Member (Portfolio Holder):			

1. Synopsis

- 1.1. This report provides information regarding regulatory breaches arising from 1 April 2025 to 30 December 2025 (Q3) that have been recorded in the breaches log.
- 1.2. This report will also inform the Board of any stage 1 or stage 2 appeals which have been received under the internal dispute resolution procedure (IDRP).
- 1.3. Fund officers have a review cycle for fund policies, policies that have been reviewed in the last quarter and have been approved by Committee with also be included in this report.

2. Executive Summary

- 2.1. There have been no breaches recorded this quarter which the fund has deemed 'materially significant' to require reporting to the Pensions Regulator.
- 2.2. 4 IDRP cases have been received and completed up to quarter Q3.
- 2.3. Fund Officers have reviewed and updated the following documents; Funding Strategy Statement as part of the 2025 valuation and the Medium-Term Business Plan 2026-29.

3. Recommendations

- 3.1. Members are asked to note the content of Appendix A; breaches recorded from 1 April 2025 to 30 September 2025.
- 3.2. Approve the final draft of the Funding Strategy Statement (FSS)
- 3.3. Approve the funds medium term Business plan for 2026-29.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. Risk Management
By ensuring the policies and legislation mentioned in this report are followed and adhered to, the risks to the fund are minimised. A reporting breaches document is in place which explains the procedure to report any breaches deemed 'materially significant,' to the Pensions Regulator. Members should refer to this policy which can be found on the fund's website.
- 4.2. Human Rights Act Appraisal
The recommendations contained in this report are compatible with the Human Rights Act 1998.
- 4.3. Environmental Appraisal
There is no direct environmental, equalities or climate change consequences of this report.

5. Financial Implications

- 5.1. By ensuring good internal controls are in place to monitor when the regulatory requirements are not met by either the fund or employers, the risk of being fined by the Pensions Regulator is minimised.

6. Climate Change Appraisal

- 6.1. Energy and fuel consumption: No effect
Renewable energy generation: No effect
Carbon offsetting or mitigation: No effect
Climate Change adaptation: No effect

7. Recording Breaches

- 7.1. Section 70 of the Pensions Act 2004 imposes a requirement on the following persons to report a breach of law:
- a trustee or manager of an occupational or personal pension scheme
 - a member of the pension Board of a public service pension scheme
 - a person who is otherwise involved in the administration of such an occupational or personal pension scheme
 - the employer in relation to an occupational pension scheme
 - a professional adviser in relation to such a scheme; and
 - a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.
- 7.2. A breach must be reported to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that a legal duty relating to the administration of the scheme has not been/or is not being complied with, and where the failure to comply is likely to be of material significance to the Pensions Regulator.
- 7.3. Breaches recorded for scheme employers from 1 April 2025 to 30 December 2025 are detailed in Appendix A. The majority of these breaches concern late data submissions, predominantly from employers transitioning to new payroll providers. We have been actively collaborating with the affected employers to facilitate satisfactory data submissions following these changes; however, delays have arisen due to challenges with data received from previous payroll providers.
- 7.4. No breaches have been recorded for the fund for 1 April 2025 to 30 December 2025.
- 7.5. No breaches have been recorded on behalf of the Pension Committee and Pension Board in the period 1 April 2025 to 30 December 2025.

8. Internal Dispute Resolution Procedure

- 8.1. Regulations 72 to 79 of the Local Government Pension Scheme Regulations 2013 set out the formal dispute procedure. The complaints procedures official name is the Internal Dispute Resolution Procedure (IDRP).
- 8.2. The fund has received notification from an employer of 4 stage one appeals under IDRP up to the end of Q3. These have all been upheld and relate to the decision to not pay pension benefits on ill health grounds by an employer in the fund.

9. Funding Strategy Statement (FSS)

- 9.1. The draft Funding Strategy Statement was shared with the Department of Education (DofE) and employers involved in the Fund for consultation. All employers received a survey asking them to confirm receipt of the document and provide feedback; we received positive comments supporting the introduction of the sustainability reserve.
- 9.2. The DofE and one fund employer did submit comments, which were reviewed by Fund Officers and the Actuary. After considering this feedback, it was decided that the Strategy did not need any changes. Both parties have since been informed that their input was reviewed and why the Strategy remained unchanged.
- 9.3. It is recommended that the committee give approval to the Strategy and in doing so sign off on the 2025 Valuation.

10. Fund Medium Term Business Plan 2026-29

- 10.1. The Business Plan outlines the operational framework of the Shropshire County Pension Fund, a constituent of the Local Government Pension Scheme (LGPS), comprising over 51,400 members, with 15,976 individuals currently receiving pension benefits. The plan provides information regarding the objectives and initiatives to be undertaken over the next three years.
- 10.2. The Fund's investment approach is structured to ensure sufficient resources are available to meet pension payment requirements upon retirement. Its core objectives include delivering accurate and prompt pension benefits to members, alongside maintaining robust funding levels to support these commitments.
- 10.3. It is recommended that the committee give approval to the Plan.

11. Fit for the Future – New Governance Requirements

- 11.1. Closed consultation on fund governance guidance
The Local Government Pensions Committee (LGPC) submitted comments to the Ministry of Housing, Communities and Local Government's (MHCLG) as part of its closed consultation on draft statutory guidance for fund governance.
- 11.2. The 'Fit for the Future' Consultation came up with several recommendations relating to the governance of Local Government Pension Funds. The regulations governing these recommendations are due to come into force from 1 April 2026.
- 11.3. Fund Officers has been working on meeting these recommendations and an update on its progress is detailed below:

- Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Fund.

Mr Justin Bridges as Head of Pensions at the Fund is the LGPS Senior Officer on behalf of the Fund.

- Requirement to prepare and publish an administration strategy.

The Fund has held an Administration Strategy for several years and this document is reviewed on a regular basis to ensure that it correctly reflects the working practices of the Fund and its expectations of its employers.

- Changes to the way in which strategies on governance and training, funding and investments are published.

The Fund currently has a 'Governance Compliance Statement', this document will be reviewed later in the year and published as our 'Governance Strategy'.

The Fund has a (Knowledge) and Training Policy, which is reviewed annually. At its next update it will illustrate how the Fund will ensure that the Committee, Board, and officers will meet the new knowledge requirements within a reasonable period from appointment.

A new Investment Strategy is being formulated to meet new national guidelines, and this will be presented to Committee in due course.

The Committee should also be aware that there is a requirement for the Fund to create a 'Conflict of Interest' Policy. This document has been created by Fund officers and will be brought to Committee later in the year.

- Requirement for pension committee members, the senior LGPS officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

The Fund will continue to promote the learning opportunities available to both Committee and Board members and an item covering training will be included in papers, that officers deliver.

- Requirement for the Fund to participate in an independent governance review and, if applicable, produce an improvement plan to address any issues identified.

This independent governance review should take place once in every three-year period. This will align the reviews with the valuation cycle.

The Fund is in the process of determining how to carry out this review. Officers currently are considering approaching an independent organisation such as an actuary to carry out the review.

- Requirement for the Fund to have an independent advisor without voting rights, on the committee.

The Fund is currently consulting with advisers in relation to how best to implement this recommendation. Unfortunately, we have not been made aware what LGPS knowledge and experience will be required.

The Fund understands that this provision is likely to appear on the LGPS Frameworks in the future in order to assist with the appointment of individuals with experience in administration, governance and investment issues.

12. Committee and Board Vacancies

- 12.1. Interviews for the vacancy on the Committee for a Pensioner representative were held on 16 January. 3 applicants were interviewed. We are pleased to inform the Board that Tom Biggins has been appointed, Tom was previously the Chair of the committee and brings a wealth of valuable knowledge and expertise.
- 12.2. Interviews for the vacancy for a member representative on the Board were held on 7 January; we are delighted to inform you that we have appointed Nick James. Nick has over 40 years' experience as an architect and previously worked for Shropshire Council.
- 12.3. Unfortunately, Madeline Murphy who was an employer representative on the Board has had to step down as she has left Wrekin Housing Group. An advert has gone out to employers in the fund to recruit a replacement and we have received 2 expressions of interest. These are currently assessed and interviews will take place shortly to appoint to this role.
- 12.4. The Board will need to consider nominating a representative to take on the position of Chair, which is currently being covered by John Hall.

13. Training

- 13.1. A survey was issued to both Committee and Board members on the 24 February 2026 to gather information on the level of knowledge across administration, investments and governance. The closing date for completing the survey was the 6 March 2026, Fund Officers will review the training needs for this year and will plan training accordingly to support both the Board and Committee on topics where approval will be needed in future meetings.
- 13.2. It is extremely important that all members of the Committee and Board attend the training that is provided to them, as this is essential to support in the understanding and decision-making process. Fund Officers record attendance and completion of training and this is reported in the fund's annual report and to both Chairs so that any issues with attendance can be addressed.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Governance Report December 2025

Local Member:

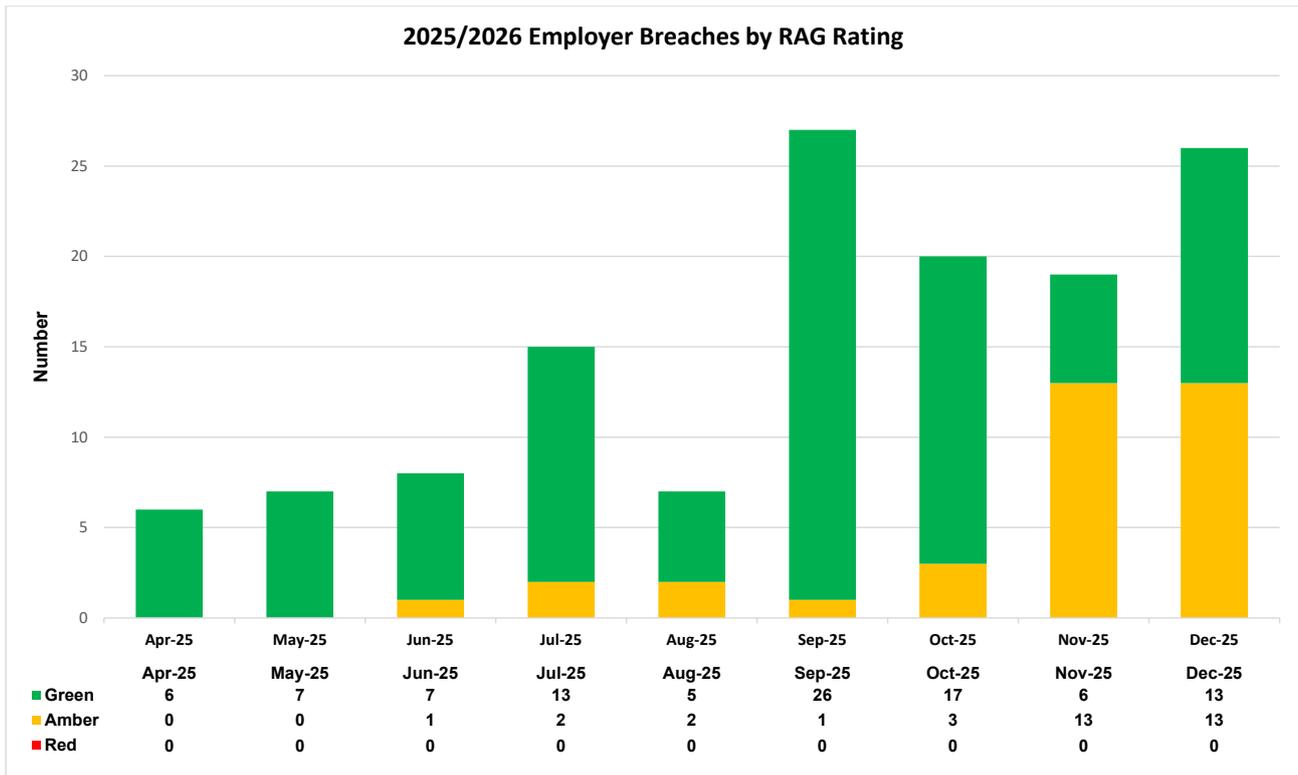
Appendices

Appendix A - Record of Breaches April 2025 to November 2025

Appendix B - Funding Strategy Statement 2026

Appendix C - Fund Medium Term Business Plan 2026-29

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RAG ratings for deciding whether or not to report to TPR	
	Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance, the breach is 'red'. These must be reported to the Pensions Regulator
	Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance, the breach is 'amber'.
	Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance, the breach is 'green'. These should be recorded but do not need to be reported.

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Funding Strategy Statement

Approved by the Pensions Committee on

... March 2026



This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (“the Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Scheme Advisory Board in 2025.

Administered by Shropshire Council



Contents

Guide to the Funding Strategy Statement (FSS) and Policies	5
Section A: Purpose of the Fund and the FSS	7
Aim and Objectives of the FSS	7
Integrated risk managed strategy	7
The Regulations	8
Purpose of the FSS	9
Monitoring and review of the FSS	10
Section B: Key Funding Principles	12
Funding target	12
Managing Risk	13
Climate Change	17
Main Actuarial Assumptions and Actuarial Method	20
Employer Pooling and Risk Sharing Arrangements	24
Employer Asset Shares	25
Links to the Investment Strategy Statement (ISS) and Investment Policy	25
How Employer Contributions are Calculated	26
Actuarial Valuation	29
Employer Covenant	31
Guarantors	32
Admission bodies	33
Pension Administration Strategy	33
Section C: Employer events	35
Joining the Fund	35
Multi Academy Trusts (MATs)	36
Preparing for Exit and Events Which May Trigger Termination	37
Bulk Transfers	39
Appendix A: Demographic Assumptions	42
Appendix B: Deficit Recovery Plans	45
Appendix C: Surplus Usage	46
Key Objectives	46
Spreading period	48
Monitoring and fund discretion	48
Appendix D: Admission policy for new employers	49
Employer Types	49



Appendix E: Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements	56
Treatment of termination deficit / surplus and payment of termination debt / exit credit ...	57
Managing the exit payment, and alternatives to termination	60
Appendix F: Review of Employer Contributions between Valuations.....	64
Scenarios 1 and 2 (interim review for “ongoing” employers).....	64
Scenario 3 (planning for exit)	67
Appendix G: Employer Risk Management	69
Employers without a guarantee from a tax raising authority	69
Assessment.....	70
Ongoing funding approach (primary and secondary contributions).....	70
Ongoing monitoring	71
Appendix H: Covenant Assessment and Monitoring Policy	72
Employer Monitoring	72
Covenant Assessments.....	72
Risk Criteria.....	73
Assessing employer covenant.....	73
Covenant risk management	74
Appendix I: Notifiable Events Framework	75
Events that must be notified to the Fund.....	76
What information should be provided to the Fund?.....	78
What action will the Fund take once notified?.....	78
Appendix J: Ill Health Insurance Arrangements	79
Overview of arrangement.....	79
Employers covered by the arrangement	80
Employer Responsibilities	80
Appendix K: Asset Share Policy.....	81
Background	81
What are the key factors that can influence an employer’s asset share?	81
Events when an asset allocation will be determined	83
Admission to the Fund.....	83
Actuarial Valuation.....	84
Which approach will be used to set the actuarial valuation position?	86
Employer Accounting disclosures.....	87
Bulk Transfers	88
Inter-valuation funding update / contribution review.....	89
Cessation of participation in the Fund	90



Appendix L: Roles and Responsibilities of Key Parties 91
Appendix M: Glossary of Terms 95

DRAFT

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



Guide to the Funding Strategy Statement (FSS) and Policies

The key sections of the FSS, as required by overarching guidance and Regulations are as follows:

[Purpose of the Fund and the FSS](#)

[Key funding principles](#)

[Employer events](#)

This document also sets out the Fund's detailed policies in the following key areas. Please contact us pensions@shropshire.gov.uk for any queries relating to the FSS or Fund policies below.

Demographic Assumptions (Appendix A)

Details of the demographic assumptions used for assessing the funding position and contribution requirements for the Fund and individual employers, are set out [here](#).

Deficit Recovery Plans (Appendix B)

The key principles when considering deficit recovery plans as part of the valuation are set out [here](#).

Surplus Policy (Appendix C)

The key principles when considering how any surplus identified as part of the valuation is used, including the impact on employer contribution rates, is set out [here](#).

New Employer Admission Policy (Appendix D)

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

Termination Policy (Appendix E)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund's approach in such cases is set out [here](#).



Inter-Valuation Contributions Review (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here](#).

Employer Risk Management Policy (Appendix G)

The Fund operates a separate policy to address the risks related to employers who do not have direct or indirect taxpayer backing. Further details on the policy are set out [here](#).

Covenant Assessment and Monitoring Policy (Appendix H)

Details on how employer covenant is assessed, monitored and impacts the funding / termination approach are set out [here](#).

Notifiable Events Framework (Appendix I)

This policy sets out events which employers should proactively inform the Fund about. More details are set out [here](#).

Ill Health Captive Arrangement (Appendix J)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for smaller employers. More details are set out [here](#).

Asset Share Policy (Appendix K)

The Fund is not legally sectionalised by employer and so an employer's allocated asset share is calculated on a notional basis. The Fund's approach to calculating this is set out [here](#).

Roles and responsibilities of key parties (Appendix L)

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out [here](#).

Glossary (Appendix M)

A glossary of the key terms used throughout the FSS and Fund policies is available [here](#).



Section A: Purpose of the Fund and the FSS

Aim and Objectives of the FSS

Ensuring that the Shropshire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Fund is critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

The purpose of this FSS is to set out a clear and transparent funding strategy regarding how each Fund employer’s pension liabilities are to be met.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received and has been agreed by the Pensions Committee. As the landscape changes, the Fund will continue to develop and evolve the strategy to ensure it continues to reflect its risk appetite and feedback from employers, where this can be accommodated.

Integrated risk managed strategy

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods.

The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives. Individual employer results will also have regard to their own circumstances.



The Regulations

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

This FSS also takes into account the latest version of the guidance issued by MHCLG for preparing and maintaining a Funding Strategy Statement (FSS) dated January 2025.

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

Long Term Cost Efficiency

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers.

The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process.

Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.



The Solvency Objective

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

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

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

Purpose of the FSS

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

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



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

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the employers
- Achieve and maintain solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- Maximise the returns from investments within reasonable risk parameters taking into account the above aims

The purpose of the fund is to:

- Receive monies in respect of contributions, transfer values, and investment income, and
- Pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges, and expenses as defined in the Regulations

Further details of how the Fund looks to measure and manage the solvency, long-term cost efficiency and stability objectives is set out in [Section B](#), which covers the Funding Target, Actuarial Assumptions and the Fund's approach to managing risk.

Monitoring and review of the FSS

A full review of this Statement will occur no less frequently than every 3 years, to coincide with the completion of a full statutory actuarial valuation. Any review will take account of the current economic and demographic outlook and will also reflect any legislative changes.

The Administering Authority will also monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy statement will be reviewed and updated in the interim between valuations.

Examples of when a review of the funding strategy might be appropriate, include:



- Material changes to the scheme benefit structure or regulations (e.g. HM treasury-led) on the advice of the Fund actuary
- If there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- If there have been significant changes to the investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS
- If there have been significant changes to the Fund membership and/or fund maturity profile
- If there have been significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- If there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS

Recommendations from MHCLG/GAD

In undertaking such reviews, the Fund will consider the following:

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. This will include any guarantors where the impact of the change has material implications for the amount of liabilities backed by the guarantor or the risk of the guarantee being called upon.



Section B: Key Funding Principles

Funding target

Securing “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the “funding target”) assessed on an ongoing past service basis, including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

The results of the 2025 valuation show the liabilities to be [TBC]% covered by the assets, with the funding surplus of [TBC]%.

The cost of meeting the future benefits for Fund members is met from a combination of:

- the contributions paid in by employers and members
- the investment returns on those contributions and the existing assets

Employee contributions are specified in the Regulations. Employers must therefore meet the balance of cost that is not met by investment returns. Each employer’s contributions are set at such a level to achieve and maintain long-term cost efficiency and full solvency in a reasonable timeframe.

The Regulations require that an actuarial valuation is completed every three years by the Actuary, including certifying the “primary” rate (for new benefits being accrued) and “secondary” rate (for any deficit/surplus) of employer contribution. As referenced in [Section A](#), one of the key objectives of the Fund is to maintain as nearly constant a primary rate as possible.

The Fund balances contributions and reliance on investment return by:

- Making a long-term prudent assessment of the potential outlook for investment returns
- Taking into consideration employer short and longer-term affordability
- Taking professional advice on these matters from its Fund actuary, investment consultant and where required, covenant adviser



Further details of the approach taken to setting employer contribution rates is in the section on “how Employer contributions are calculated” [below](#).

Managing Risk

Funding risks are considered as part of the Fund’s overarching risk management framework and strategy. This FSS covers those risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. Recent developments alongside the management of other risks (including operational risks) are set out in the Fund’s risk register which is reviewed regularly.

In the context of managing various aspects of the Fund’s financial risks, the Administering Authority will also consider investment risk and will consider implementing investment risk management techniques where appropriate.

Identification of risks and countermeasures

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

The Administering Authority has been advised by the Actuary that the greatest risk to the funding level is the risk inherent in the investment strategy, so that actual asset out-performance (relative to CPI inflation, to which the majority of benefits are linked) between successive valuations could diverge significantly from that assumed in the long term. The Actuary’s formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.



Financial Risks and Mitigations

The financial risks include the following:

- Economic outlook moves at variance with assumptions
- Investment markets fail to perform in line with expectations
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation are significantly more than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements

Experience is worse than assumed when assessing the termination liabilities for exiting employers whose liabilities are orphaned in the Fund and are underwritten by all remaining employers. This would lead to additional costs falling on other employers

Mitigations

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review, and the performance of the investment managers is regularly monitored. In addition, the Fund has equity protection in place which limits the Fund's exposure to falls in equity markets (by in turn surrendering some upside potential).

The Fund also takes a prudent approach to ongoing funding with additional protections built in in relation to termination liabilities where these liabilities are orphaned in the Fund – see the termination policy in [Appendix E](#) and employer risk policy in [Appendix G](#).



Demographic Risks and Mitigations

The demographic risks are as follows:

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Potential strains from early retirements for reasons of redundancy and efficiency result in an immediate and unfunded increase in liabilities
- Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations

Mitigations

To minimise these risks, the Fund Actuary undertakes a detailed demographic analysis of the Fund's experience on at least a triennial basis, alongside consideration of national trends and future projection scenarios to inform the Fund's view of an appropriate assumption for life expectancy and other demographic factors.

The Fund operates an ill health captive ([Appendix J](#)) that is designed to manage the risk of ill-health retirement costs for smaller employers where such costs can be particularly significant.

The Fund considers the maturity profile at least triennially as part of the valuation and undertakes the investment strategy review alongside the valuation to ensure an integrated approach for funding and investment risks including cashflow requirements.

Governance and Employer Risks and Mitigations

Governance and employer risks are as follows:

- The quality of membership data supplied by the employer is inaccurate or incomplete or there is a breakdown in processes for updating the information, each of which would result in liabilities being under or overstated



- Administering Authority unaware of structural changes in employer’s membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or a bond which is not adequate, leaving remaining employers to fund the benefits
- A material deterioration in employer short-term affordability or longer-term viability

Mitigations

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. The Fund has a Notifiable Events policy (within [Appendix I](#)) which sets out the information and events that need to be notified to the Fund. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.

The Fund’s employer risk policy ([Appendix G](#)) considers the risk of exits with insufficient funding from employers without another guarantor in the Fund. The policy also covers the review of the covenant of employers deemed to pose a higher level of risk, so that action can be taken for significant changes in affordability/viability.

Regulatory Risks and Mitigations

The key regulatory risks are as follows:

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Scheme
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for Academies and Further Education bodies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy
- Uncertainty about the Government’s policy with regard to Higher Education bodies, with the result that the Fund is unsure about the security within which



these bodies operate and may therefore be taking undue risk when setting contribution rates

Mitigations

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

The Fund is not able to control policy/regulatory developments however it routinely monitors emerging issues and developments in the sector and actively contributes to consultations in key areas that impact the Fund.

Climate Change

An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. Climate change is a systemic risk meaning it can impact on funding, investment and employer covenant – all at once. Therefore, the Fund keeps the management and governance of climate risk under review.

The impact of climate risk cannot be measured with certainty. For the current valuation the Fund has considered different climate change scenarios at the Whole Fund level relative to the baseline position, assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under four climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change.

In the context of funding strategy considerations, the information on climate risk is used by the Fund in two key areas:

1. Considering the adequacy of the prudence margins required in the actuarial assumptions, to mitigate against material downside events. The prudence in the funding strategy is predominantly reflected in the valuation discount rate



2. The surplus reserve retained in the fund, above which surplus may be run down by means of employer contribution reductions

The Fund also has a separate policy on responsible investment and notes that climate risk has the potential to adversely impact on employer resilience and therefore ability to fund pension benefits in the future.

The Fund recognises that as climate risk is inherently uncertain, it is necessary to apply judgement and an integrated approach across funding, investment and covenant risk to mitigate.

When considering funding issues related to climate change, the Fund also gives regard to the key funding principles document for preparing climate scenario analysis approved by GAD, MHCLG and SAB.

The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only four out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The four climate shock scenarios considered are:

1. **Rapid Transition** – there is a highly ambitious low carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards.

Fund impact: Under this scenario there is a significant (c10%) reduction in the Fund's funding level in 2026 compared to a "baseline" projection, as markets absorb and reflect



the transition costs. However, physical risks are limited under this scenario, and by 2037 the funding level moves above the long-term baseline (remaining there thereafter).

2. **Delayed Transition** Limited additional action until 2030, at which point a highly ambitious set of low-carbon policies is introduced. Financial markets price in transition and physical risk in 2030 to align with the ambitious policy change, associated with stranded assets and a sentiment shock. Assumed temperature increase of 1.9°C by 2100.

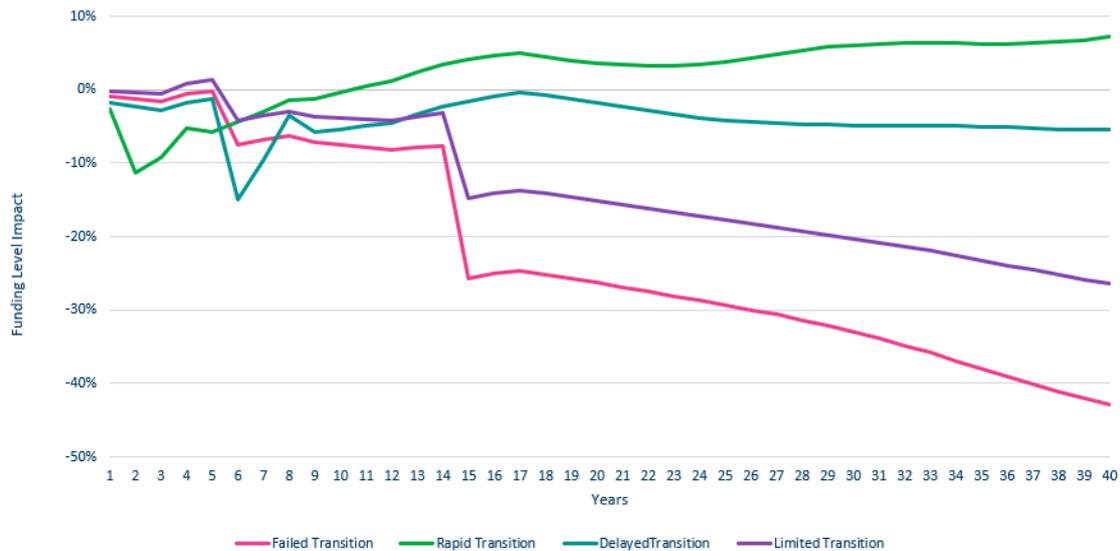
Fund impact: Initially there is little to no impact on the funding position until 2030, when market pricing reduces the funding level by c15%. A recovery swiftly follows where the bulk of this fall is reversed, but the funding level never fully recovers to baseline levels (for the period to 2065)

3. **Limited transition** Emissions targets and commitments are not fully met. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 2.9°C by 2100.

Fund impact: A small correction (c5%) in 2030 is followed by a much larger fall in 2039 when the funding level drops to almost 15% below the baseline projection. The position gradually deteriorates from there, and by 2065 the position is c25% below the baseline. Under this scenario the more challenging economic conditions could also lead to a reduction in the ability of employers to support the Fund.

4. **Failed Transition** - No new climate policies are enacted, but transition progresses on economic grounds. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 3.7°C by 2100.

Fund impact: Here the pattern is similar to the limited transition but with bigger impacts – a 5%-10% funding level “gap” by 2030, 25% by 2039 and over 40% by 2065. There may also be significant strain on employer affordability / covenant, reducing the employer’s ability to support ongoing benefit costs and pay additional contributions if required.



The actuarial assumptions (versus the best estimate) include a level of prudence aiming to protect against (but is not guaranteed to fully mitigate) adverse experience in the future, which may be, for example, as a result of climate risk. This is in line with the objective for future contribution stability and the Administering Authority has concluded that the level of prudence is currently sufficient recognising that this also must be balanced against employer affordability. However, any climate related impacts will potentially put significant stress on the funding plan, especially if this occurs at the same time as other advice events and so needs to be monitored over time.

Main Actuarial Assumptions and Actuarial Method

The assumptions used to calculate the funding target, and contributions are set out below. Underlying these assumptions are the following two tenets:

- That the Fund is expected to continue for the foreseeable future
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term

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

Financial Assumptions

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2025 actuarial valuation are set out below.



Financial Assumptions	2025 valuation assumption		Description
Investment return / discount rate	Standard Approach	5.6% p.a. (past) and 5.1% p.a. (future)	Standard approach: Derived from expected returns on Fund assets based on the long-term strategy set out in the ISS, including appropriate prudence margins. At 2025 this is based on assumed returns of 3.0% p.a. above CPI (past service) and 2.5% p.a. above CPI (future service)
	Lower risk approach (see Appendix G)	5.35% p.a. (past) and 5.1% p.a. future	<p>Lower risk approach: As above but with 0.25% p.a. reduction in past service discount rate. Applies to non-taxpayer-backed employers who elect not to provide a bond (where the Administering Authority deems one is necessary).</p> <p>Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.</p> <p>This real return will be reviewed from time to time based on the investment strategy, market outlook, and the Fund's overall risk metrics.</p>
Inflation (Retail Prices Index)	3.3% p.a.		The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).



Inflation (Consumer Prices Index)	2.6% p.a. (includes an adjustment of 0.7% p.a.)	<p>RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI (reflecting the profile and duration of the Fund's accrued liabilities and 2030 RPI reform), adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts.</p> <p>The adjustment to RPI will be reviewed from time to time to take into account any market factors which affect estimated CPI inflation.</p>
Salary increases	3.85% p.a.	<p>Pre-1 April 2014 benefits (and 2014 to 2022 McCloud underpin) – the assumption is determined by an allowance of 1.25% p.a. above CPI as described above. This includes allowance for promotional increases.</p>
Pension Increases and Deferred Revaluation	<p>Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2025 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.</p>	
Indexation of CARE benefits	<p>Assumed to be in line with the CPI inflation assumption above (noting that for active members indexation of CARE benefits can be less than zero).</p>	
McCloud	<p>A reasonable estimate for the potential cost of McCloud has been included within the 2025 valuation results for each employer. This has been calculated based on the actual data provided for the 2025 valuation and in line with national guidance.</p>	
Expenses	<p>General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions from participating employers. This is reassessed at</p>	



	each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
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Demographic Assumptions

The derivation of the demographic assumptions is set out in separate advice supplied by the Actuary.

The mortality in retirement assumptions reflect the most up-to-date information published by the Continuous Mortality Investigation (CMI), with loadings to reflect Fund specific experience, and an allowance for future improvements in longevity.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2025 assumptions:

Membership Category	Male Life Expectancy at 65 (2025 assumptions)	Female Life Expectancy at 65 (2025 assumptions)
Pensioners	21.5	24.1
Actives aged 45 now	22.8	25.6
Deferreds aged 45 now	21.9	25.0

For example, a male pensioner, currently aged 65, would be expected to live to age 86.5. Whereas a male active member aged 45 would be expected to live until age 87.8. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

The detailed assumptions adopted are set out in [Appendix A](#).

Actuarial Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. (See the section on setting employer contributions [below](#) variations to this for “closed” employers).



The assumptions to be used in the calculation of the funding target are set out above.

Underlying these assumptions are the following two tenets:

- That the Fund is expected to continue for the foreseeable future
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term

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

There will be a funding plan for each employer. These rates are assessed taking into account the experience and circumstances of each employer (or group), following a general principle of no cross-subsidy between the distinct employers in the Fund.

Employer Pooling and Risk Sharing Arrangements

Generally individual employers will be responsible for their own liabilities and have a notional asset share allocated to them. However, there are some circumstances where a different approach may be taken (see [Appendix D](#)):

- Multi-Academy Trusts (MATs) can opt to be pooled (i.e. treated as a single employer) for funding purposes, rather than each employer being treated as a separate employer
- For admitted bodies, there will be some instances where the admitted body and the letting employer enter into a “pass-through” arrangement, where some/all of the pension risks are retained by the letting employer. In these cases, the admitted body is usually pooled with the letting authority and typically pays the authority’s primary contribution rate with no secondary contributions, although the exact approach will depend on the admission agreement in place.

In all cases, the attribution of pension risk in such arrangements may impact how any termination / bond assessments are undertaken (where applicable) and therefore it’s important for Employers to make the Fund aware of the risk sharing arrangements in place when undertaking such exercises.



Employer Asset Shares

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

In attributing the overall investment performance obtained on the assets of the Fund to each employer, a pro-rata principle is adopted. This involves applying the investment strategy to each employer, unless this is varied by agreement between the employer and the Fund, at the sole discretion of the Administering Authority.

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

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

Links to the Investment Strategy Statement (ISS) and Investment Policy

The investment and funding strategies are closely linked. After employer and employee contributions, investment returns are the third key pillar of LGPS funding. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy).

If investment returns or income are lower than expected, the Fund may need to set higher contributions from employers to ensure benefits can be paid. Therefore, the investment returns required by the funding strategy, as set out in this FSS, must be compatible with the investment policy as set out in the ISS.

In formulating a Fund's overall investment strategy, the liability profile and funding position in relation to the liabilities of the Fund as a whole (assessed on an appropriate and prudent



basis), is taken into account, alongside the Fund’s overall risk appetite across funding, investment and covenant.

The overall strategic asset allocation for the Fund as a whole is set out in the Investment Strategy Statement (ISS), which can be found [here](#). The current strategy is included below:

Asset class	Allocation (%)	Control ranges
Equities*	55.0	50.0-60.0
Private equity	7.5	3.5-11.5
Infrastructure	7.5	3.5-11.5
Illiquid credit	7.5	3.5-11.5
Property	5.0	3.0-7.0
Absolute return	7.5	5.5-9.5
Investment grade corporate bonds	10.0	8.0-12.0

* The fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term.

How Employer Contributions are Calculated

At each valuation employer contributions are assessed in line with the principles, assumptions and policies in this document, based on the employer’s own membership and position in the Fund.

The approach for setting contributions at each valuation is below. However, the Administering Authority retains ultimate discretion in applying this approach and may vary this where it is deemed necessary. The Administering Authority will engage with the employer directly in such circumstances.

Primary Rate of Employer Contribution

Primary contributions are contributions in respect of new benefits being accrued. The primary rate is calculated using the same assumptions as the funding target other than the discount rate (where the “future” rate noted [above](#) is applied).

The Regulations state the desirability of keeping the primary rate (also referred to as the “future service” rate) as stable as possible. Also, primary contributions are paid in respect of benefits built up in future, and as such are not linked to current market conditions (in the



same way that the funding target is). It is for these reasons that a different discount rate (from that used to calculate the funding target) is used.

Primary contribution rates will vary between employers due to:

- Member profile (age, gender, etc). In particular, primary rates tend to be higher for older members (as their contributions are invested for a shorter period and so are expected to earn less returns)
- Whether the employer is open or closed to new entrants. Open rates are calculate using the Projected Unit method which broadly assumes the age profile will remain unchanged. Closed rates use the Attained Age method, which assumes the age profile will increase. As a result, employers who move from open to closed would normally see an increase in primary rate
- Whether the employer has (direct or indirect) taxpayer backing – employers without taxpayer backing may have more prudent assumptions applied and if so, they would have a higher rate. For such employers' further adjustments to the funding approach may apply depending on their covenant. See the Fund's employer risk policy for details [Appendix G](#)
- Whether the employer is in the ill-health captive. Primary contributions for employers in the captive includes the captive premium (based on the expected cost for the captive as a whole) – see [Appendix J](#). For employer's not in the captive, an allowance for ill-health based on their own member profile is included

The primary contributions include an allowance for the administration costs of the Fund.

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

Secondary Rate of the Employers' Contribution

Secondary contributions are contributions in respect of any deficit or recoverable surplus in the funding position. The secondary rate is calculated using the same assumptions as the funding target (including any variations by employer status and covenant – see [Appendix G](#)).



Deficit Recovery Plans – Key Principles

If the funding level of an employer is below 100% (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented so that additional secondary contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (flat or increasing year on year).

The Fund's policy on setting the deficit recovery plan is [Appendix B](#).

Surplus Run Off Plans– Key Principles

The Fund applies a sustainability reserve for employers in surplus, meaning that an element of surplus is retained in the Fund, allocated to an individual employer's asset share, to increase contribution stability for that employer, as the reserve can be used to absorb the impact of negative experience in future and limit the need for contribution increases.

Any surplus after these elements are applied will be used to apply a reduction to the primary contribution rate – i.e. negative secondary contributions – to run-off that element of surplus over a suitable time horizon.

Surplus off sets will usually be expressed as a % of pensionable salary deduction to the primary contribution rate.

The Fund's policy on use of surplus is [Appendix C](#).

Payment of contributions – employer options

The following options may be made available at the discretion of the Administering Authority:

- Employers facing an increase in total contributions may be allowed to phase in increases so that the target rate is paid in year three. This is achieved by an adjustment to the secondary contributions.



- Employers may have the option of prepaying contributions as a single lump sum, either annually or triennially, in return for a reduction. The reduction will reflect the assumed rate of investment returns (determined using the past service discount rate). The total amount paid in each year must be in line with the certified contribution rates (meaning top up payments may be required).
- Prepayment of employee contributions is not permitted

Payment of Additional Contributions

There may be circumstances when Employers are required to make other payments to the Fund in respect of member benefits, for example:

- To fund awards of additional pension
- Strain costs arising from retirement before normal retirement age on unreduced benefits

The Fund's default position is that such costs are funded by an immediate contribution from the employer. Employers can request an estimate of the potential costs of any such awards from the Fund.

Conflicts of Interest

Where an actual, or perceived, conflict of interest is identified in relation to the setting of employer contribution rates (whether primary or secondary), the Administering Authority will follow the Fund's conflicts of interest policy.

Where necessary, for example where an actual, or perceived, conflict emerges when setting contribution outcomes for the Administering Authority itself as a Scheme Employer, the Administering Authority will ensure a separation of decision making to manage any conflict. Any such decisions would be subject to the approval of the Pensions Committee and subject to the scrutiny and oversight of the Local Pensions Board.

Actuarial Valuation

As required by the Regulations (Regulation 62 of the LGPS Regulations 2013), the Fund must obtain an actuarial valuation as at 31 March every 3 years. The effective date of the most recent actuarial valuation is 31 March 2025. In addition, the FSS must be formerly renewed every 3 years and in advance of the completion of the valuation (which must be



within 12 months of the valuation effective date) or such later date as the Secretary of State may agree.

As part of the valuation, the Fund must obtain a report (the “actuarial valuation report”) and a rates and adjustments certificate prepared by an actuary. This certificate sets out the employer contribution rates for the following 3 years (i.e. for 3 years from 1 April 2026 until 31 March 2029 in respect of the 31 March 2025 valuation).

As the accuracy of the valuation calculations and resulting contributions is reliant on the accuracy of the membership data used, employers have a critical role in this process ensuring that the employee information provided to the Fund is as accurate as possible.

The rates and adjustment certificate is appended to the valuation report, but otherwise information in the report is aggregated at the whole Fund level.

The actuarial valuation report:

- Shows the aggregate funding position for the Fund as a whole as compared with the previous valuation
- Sets out a summary of the key reasons for the change in funding position and a summary of key inter-valuation experience
- Includes sensitivity analysis and commentary to support understanding of the key risks
- Summarises the key financial and demographic assumptions alongside the underlying membership and investment data as at the valuation date
- Includes a primary and secondary contribution rate for the Fund as a whole, equal to the pay weighted average rates for percentage of pay contributions, and the total amount for cash adjustments.
- Includes information required by the Government Actuary’s Department for the purpose of undertaking its Section 13 assessment
- Included information for the Fund as a whole (and certain employer groups) in relation to the Gender Pension Gap

Review of Employer Contributions Between Valuations

The Regulations permit Administering Authorities to review an Employer’s contribution rate in the interim period between triennial actuarial valuations where there has been a significant change to the liabilities or covenant of that employer.



The Fund's policy on undertaking an interim review of contributions is set out in [Appendix F](#).

Fund Approach to Managing Surpluses and Deficits

The funding position of each LGPS fund is different: some have surpluses, some have deficits, and funds can shift between the two, depending on the circumstances and experience of each fund.

The position of individual employers will also differ and change over time, and these differences can be material. Usually, any deficit or surplus above the sustainability reserve will be recovered / run-off over a period of time. This has the effect of smoothing contributions required to finance a potentially volatile funding position.

Employers also face different affordability challenges and pose risks to a differing degree to the Fund. Some participate in the Fund long-term while others may exit soon. For this reason, the Fund's approach for recovering deficits / surpluses differs depending on the type of employer and their circumstances.

Details on how the Fund determines the approach for making good deficits and running-down surpluses are given in the contribution sections above.

Employer Covenant

Covenant is the employer's legal obligation and financial ability to meet their obligations to the Fund. The covenant of certain employers is assessed to understand their current strength and how it could change in future. This assists the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and contributions. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer covenant can be subject to substantial variation over relatively short periods, so regular monitoring and assessment may be undertaken. The relevant employers' covenants will be assessed and monitored objectively in a proportionate manner and the results considered when determining an individual employer's funding strategy.

The Fund has established a proportionate covenant assessment and monitoring framework which is set out in [Appendix H](#).



This includes the Fund's notifiable events framework ([Appendix I](#)) which specifies the types of event or changes in circumstances that employers will be obliged to notify the Fund about. This is necessary as timely reporting to the Fund of events that have the potential to materially impact on employer covenant strength is critical to the management and monitoring of employer covenant risk.

A significant change in covenant may trigger a review of contributions, as set out in the inter-valuation review policy [Appendix F](#).

Guarantors

Certain employers in the Fund will be guaranteed by another entity. For example, new admission bodies joining the Fund must be guaranteed by a Scheme employer, and the Department for Education provides a 'guarantee of the exit debt' in respect of academy trusts and further education bodies.

There are two common types of guarantee:

- Full guarantee – the guarantor fully indemnifies the Fund in respect of the employer. Once the employer exits, the guarantor 'subsumes' their liabilities and residual assets (after any termination payment/exit credit is made)
- 'Guarantee of the exit debt' – the guarantor agrees to cover only the exit debt if there is one but does not subsume the exiting employer's assets and liabilities on termination. Instead, the assets and liabilities are "orphaned – i.e. become the responsibility of the Fund as a whole

The existence and type of guarantee is an important consideration for the risk profile of the employer. As a result, it is taken into account in the funding strategy in a number of ways.

- The approach to covenant review – employers with a taxpayer guarantee are generally not subject to covenant monitoring
- The funding assumptions and so contributions payable – employers without a taxpayer guarantee may see higher contributions (see [Appendix G](#) – employer risk policy)
- The assumptions used to assess any deficit / surplus on termination – employers without a full guarantee see additional prudence is in their termination assessment, to protect the ongoing employers as they would underwrite the termination liabilities going forward (see [Appendix E](#) – termination policy)



- Whether a bond or other security is required to support the admission – this is typically applied on admission (see [Appendix D](#) – admission policy)

Admission bodies

Under the LGPS regulations, an administering authority must assess the risk a proposed new admission body poses to the Fund should the admission body become insolvent or go out of business.

After considering the level of risk, the administering authority may decide that the admission body must provide security, such as a guarantee from the letting employer, an indemnity, or a bond. This security must cover some or all the:

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

Further information on this is set out in [Section C](#) of this FSS and the Fund's approach to such risk management when an admitted body joins the Fund is set out in [Appendix D](#).

Pension Administration Strategy

The Fund keeps a separate pension administration strategy which outlines the responsibilities, performance and procedures for employers and the Fund. Compliance with the Fund's pension administration strategy, in particular areas such as communication, skills and training and data accuracy is essential for ensuring employers are in a position to understand and manage their pension costs and risks in a changing economic, demographic and legislative landscape alongside ensuring assessment of such costs and risks can be as accurate as possible. Failure to adhere to these requirements could have a material effect on an employer's liabilities in the Fund.

Alongside the triennial actuarial valuation, there will be a number of occasions where the Actuary will use updated membership data to carry out its calculations, as referenced in the next section e.g. terminations (where an exit debt/credit is to be assessed in full), inter-



valuation contribution rate reviews, new admissions, bulk transfers, and in some cases accounting calculations where a significant event has occurred during the accounting period. To ensure membership data is as accurate as possible, the Fund undertakes annual data quality assessments (including against requirements set out by The Pensions Regulator) and instructs the Actuary to undertake independent inter-valuation data quality assessments.

The Fund's Administration Strategy Statement is available [here](#).

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Section C: Employer events

Section B set out the Fund's general policies, including the approach to the actuarial valuation and certifying of employer ongoing contributions.

However, key events during an employer's participation in the Fund could impact on their and the Fund's funding circumstances. The Fund's approach to policy and process for dealing with any possible outcomes from those events is summarised below. The Fund's detailed policy in each of these areas is included in the relevant Appendix referenced.

Joining the Fund

All Scheme Employers (defined under Schedule 2 Part 1 of the LGPS 2013 Regulations) are entitled to join the Fund. This includes tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Other Scheme Employers (Schedule 2 Part 2 of the Regulations) can designate eligibility to join the Scheme for individuals or groups, where they pass a resolution to that effect. Additionally, other employers may be allowed to join the Funds – most typically “admitted bodies” (Schedule 2 Part 3 of the Regulations).

The high-level principles and considerations for new employers on joining the Fund are set out below. The full details of the approach are contained within the admission policy [Appendix D](#).

Initial Funding Calculations

Typically, there are two main approaches used to set the initial funding position for new employers depending on their specific circumstances:

- Fully funded: the value of the existing Fund liabilities of the transferring group of members is assessed and assets are notionally reallocated from the original employer to the new employer body equal to this amount – meaning no initial surplus or deficit
- Partially funded: the assets notionally reallocated are less than or more than the value of the liabilities transferring. The method of assessment for this initial deficit or surplus can vary depending on the specifics of each case



Depending on the employer type and circumstances, there may be a provisional assessment of the funding position on admission. The position is formally assessed at the next actuarial valuation.

Bespoke commercial arrangements for which the above are not applicable can also be entered, between the new entity and the letting authority, and must be communicated to the Fund. In particular, a “pass-through” arrangement where some/all the risk is retained by the letting authority and so a separate funding position may not be assessed.

Initial Contribution Rate Assessment

An initial contribution rate will be set to apply until the next actuarial valuation when the contributions are formally reassessed. This will take account of:

- The type of employer, with some having detailed calculations based on their membership, and others having a simplified approach applied
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit or surplus is ultimately transferred and the impact on contributions.

LEA Schools Converting to Academy Status

The Fund’s policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school’s appropriate share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools. This would be reflected in their secondary contributions.

Multi Academy Trusts (MATs)

New Employers Joining MATs

MATS are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the MAT that is legally responsible for staff across all schools in the pool.



Where numerous academies are operated by the same managing Trust, the initial position is to treat each academy as a separate employer, with their own funding position / contribution rates. In this case, new academies joining a MAT would also have their own funding position / contribution rate.

However, the Fund does allow MATs to combine (“pool”). In this case any new academy would initially pay the pooled MAT primary rate plus a secondary rate reflecting their initial deficit / surplus. At the next valuation the new academy would then be combined into the pooled MAT.

Existing Standalone Academies Joining Pooled MATS

Where an existing standalone academy joins a pooled MAT, the transferring academy’s assets and liabilities would be subsumed by the MAT. They would continue to pay their current primary and secondary rate. At the next valuation the new academy would then be combined into the pooled MAT.

Academies Leaving a Pooled MAT / Moving Between Pooled MATs

Where an academy leaves a pooled MATs, the liabilities will move across along with a share of the transferring MAT’s deficit / surplus. The value of the deficit / surplus will be based on the transferring MAT’s secondary contributions, assessed in line with the approach for allocating surplus / deficit to newly converted academies (see [Appendix D](#)).

Where the academy is joining a new pooled MAT, they will normally pay the new MAT’s primary contribution rate and continue to pay the same secondary contribution rate that they were paying prior to transfer. However, the Administering Authority may adopt a different approach where individual circumstances warrant this. At the next valuation the new academy would then be combined into the new MAT.

Preparing for Exit and Events Which May Trigger Termination

Unless entering a Deferred Debt Agreement (see below), an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends. The employer then becomes an “exiting employer” under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a



termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The high-level principles and considerations for exiting employers are set out below. The details of the calculation of the exit position are contained within the admission policy [Appendix E](#).

Payment of Exit Payments and Exit Credits

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

- The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable).
- At the discretion of the Administering Authority, instalment plans (known as a Debt Spreading Agreement (DSA)) over a defined period may be agreed (when there are clear issues of affordability that risk the ability of the Fund to recover the debt).

Deferred Debt Agreements

In certain limited circumstances an employer may participate in the Fund with no contributing members and utilise a "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This will only be considered when there are issues of affordability that risk the financial viability of the employer organisation and the ability of the Fund to recover the debt. Typically, this might be relevant for small 'not for profit' organisations that constitute a potential risk to the Fund because they may cease operations with insufficient residual assets to meet their pension liabilities. A DDA would be at the request of the employer in writing to the Administering Authority.

Suspension Notices

Regulation 64(2A) provides the Administering Authority with the discretion to issue a "suspension notice" and suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is likely to take on one or more active member within the period specified in the suspension noted.

Partial Terminations



So-called “partial termination” is where an employer exits the Fund for deferred and pensioner members (and potentially past service benefits for active members) but seeks to remain a participating employer for active members (potentially just in respect of future service benefits). The objective is to remove the funding risk in relation to historic benefits, which would transfer to the Fund as a whole.

The Fund’s default position is that such arrangements are not permitted. The position would be reconsidered only in the event that a) the legal basis for such arrangements is established to the satisfaction of the Fund after taking its own legal advice, and b) it was deemed to be in the best interests of the Fund as a whole (which is not expected to be the case except in very exceptional circumstances).

Bulk Transfers

Bulk transfers involve the transfer of multiple members to or from the Fund. They may be:

- internal (or “intra-fund”) transfers, where the two employers both participate in the Fund
- external to the Fund, where one of the employers participates in a different LGPS Fund
- external to the LGPS, where members are transferring to/from a non-LGPS pension fund

They may involve some of an employer’s members (and so some assets and liabilities) transferring to a new Fund or employer, or the employer’s whole position (and so all assets, liabilities and membership) transferring to or from another LGPS Fund.

General Principles

A summary of the general over-riding principles, processes and responsibilities the Fund will apply for all bulk transfers are set out below.

- The LGPS Regulations provide the framework if a Fund employer has an external bulk transfer of staff and the Fund will adhere to the Regulations
- The Fund’s primary objective will be to minimise the risk to Fund and other Fund employers – particularly where a transfer will result in “orphaned” members/liabilities. Subject to this, where applicable and practical, the Fund will consider other relevant



factors including views of the relevant employer(s) and the circumstances of the transfer

- Generally, there will be no cross-subsidy between the employers participating in the bulk transfer and all other Fund employers. So, for outgoing/incoming transfers, assets and liabilities are deducted from/added to the transferring employer's balance sheet, with no adjustment applied to other employers in the Fund
- It is the employer's responsibility to notify the Fund that a transfer is required and the relevant details. As the assets transferred and potentially the provision of benefits, will be reliant on the data used, it is critical that the data provided is complete and accurate. Neither the Fund nor Fund Actuary will be responsible for errors or issues arising due to the provision of incomplete or inaccurate data
- Once notified, the Fund will facilitate the bulk transfer by liaising with the relevant parties as required
- All Fund costs relating to any bulk transfer will be met by the relevant Fund employer(s)

Intra-Fund Bulk Transfers

The default position is the assets transferred to the new employer will be equal to the value of the liabilities being transfer – i.e. on a “fully funded” basis. Where an employer's commercial requirements require a different treatment, it will be the responsibility of the employers to notify the Fund. The Administering Authority will then consider whether this is possible and appropriate.

The standard approach is that intra-fund bulk transfers are formally assessed at the first triennial valuation following the transfer (or, if timing prevents this, then the first triennial valuation where assessment is possible). However if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on their balance sheet at the point of transfer (e.g. to reflect in inter-valuation accounting figures or for a contribution rate review (see [Appendix F](#) for the Fund's policy on inter-valuation contribution reviews)).

External Bulk Transfers

For external transfers to other LGPS Funds, the assets transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the



Fund actuaries (with input from the administering authority, and potentially the relevant Fund employer, as required).

For external transfers outside of the LGPS the assets transferred will be calculated in line with the relevant regulations.

In all bulk transfer cases, where possible the Fund will take a simplified approach in order to manage the costs of the process (which are met by the employers directly involved), provided interests of all employers in the Fund are protected.

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Appendix A: Demographic Assumptions

Further details on the demographic assumptions adopted for the 31 March 2025 valuation are set out below.

Life Expectancy Assumptions

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

Current Status	Retirement Type	Mortality Table*
Male Annuitant	Normal health	103% S4PMA CMI 2024 1.5%
Female Annuitant	Normal health	95% S4PFA_M CMI 2024 1.5%
Male Annuitant	Dependant	126% S4PMA CMI 2024 1.5%
Female Annuitant	Dependant	109% S4PFA_M CMI 2024 1.5%
Male Annuitant	Ill health	103% S4IMA CMI 2024 1.5%
Female Annuitant	Ill health	113% S4IFA CMI 2024 1.5%
Male Annuitant	Future dependant	126% S4PMA CMI 2024 1.5%
Female Annuitant	Future dependant	109% S4PFA_M CMI 2024 1.5%
Male Active	Normal health	108% S4PMA CMI 2024 1.5%
Female Active	Normal health	98% S4PFA_M CMI 2024 1.5%
Male Active	Ill health	161% S4IMA CMI 2024 1.5%
Female Active	Ill health	178% S4IFA CMI 2024 1.5%
Male Deferred	All	121% S4PMA CMI 2024 1.5%
Female Deferred	All	107% S4PFA_M CMI 2024 1.5%
Male Active/Deferred	Future dependant	141% S4PMA CMI 2024 1.5%
Female Active/Deferred	Future dependant	144% S4PFA_M CMI 2024 1.5%

**All parameters are "core," with underlying rates, i.e., expressed with the overlay for excess deaths removed*



Other Demographic Assumptions

Pre-Retirement Mortality

Based on wider LGPS experience, the assumption is 75% (male)/65% (female) of the DxL08 table with CMI_2023 1.5% (standard parameters).

Ill-health retirement

Based on the Fund's experience – sample rates below:

Age	Male	Female
25	0.02	0.01
35	0.03	0.02
45	0.07	0.07
55	0.31	0.27

It is assumed 80% of retirements are tier 1, with 10% in each of tier 2 and tier 3.

Withdrawal

Based on wider LGPS experience – sample rates below:

Age	Male	Female
25	20.3	22.4
35	5.1	6.3
45	2.5	3.9
55	0.8	1.2

Commutation

Based on wider LGPS experience, all retiring members assumed to take 75% of the maximum tax-free cash available (at the LGPS standard rate of £12 cash for each £1 p.a. pension given up).



Proportions Married/Civil Partnerships

Based on wider LGPS experience – sample rates below:

Age	Male	Female
25	27	37
35	64	66
45	69	67
55	68	65
65	69	62
75	69	53

Early Retirement

Based on wider LGPS experience, those entitled to receive any part of their benefits before 65 are assumed to retire between 60 and 65 (sample rates below), with all other members assumed to retire at 65:

Age	% retiring per annum
60	10
61	8
62	8
63	8
64	8
65	100

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.



Appendix B: Deficit Recovery Plans

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented so that additional contributions are paid to meet the shortfall.

It is the Fund’s objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Fund’s view of the level of risk.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employer Deficit Recovery Plan – Key Principles

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement, with employers being free to select a shorter recovery period (and so higher contributions) if they wish. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

Employer Type	Recovery Period	Derivation
Existing open employers	12-13 years	Reduce by a maximum of 3 years from the previous valuation, subject to a minimum of 12 years
New open employers	12 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case-by-case basis based on length of expected period of participation in the Fund.	

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (normally increasing each year in line with assumed pay growth specified in [Section B](#)).

Recovery periods will be set based on the following principles:



Appendix C: Surplus Usage

Key Objectives

The objective of the Fund is to pay out the benefits promised to members but also manage the level of contribution affordability/sustainability for employers. The Fund's key principles for the management and use of surplus are:

- Secure the solvency of the Fund whilst balancing intergenerational fairness for taxpayers by ensuring contributions are as sustainable as possible.
- Take into account the level of reasonably affordable contributions.
- Allow for the level of risk and variability in financial and demographic factors when deciding on the level of surplus to distribute and over what period.
- Allow for the Fund's investment strategy, market outlook and risk management strategy, including long-term systematic risks e.g. climate change.
- Consider the potential impact of differing contributions (including future service contributions) and investment returns on the likelihood of achieving a sustainable contribution outcome for employers.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Surplus Usage Approach

The Fund has moved into surplus as a whole at the 2025 valuation. This is a strong funding position which presents a set of unique issues and opportunities to consider. Some employers are significantly in surplus so an approach which allows for an employer's ability to support its liabilities in the long term is important.

This document sets out the Fund's approach to determining how any surplus assets are used when setting contributions for employers.

Sustainability Reserve

At each triennial valuation, the Fund will determine the surplus for each employer (excess assets above the accrued liabilities, as calculated by the Fund Actuary). For the 2025



valuation the Fund will also introduce a “sustainability reserve” for employers, which will be retained in the Fund to protect against adverse experience leading to unsustainable contributions levels.

When considering the level of reserve at each valuation, the Fund and the Actuary will consider the pathway of the funding and future contribution outcomes based on a range of economic and financial scenarios, to “test” the sustainability of the funding strategy over a number of valuation cycles for the Fund as a whole. The Fund will then utilise this analysis as part of its decision making on the level of any reserve.

As well as considering the financial and demographic outlook, the Fund will consider:

- The overall affordability of contributions (including future service contributions) and the impact of any contribution reductions on future covenant strength
- The Fund’s investment strategy
- Whether an employer is likely to exit the Fund in the near future and terminate its participation in the Fund. This may mean nil, or a reduced amount of surplus may be returned to the employer, and the final surplus would be determined on exit and the appropriate exit credit (if any) paid

The approach may vary for individual employers where in the Administering Authority’s view this is warranted, taking into account employer covenant and risk.

When determining employer contributions, only surplus in excess of the reserve will be run-off over time via a reduction to the future service contribution rate (“the contribution off-set”). Note – for employers without taxpayer backing the off-set will also be limited based on any termination surplus if lower (see [Appendix G](#)).

The reserve will be expressed as a percentage of the liabilities. The contribution off-set will usually be expressed as a percentage of pensionable pay for each year of the rates and adjustments certificate. Total contributions (i.e. future service contributions less the surplus off-set) will be subject to a minimum of zero.

For the 2025 valuation, the reserve will be 110% (i.e. only surplus over a funding level of 110% will be distributed as off-sets).



Spreading period

At each triennial valuation the Fund will review and agree the period over which any surplus above the reserve will be returned to employers. For the 2025 valuation the default spreading periods are as follows:

Employer Type	Recovery Period	Derivation
Open employers	15 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case-by-case basis based on length of expected period of participation in the Fund.	

Employers will be able to adopt a longer period, and this will provide for a higher likelihood that total contributions remain sustainable in the future, with a lower reliance on the Fund's assets to generate surplus to maintain the same level of overall contributions.

The position will be reviewed and may be revised at future valuations, taking account of the factors described above as part of the Fund's overall review of the approach to use of surplus.

Monitoring and fund discretion

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under certain circumstances. This would typically involve a more detailed covenant review and analysis, and employers would be required to adhere to the requirements of the notifiable events policy.



Appendix D: Admission policy for new employers

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employer Types

Scheme Employers

All Scheme Employers (defined under Schedule 2 Part 1 of the Regulations) can join the Fund. These include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

Other Scheme Employers (defined under Schedule 2 Part 2) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. A copy of this resolution will be required by the Administering Authority at the outset, and any subsequent amendments to the resolution should also be provided.

Academy conversions

Where a school has elected to convert to Academy status, the Fund's policy is for the new Academy to inherit the school's share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion program was extended to cover all schools. Full details of how this is assessed are set out in a later section of this document, as is the treatment offered to Academies within Multi-Academy Trusts (MATs).



Admission bodies

An admission body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. Admission bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but essentially, they are “not for profit” organisations (formerly known as Community Admission Bodies).

If its application is accepted, the Fund will then enter into an “admission agreement.” This sets out the conditions of participation for the admission body, in accordance with the Regulations, including which employees (or categories of employees) are eligible to become members of the Fund.

Any specific arrangements outside the normal regulations agreed between the letting authority and the new entity will be covered in the commercial agreement. This includes but is not limited to cases where pension costs are shared, or indeed fully passed back to the original employer. In particular, it should be agreed at the outset whether any deficit / surplus when the admission ends will be the responsibility of the exiting employer or will revert to the original employer. The Administering Authority must be informed at the outset of any specific arrangements entered. This may result in increased / more detailed requirements when providing member data to the Administering Authority.

Admission bodies with an academy / MAT as guarantor

For academy outsourcings the Fund would normally expect the admission to be a pass-through arrangement (see below), in line with DfE guidance updated December 2024. Where this is not the case, in line with [guidance](#), the academy / MAT would need to contact DfE and confirm that the guarantee still applies and confirm this to the Fund.

Initial funding calculations

When a new employer joins the Fund, there is an initial assessment of their funding position – assets and liabilities. There are two main approaches used depending on the employer’s circumstances:



- Fully funded: The liabilities of the transferring members are assessed. The assets are notionally reallocated from the original employer to the new employer equal to the liability amount, meaning no initial surplus / deficit
- Not fully funded: The assets notionally reallocated are less / more than the transferring liabilities. The method of assessment for this initial deficit can vary depending on the specifics of each case.

The Fund's default policy is that admission bodies join on a pass-through basis (see pass through section below). Where the Administering Authority agrees to allow an alternative approach, the admission body will usually join the Fund on a "fully funded" basis (although there can be exceptions reflecting commercial agreements). The initial funding position for Academies joining the Fund will take account of the funding position of the ceding Council (historically this has meant they were not fully funded at inception, as they took on a share of deficit / surplus), and their treatment is set out in a later section"

This initial assessment is provisional, pending a formal assessment at the next actuarial valuation.

Initial contribution rate

The new employer will have an initial contribution rate assessed. The assessment involves an actuarial calculation of the primary contribution rate, and for partially funded admissions the secondary rate, which applies to the new employer. This assessment will take account of:

- The pay levels of the transferring group (and the employee contribution rate)
- The timing of the benefits that are expected to fall due (depending on any applicable transitional protections for certain members)
- Whether the new body will be open, or closed to new entrants
- Whether the admission is fully funded, and if not the size of the deficit / surplus and the period over which it will be removed
- Whether the admission is a pass-through (see below)



Indemnifying bonds and / or guarantors

Where the Administering Authority judges that the potential pension risk warrants additional security, the Fund may require any admission body (other than for pass-through admissions) to provide an indemnifying bond from an appropriate third party. This bond would be actuarially assessed to the satisfaction of the Administering Authority and kept under regular review.”

Typically, the bond covers any initial funding deficit, plus any potential early retirement strain costs that could arise on the premature (or normal) termination of the body. These would arise on the grounds that on redundancy, certain members could be eligible for immediate payment of benefits on an unreduced basis.

Where a scheme employer within the Fund has formally agreed to guarantee an admission body, the Regulations allow for a bond not to be put in place. The Fund’s primary position on this is that a bond should still be put in place in order to better protect all employees within the Fund (including the guarantor).

The Fund’s view is that the frequency of the review of any bond amount should be:

Guarantee arrangement	Frequency of bond review
Admission body with no guarantor	Annual review with triennial update as standard (see Appendix G for further details)
Admission body with a guarantor	Triennial reassessment (carried out as part of the valuation)

It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

Academies are not required to provide a bond. The DfE stands as a guarantor of the exit debt to all academies in the Fund.

Risk assessment

For admitted bodies the Regulations require that an actuarial risk assessment be carried out to the satisfaction of the Administering Authority. This includes assessment of the indemnifying bond above.



Academy deficit / surplus assessment

For new academies, the approach taken will be that a deficit / surplus will be transferred to the new academy.

The Fund's policy is for this transferring deficit / surplus to be calculated as:

- The capitalised amount of deficit funding / surplus offset contributions (based on the local authority recovery period) the school would have made / received had it not converted, plus
- A share of the ceding authority's sustainability reserve (where applicable)

This amount is subject to a limit to ensure that the asset share of the new academy is not less than zero.

This may result in a wide range of funding levels, depending on the profile of the transferring members following the conversion. Transferring groups of older members and/or those with long service will on average have higher liabilities, meaning a funding level closer to the ceding authority's. Employers with lower liabilities may see more extremes in funding level on conversion

Multi Academy Trusts (MATs)

MATs are groups of academies managed and operated by one proprietor. The employer in this case is the proprietor of the MAT and not the individual academy. It is therefore the MAT itself who is the employer for LGPS purposes, making it legally responsible for staff across all schools in the group.

The Fund's initial position is to maintain separate records for each of the constituent academies in a MAT. This means each academy may have varying contribution requirements according to their own circumstances / membership. New academies joining MAT would have their own funding position and contribution requirements assessed separately.

However, the Fund allows MATs a decision to combine. This is a one-off and irrevocable choice made at commencement. If a combined decision is made, for the purposes of the pension fund the MAT (including all constituent academies) will be treated as a single combined employer.



This decision has implications for all future actuarial calculations as the position for a single academy cannot subsequently be identified. So, a single overall funding position and “average” contribution rate would apply to the MAT as a whole (and pension fund accounting under F.02 can only be produced for the overall MAT).

Newly converted academies joining an existing MAT pool would pay primary contributions equal to the MAT’s rate, plus additional secondary contributions based on their initial position calculated in line with the approach outlined above. This would be next reviewed at the next triennial valuation.

Pass through Arrangements Including Pooling

A pass-through arrangement is an agreement between an Admission Body usually a contractor providing services to a Fund Employer and a guarantor Fund Employer such that the guarantor retains some / all the risks associated with the admission.

Contracts between an Admission Body and a guarantor may be a “pass-through” arrangement. There is no single definition of this, but they generally involve:

- The Admission Body being responsible for the agreed regular contributions as a percentage of pay, and certain other pension related costs under their control (e.g. strains due to early retirement on redundancy, or employer granted benefit enhancements)
- All other pension costs / risks being retained by the guarantor. This normally includes any surplus / deficit when the admission agreement ends (other than pension related costs specifically identified)

Other versions of the above are possible, including partial pass-through arrangements, where the Admission Body is responsible for other agreed pension costs.

The pass-through arrangement is an agreement solely between the Admission Body and guarantor – the Fund is not a party to this. However, an Admission agreement is still required between the Fund and the Admission Body.

Where the admission is on a pass-through basis, the two employers will have the option to pool the Admission Body with the guarantor Fund Employer. Whether pooling is appropriate is a decision for the employers, which should be taken based on the exact nature of their agreement and the allocation of risk. When deciding, they should be aware that:



- No separate assets or liabilities for the Admission Body will be identifiable. The Fund will not separately track the position, which would be fully pooled with the guarantor
- As such, the funding position relating to the Admission Body will not be available when the admission ends, and the guarantor will retain responsibility for all assets and liabilities (including any deficit / surplus)

Normally the Admission Body will pay the guarantor's primary contribution rate on an ongoing basis, although other arrangements may be available (at the Administering Authority's discretion). The Fund would expect that the ongoing contribution rate for the Admission Body is agreed as part of the contract, and if it differs to the certified rate then any adjustments will have to be made between the two employers external to the Fund.

The fund's default approach is for pass through admission agreements.

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Appendix E: Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements

Termination Policy

When an employer's last active member leaves the Fund, under the Regulations the employer becomes an exiting employer ("terminates"). The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of their current and former members and determine the amount payable to / from the Fund, along with a termination contribution certificate.

The Fund's default policy is that such a valuation will be commissioned for all cases, and a termination contribution certificate will be issued by the Fund Actuary.

This policy differentiates between employers who do and do not have a "guarantor". Here a guarantor is a suitable Scheme Employer guaranteeing to subsume all assets and liabilities on exit (including any deficit / surplus not settled directly by / with the exiting employer).

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Termination Assumptions

For terminating employers with a guarantor, the termination position will be assessed using the standard funding assumptions described in [Section B](#).

- Otherwise (including where the guarantor is a guarantor of the exit debt), a lower risk approach will apply on termination to reflect the transfer of pension risk from the exiting employer to the Fund as a whole (i.e. the other Fund employers). The current assumptions applying under this lower risk approach are as follows:
- Default discount rate: Based on government bond yields of appropriate duration for the employer with an appropriate margin deducted for additional risks (which may be nil). At 31 March 2025 the margin is 0.15% p.a., and this will be reviewed on a regular basis or if there is a material change in market outlook.
- CPI inflation: RPI implied by government bond yields of appropriate duration, less 0.2% p.a. to reflect the average RPI / CPI gap. No adjustment for an "inflation risk



premium” will be made, reflecting the transfer of inflation risk to the Fund. This adjustment will be kept under review over time.

- Mortality: Standard funding assumptions in [Section B](#), but with a higher long-term improvement rate of 2% p.a. (to provide additional protection against future adverse demographic experience)
- Other demographic assumptions: in line with the standard funding assumptions above

The non-guaranteed (lower risk) financial termination assumptions at the valuation date (31 March 2025) are set out below, based on the fund’s overall profile:

Low-risk termination assumptions	31 March 2025
Discount Rate	5.0% p.a.
CPI	3.1% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.

All termination assessments (guaranteed and non-guaranteed) will include an estimate for the capitalised value of the future administrative and governance expenses that the Fund is expected to incur when providing the benefits to the relevant members (excluding those who will remain active with another Fund employer).

The final termination assessment will generally take place following the date of exit allowing for market conditions at that point, although the Fund may consider alternatives here in exceptional circumstances.

Treatment of termination deficit / surplus and payment of termination debt / exit credit

The Fund’s policy on the treatment of a deficit or surplus on termination and the resulting payment is also dependent on whether the exiting employer has a guarantor in the Fund. The policy is designed to ensure consistent treatment of surplus and deficit.

a) Termination with no guarantor

Any deficit assessed on termination will be recovered from the exiting employer via the payment of a termination debt. In the case of a surplus, the Fund will determine the exit credit, if any, to be paid to the exiting employer.



b) Termination with a guarantor

The standard position is summarised below.

1. No “risk sharing”

Where there is no “risk sharing” this means the exiting employer is responsible for their final position in the Fund. In these cases, any deficit will be recovered from the exiting employer via the payment of a termination debt. Where there is a surplus, the Fund will determine the exit credit payable after considering all relevant factors, including the contributions paid by the exiting employer, in line with the Regulations. The liabilities and assets (after any termination debt/ exit credit payment) would then be subsumed by the guarantor.

2. “Risk sharing” applies

Where there is “risk sharing”, meaning that the guarantor is responsible for the final position, any assets, liabilities and deficit or surplus would be subsumed by the guarantor.

Where partial risk sharing applies – meaning the exiting employer is responsible for some but not all pension risks – the Fund will consider whether any exit credit is payable based on the relevant risks only.

Risk sharing

Where the employer has a guarantor, the Administering Authority will need to determine both the risk sharing position and where relevant the exit credit payable. In that case they will:

- contact the exiting employer and the guarantor so they can make representations as to the nature of the agreement and any risk sharing. This would include who was responsible for any deficit / surplus, factors to consider when determining the level of any exit credit, and any other factors they consider relevant, all supported by any evidence
- where both sides agree, the termination assessment will be progressed in line with the standard approach
- otherwise, the two parties will be expected to resolve the dispute between themselves, without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored.



Once the position is resolved then the Fund will determine the value of any deficit / exit credit payable. If it is not resolved within a reasonable period which will be confirmed by the Fund depending on the circumstances of the situation, then the Fund will determine the outcome and will write to both parties to confirm the proposed course of action in terms of what if any exit credit will be payable and to which party. This will reflect all factors deemed relevant by the Administering Authority, having taken suitable advice (legal, actuarial, covenant, as appropriate).

If requested, following a disputed case the Administering Authority will provide details of the information considered, including:

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

The Fund may seek to recover any costs associated with appeals or dispute resolution as part of the final termination settlement.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor.

Pooled MATs / academies

Where an academy in a pooled MAT ceases to exist, the MAT retains responsibility for the payment of the benefits to the academy's former members. As such the residual assets and liabilities will remain with the MAT, and so no termination assessment will be required.



Exit payments

Where a credit is payable to the exiting employer in the case of a surplus, the Fund will hope to be able to pay the exit credit following completion of the termination process within 6 months of cessation, subject to:

- the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date
- Any delays due to appeals or disputes arising under the process outlined in the previous section

Managing the exit payment, and alternatives to termination

The default is that any termination payment due by the exiting employer is paid in full following the final assessment. However, the Administering Authority can use its discretion to allow alternative approaches, and these will be considered where this is in the best interest of the Fund. These are:

- Issue a “suspension notice” if the employer is likely to have active members in the near future
- Allow the termination payment to be spread over an agreed period
- To allow the employer to remain in the Fund under a “Deferred Debt Agreement” (DDA)

Any costs associated with these alternative approaches will be borne by the employer (even if they are not subsequently taken forwards). Depending on the employer’s circumstances, these may be required as an upfront payment or included in the contribution plan / exit payment.

(1): Suspension notice

The regulations allow the Fund to issue a “suspension notice” for up to 3 years if, in the reasonable opinion of the Administering Authority, the employer is likely to have one or more active members join the Fund within the period of the notice.

The default policy is that any “suspension notice” would only apply for a maximum of the period to the next triennial valuation. If a suspension notice is applied, any contributions not



related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid.

(2): Spreading an exit payment

The Administering Authority will use the following process to determine whether an employer is eligible to spread their exit payment:

- Firstly, consider whether it is in the best interests of the Fund to enter into such an arrangement. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed)
- For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided, then the default policy of immediate payment will apply
- Depending on the length of the spread period and the size of the debt, the Fund may request some form of additional security
- Any agreement may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. All payments required will include allowance for interest from the termination date
- The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data, so it is important that employers who request to spread exit debt payments notify the Fund in good time
- If the covenant review confirms that the exit payment is not immediately affordable, the Administering Authority will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:
 - The spreading period (usually subject to a maximum of 5 years)
 - The initial and annual payments due
 - The interest rates applicable and the costs associated with the plan
 - Any security required (e.g. bond, escrow account etc)
 - The employer's responsibilities during the period (e.g. the supply of covenant information)
 - The views of the Actuary, covenant, legal and any other specialists necessary
 - Circumstances where the plan might be reviewed or immediate payment requested (e.g. due to a significant change in covenant / circumstances)



- The Administering Authority will then make a final decision, based on the best interests of the Fund, and the arrangement will be documented

(3): Deferred Debt Agreement (DDA)

As an alternative to terminating participation in the Fund and triggering an exit payment, an employer may request to continue its participation in the Fund with no contributing members and utilise a “Deferred Debt Agreement” (DDA).

The Administering Authority will use the following process to determine whether a DDA is appropriate:

- Firstly, consider whether it is in the best interests of the Fund to enter into a DDA. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed).
- For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided, then the default policy of immediate payment will apply
- Consider what additional security is required to protect the Fund
- This could include a lump sum up front to reduce the size of any potential termination debt
- The initial process to determine whether a DDA is appropriate may take up to 3 months from receipt of data, so it is important that employers who request the Administering Authority to consider a DDA, notify the Fund in good time
- If the covenant review confirms the exit debt is not affordable immediately / over the short-term, the Fund will engage with the employer on the potential format of a DDA, with the following will be considered and agreed:
 - What security the employer can offer (generally a DDA will only be allowed where the Fund is confident the employer can support the arrangement). Provision of security may also result in a review of the recovery period / funding arrangements
 - The funding assumptions and investment strategy to be applied
 - Whether an upfront cash payment should be made
 - The updated secondary contributions
 - The regular financial information required from the employer, and any other monitoring that will be required.



- The advice of the Actuary, covenant, legal and any other specialists necessary.
 - The responsibilities that would apply to the employer while they remain in the Fund
 - Circumstances triggering a revised recovery plan and contributions (e.g. due to a significant change in covenant / circumstances)
 - Circumstances that would trigger changes to the DDA, including a cessation of the agreement, an exit payment becoming payable (e.g. the removal of security, a significant change in covenant)
 - Circumstances where the employer may be able to vary the DDA (e.g. a further cash payment or change in security)
- The Administering Authority will then make a decision, based on the best interests of the Fund, confirm and document the required terms

For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation, or in line with the DDA in the interim, if any of the agreed triggers are met.

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Appendix F: Review of Employer Contributions between Valuations

The Regulations allow contributions to be reviewed and potentially revised between valuations at the Administering Authority's discretion, under the following scenarios:

- A significant change in the employer's membership which will have a material impact on their liabilities
- A significant change in the employer's covenant
- A change in circumstances meaning that (in the Administering Authority's opinion) the employer is likely to exit the Fund

1 and 2 (for "ongoing" employers) and 3 ("planning for exit") are addressed separately below. "Ongoing" employers are expected to remain in the Fund, and any review takes place on that basis. Employers "planning for exit" are expected to leave the Fund, and their review will focus on ensuring (where possible) a fully funded position at termination. Where more than one scenario applies, scenario 3 would normally take precedence.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Scenarios 1 and 2 (interim review for "ongoing" employers)

When contributions will be reviewed

The Administering Authority may trigger a review where it believes either 1 or 2 above apply. The employer should inform the Fund if it believes either may apply in line with the notifiable events framework ([here](#)) and may also request a review itself under those circumstances.

Where the review is triggered at the employer's request, they will be expected to pay all relevant costs. The Fund may recover costs in other circumstances (e.g. a review is triggered due to a material change in circumstances and the employer failed to notify to the Fund).

The Fund will not conduct a review where:



- The funding position changes solely due to changes in market conditions (asset movements or assumption changes) – this is not permitted under the regulations (but can be considered under a review triggered due to covenant changes)
- The next valuation rates and adjustments certificate is less than 6 months away and the review is triggered by membership changes (reviews in this period due to covenant changes may be considered)
- They do not believe that a review is necessary (considering the potential impact that any changes may have on the other employers or the Fund as a whole) or in the best interests of the Fund

Triggering a review – significant changes in the employer’s liabilities (1):

Examples of situations triggering such a review would include (but are not limited to):

- Significant changes to the employer’s membership which will have a material impact on their liabilities, such as:
 - Restructuring of an employer
 - A significant outsourcing or transfer of staff
 - A bulk transfer into or out of the employer
 - Other significant changes (e.g. due to redundancies, significant salary awards, ill health retirements or large number of withdrawals)
- Employers merging (including insourcing and transferring of services)
- The separation of an employer into two or more individual employers

Generally, the Fund will only consider a review if the change in liabilities is expected to be more than 5%. In some cases, this may mean there is also a change in the covenant of the employer.

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

Triggering a review – significant changes in the employer’s covenant (2):

Examples of situations triggering such a review would include (but are not limited to):

- Provision / removal / impairment of any security, bond, guarantee or other form of indemnity



- Material change in an employer's immediate financial strength or longer-term financial outlook, including where an employer ceases to operate or becomes insolvent
- Where an employer shows behaviour that suggests a change in their ability to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's covenant. However, changes in funding values due to market movements are not themselves usually sufficient to trigger a review.

Note that MHCLG has confirmed its view as set out in Scheme Advisory Board statement on surpluses issued in December 2023 that generally local authorities and other tax-backed employers are not subject to a change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate.

Process and outcomes

Where the Administering Authority believes a relevant event may have occurred, the Administering Authority:

- will gather relevant information (including from the employer as required, e.g. annual accounts, budgets, forecasts, etc)
- may conduct a full updated covenant review, including advice from the Fund Actuary, covenant, legal and other specialist advisers as required
- will hold discussions with the employer as needed to clarify the relevant details

When they have considered all the relevant information, the Administering Authority will decide whether to proceed (at their sole discretion, including where an employer has requested a review). The review may consider any relevant elements including:

- Whether it is appropriate to use updated membership data (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer
- Whether the employer's covenant has changed significantly, in which case the review may allow for the updated funding position (both ongoing and termination positions)
- Whether the funding strategy remains appropriate
- Whether the primary contribution rate should be adjusted to allow for any profile change and/or funding strategy change



- Whether the length of the recovery period and size of the sustainability reserve adopted at the previous valuation remains appropriate

Any review of contributions may result in no change. The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place. Any change to an employer’s contributions will be implemented at a date confirmed by the Fund, with an updated contribution certificate being issued.

As part of this process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund.

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

Scenario 3 (planning for exit)

The Administering Authority has the power to revisit any previously certified contributions if it becomes of the opinion that a change in circumstances means it is likely to exit from the Fund.

The Administering Authority’s opinion of this scenario will be driven by considerations (in addition to the scheduled end date of any admission agreement) such as the following:

Event	Comment
Notification from the employer of its intention to exit (or if it is expecting to reduce the number of members)	Dialogue will be entered into, and work commenced on managing a future exit payment
A more than 50% reduction in the number of active members between accounting period end dates	This would trigger a dialogue between the Administering Authority and the employer to understand the reasons for the change. This may lead to planning for exit work including a review of contribution requirements



Event	Comment
If there is a reduction of active members leaving only a small number*	This would initially trigger a dialogue between the Administering Authority and the employer to understand the underlying position. It is highly likely that planning for exit work would commence including a review of contribution requirements.

**The Administering Authority would treat each of these cases on its merits e.g. employers with very small numbers to start with would be considered appropriately in that context.*

Here any review of contributions would cover all aspects of the current contributions plan.

This would include:

- any likely termination debt
- targeting a fully funded termination position at exit
- the need for potential flexibilities on exit (as described in [Appendix E](#))

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Appendix G: Employer Risk Management

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employers without a guarantee from a tax raising authority

When an employer without a guarantee from a tax-raising authority exits the Fund (“terminates”), their liabilities become the responsibility of the remaining Fund employers (in proportion to each employer’s share of the Fund). To limit the chance of other employers having to contribute to the payment of the outgoing employer’s liabilities, the Fund uses more prudent actuarial assumptions to assess the exit amount payable. These assumptions typically produce a higher liability which in turn means that a higher amount of assets is required to be left in the Fund, to reduce the chance that the assets (after any termination payment) are insufficient to pay the benefits.

The Fund will seek to minimise the risk posed by non-guaranteed employers – specifically that they cannot meet any exit debt – where necessary by:

- Securing a bond based on the employer’s termination deficit (including potential redundancy strains). This may be adjusted to reflect the strength of the employer’s covenant at the Administering Authority’s discretion, or.
- Using more prudent funding assumptions when assessing the employer’s contributions. This results in higher contributions, to give a higher likelihood of the contributions and funding plan being enough to provide the relevant benefits (and to reduce the gap between the “ongoing” and termination liabilities)

Typically, the employer will have a choice of which approach to take (unless the Administering Authority judges that a particular approach is necessary to protect the Fund).



Employers covered

All employers without tax-raising powers or a guarantee from a tax-raising authority are covered by the policy. This will include:

- Community Admissions
- Higher Education Employers
- Transferee Admission Bodies (TABs) guaranteed by either of the above

Scheme employers, Academies, Designated Bodies, and the TABs they guarantee are out of scope of this policy and continue to be covered under the standard funding approach.

Assessment

The Fund will normally conduct an annual review for these employers (or as frequently as a particular employer's circumstances may otherwise warrant, based on risk exposure to the Fund). This will involve the following stages:

- Covenant assessment: This is as detailed in [Appendix H](#), although the Fund may seek a specialist covenant assessment where the level of risk merits this
- Termination deficit assessment: The Fund will assess the size of the termination deficit, and so the size of the unsecured potential debt, at the review date
- Set the required bond amount: This will be the termination deficit (plus potential redundancy strains), which at the discretion of the Fund, may be reduced to reflect covenant strength
- Note for some employers the required amount may be zero, e.g. if there is a surplus on the termination assumptions

Ongoing funding approach (primary and secondary contributions)

The approach will then depend on whether the employer chooses to provide the required bond (noting the Fund may insist on a bond to effectively manage risk for the remaining employers):

Full bond not provided:

- The employer's funding position, primary and secondary contributions would all be assessed using funding assumptions that gives a higher likelihood of the



contributions and funding plan being enough to provide the relevant benefits (see [Section B](#))

- Surplus offsets would be payable only in respect of any termination surplus

The funding assumptions used would be assessed at each valuation, based on the level of risk and the prudence in the standard funding assumptions.

In certain cases, the Fund may insist that any existing bond is maintained under this approach. The Fund will take into account the employer covenant rating and funding position in considering the approach to take.

Full bond provided (including those where the requirement is zero):

- The Employer's funding position, primary and secondary contributions would all be assessed using the standard funding assumptions
- Surplus offsets would be payable only in respect of any termination surplus

Ongoing monitoring

The Fund will normally assess the position each year, but adjustments to contributions / bonds will only usually be required as part of the triennial valuation. However, where the Fund perceives a material change in risk then, the contributions / bonds may be reviewed more frequently (in line with the Fund's policy on inter-valuation contribution reviews – [Appendix F](#)).



Appendix H: Covenant Assessment and Monitoring Policy

Employer Monitoring

The Fund adopts a regular monitoring and review plan to ensure that it can act proactively in the best interests of all Fund employers. The focus of the covenant monitoring is the employers without taxpayer backing, as they pose the greatest risk to the Fund (specifically the risk of unfunded exists). As such this policy is closely related to the Fund's Employer Risk Management Policy ([Appendix G](#)).

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Covenant Assessments

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now, and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant underwrites the risks the Fund is exposed to, including underfunding, longevity, investment, and market forces.

An assessment of employer covenant may focus on determining any or all the following:

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

The strength of covenant can vary substantially over relatively short periods, meaning regular monitoring and assessment is vital. The employers' covenant will be assessed and



monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

Covenant assessments will also be required for any employers wishing to access the flexibilities around inter-valuation contributions reviews and alternative options on termination.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

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

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

Assessing employer covenant

Where appropriate, the employer's covenant will be monitored continuously at a high level using automated processes, with an annual update following publication of annual accounts and a full review at each triennial valuation.



An employer's ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. The approach taken will be proportionate to the associated risk to the Fund.

In order to accurately monitor employer covenant, it may be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

Covenant risk management

The focus of the Fund's risk management is the identification and treatment of the risks, and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- Parental Guarantee and/or Indemnifying Bond
- Transfer to a more prudent actuarial basis (e.g. the lower risk basis (see [Section B](#)) or the termination basis)
- Shortened recovery periods and increased cash contributions
- Managed exit strategies
- Contingent assets and/or other security such as escrow accounts.



Appendix I: Notifiable Events Framework

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

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

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

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

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

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

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

Employers will be notified if this notifiable events framework applies to them.



Events that must be notified to the Fund

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

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

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

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

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

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



Significant changes to the employer covenant

- **Significant changes in the employer's financial strength / security**

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

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

- **A change in the employer's circumstances**

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

1. A merger of the employer with another organisation
2. An acquisition by the employer of another organisation or relinquishing control
3. An employer commences the wind down of its operations or ceases to trade
4. A material change in the employer's business model
5. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
6. The employer becoming aware of material suspected / actual fraud or financial irregularity
7. The employer becoming aware of material legal or court action against them



8. There has been suspension or conviction of senior personnel
9. Regulatory investigation and/or sanction by other regulators
10. Loss of accreditation by a professional, statutory or regulatory body

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

What information should be provided to the Fund?

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

What action will the Fund take once notified?

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

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

Employers will be kept informed of all steps throughout the process.



Appendix J: Ill Health Insurance Arrangements

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can materially worsen the funding position and increase contributions.

To address this, for certain employers a captive insurance arrangement covers ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2022, covering the early payment of pension and to the associated benefit costs.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Overview of arrangement

The captive arrangement operates as follows:

- “Premiums” are paid by eligible employers into the captive, which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2026/29 is 0.75% of pay p.a.
- The captive is used to meet strain costs emerging from ill-health retirements in respect of active members, i.e. there is no initial impact on the deficit / surplus position for employers within the captive at the point of retirement (and as such any subsequent impact should be more manageable).
- The premiums are target being sufficient to cover the costs in the 3 years following the valuation. If any excess premiums over costs are built up, these will be used to offset future adverse experience and / or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period, any shortfall is effectively underwritten by the other Fund employers. However, future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible. Over time the captive should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.



- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers covered by the arrangement

The arrangement covers employers with less than 200 active members at the valuation date. New employers entering the Fund will also be included if they meet the criteria.

For all other employers, an allowance for the assumed level of ill-health retirements is included in the primary contributions, and any excess costs associated with ill-health retirements emerge as part of the subsequent valuation assessment, and so in any subsequent secondary rate contributions payable.

Employer Responsibilities

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

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



Appendix K: Asset Share Policy

Background

Local Government Pension Scheme (LGPS) funds are not legally sectionalised by employer under the LGPS Regulations. An employer's allocated asset share is calculated on a notional basis, taking into account the circumstances of that employer in order to assess that employer's contributions (including on termination) as per the Regulations. Employer asset shares are considered formally at each actuarial valuation, with interim updates where required (e.g. for accounting disclosures or when an employer joins (usually a provisional figure) or leaves the Fund). Employer asset share values will move (most significantly) in line with the total Fund assets, according to Fund investment strategy and market movements. As well as individual employer funding, membership size, experience, cashflow and other events can cause changes in the employer asset share over time.

The Fund's Actuary assesses this asset share in line with policies agreed with the Administering Authority, which are routinely reviewed and informed by common practices across all LGPS funds. This document will be formally reviewed at least at each triennial actuarial valuation.

There is therefore no separately audited asset statement in relation to each employer's own asset allocation within the Fund and an employer does not formally get allocated the underlying assets. Furthermore, the Fund remains the legal owner of the assets and any decisions on the asset's rests with the Administering Authority, however they must be invested in line with the Regulations governing the LGPS. This is of particular importance in the context of accounting figures where the Fund will be unable to provide individual audited asset statements.

What are the key factors that can influence an employer's asset share?

In simple terms, an employer's asset share at a certain point in time will typically be determined by:

- The employer's provisional starting assets on admission, based on the admission data provided



- Any restatement of the opening assets following a more detailed review at the first formal valuation for that employer, in particular where the member data may differ to that provided at admission
- Plus, the employer and employee contributions
- Minus any net benefit/expense payments in relation to the employer
- Plus/Minus the impact of membership movements in/out of the employer
- Plus/Minus the net investment returns earned by the employer's assets

The employer investment strategy is a mirror of the total Fund strategy. In attributing the overall investment returns to each employer, a pro-rata principle is adopted.

In practice, there are a number of other factors that need to be taken into account and these are explained in more detail in this policy, together with the main circumstances when an asset share will need to be determined by the Actuary (e.g. the starting assets for an employer on entry to the Fund may vary depending on the type of employer and the funding approach adopted).

It is also important to note that it is often necessary to make some practical approximations in the timing of employer cashflows and allocation of investment returns when deriving the asset share for employers. Equally when members move between employers in the Fund, a notional intrafund transfer of assets is made.

It should be noted that whilst Funds will seek to allocate assets to employers in line with the approach set out in this paper, there may be occasions where the Fund and Actuary will need to apply a bespoke approach depending on the circumstances of a particular case (e.g. where one off adjustments could be required due to pending transfers after the calculation date). In such cases, the approach would be communicated to the employer to ensure transparency and to also preserve any audit trail for future reference.



Events when an asset allocation will be determined

Typically speaking, the circumstances when the Actuary will determine a notional asset allocation for an employer, during its participation in the Fund, will be as follows:

Event	Purpose
Admission to the Fund	Determine initial provisional balance sheet / contribution requirements
Triennial Actuarial Valuation	Inform decision making on contribution requirements
Employer Accounting	For employers to include in their accounts
Bulk Transfers	To determine value of payments to/from the Fund, or between employers in the Fund.
Inter-valuation funding updates	To assist with budget setting / inform decision making on contribution requirements
Cessation / Termination from the Fund	To determine potential exit payment to/from the outgoing employer.

Further information in relation to the above events is set out below.

Admission to the Fund

On entry to the Fund, unless a pooled or temporary contribution rate is payable (see comment below), the Actuary will be required to assess the contribution rate payable by the new employer once they join the Fund.

The provisional liabilities will be assessed by the Actuary based on the members transferring to the new employer (for benefits accrued up to the admission date).

The provisional asset share allocated to the new employer on entry to the Fund will be determined by the funding status and in line with Fund's admission policy. Further details are set out in the Employer Events Framework policy document. A summary of the key scenarios is set out below:

- For **fully funded admitted bodies**, the initial asset allocation will be the same as the value of the liabilities.



- For **partially funded admitted bodies**, the assets allocated will be equal to the value of the liabilities, less any deficit / plus any surplus allocated on inception based on agreed policies. This would be subject to a minimum asset allocation of zero.
- Where a local authority school **converts to academy status**, the Fund's policy is for the new academy to inherit the school's appropriate share of the ceding local authority deficit or surplus prior to its conversion. This is in accordance with the Scheme Advisory Board (SAB) guidance. The transferring deficit or surplus is calculated in line with the school/local authority "matching approach" (as defined in the guidance) to keep the contribution rate before/after conversion the same other than due to profile differences. The assets allocated to the new academy are the difference between the liabilities assessed for the academy at conversion and the deficit or surplus allocated to the academy upon conversion. In the case of a deficit, the deficit is subject to a limit to ensure that the minimum asset share of the new academy is nil.

The provisional admission figures above will be re-assessed at the first formal triennial valuation for that employer. In some cases, the data provided at the initial admission can differ materially to the data at the valuation; for example, some members included in the initial admission may not have joined the new employer.

Usually where a pooled rate is payable, a separate asset share isn't available for the constituent employers and is only available for the pooled group as a whole. The exception to this is where employers are pooled for accounting purposes (e.g. some Multi Academy Trusts), but the funding position is separately tracked. In situations where a temporary contribution rate is payable and hence an initial contribution rate assessment is not required, the initial asset allocation will be determined by the Actuary at the subsequent actuarial valuation (or accounting) exercise undertaken, whichever is first in line with the principles set out in this paper.

Actuarial Valuation

For all employers in the Fund at the triennial actuarial valuation, the Fund and the Actuary will review the notional asset share and liabilities of all employers in order to determine the funding position for each and set the contributions payable for the next inter-valuation period. The total assets allocated across the Fund will sum to the total assets shown in the audited Fund accounts.



This will be done in two approaches to ensure the asset share is appropriate to that employer, taking into account all relevant factors.

1. “Analysis of Surplus” approach

The Actuary will apply an “analysis of surplus” approach whereby the surplus/deficit position of each employer will be calculated according to their actuarial gains or losses since the previous valuation (or since admission if they are a new employer to the Fund). This approach allows for all factors including membership data changes since the previous valuation.

The emerging surplus/deficit is then added to/subtracted from the employer’s liabilities at the valuation date in order to determine the notional asset share. This is in line with common actuarial practices.

When undertaking the “analysis of surplus” approach the key drivers of the emerging asset allocation are a combination of:

- **Investment Returns** – The extent to which performance of the Fund’s assets (net of expenses), based on the underlying investment strategy applying to the employer, are greater/lesser than assumed at the previous valuation (or at admission if they are a new employer to the Fund).
- **Contributions** – The extent to which contributions (both employer and employee) payable over the inter-valuation period are more/less than the cost of benefits being accrued. This will include any early retirement strain costs incurred and any contributions paid towards those over the period.
- **Membership Experience** – The extent to which membership experience (e.g. salary growth, pension increases, ill-health retirements (and any associated claims on the captive ill-health insurance arrangement – see “Other adjustments” below), deaths etc.) has deviated from that expected based on the assumptions made at the preceding valuation (or admission date).
- **Benefit Payments** – For the most part, the combined total of transfers received/paid (both individual and bulk), lump sum payments (retirement and death), pension payments, and other payments to leavers will be broadly neutral on the “analysis of surplus” approach as they impact on the assets and liabilities equally, although the timing of such payments will be allowed for.
- **Membership Data Changes and Intrafund Transfers** – The “analysis of surplus” approach allows for changes in the underlying membership data where an actual



cashflow does not emerge. This includes individual member movements between employers within the Fund (which trigger a notional “intrafund” payment); the restatement of any underlying membership data between valuations and the impact of any notional transfers to new employers / from exiting employers based on the circumstances.

Generally speaking, cashflows will be assumed to occur half way through the period (each period considered is typically annual but may differ for new admissions since the prior valuation) and investment returns will be allocated to reflect this (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

This asset value emerging from the “analysis of surplus” approach is then reviewed for reasonableness against the corresponding “asset roll-forward” figure discussed below.

2. “Asset Roll-Forward” approach

Under this approach the assets allocated to an employer at the previous actuarial valuation (or date of entry to the Fund if later) are rolled forward to the current valuation date taking into account investment returns, contributions paid (employer and employee), benefit payments, transfer payments made into/out of the Fund, and net intrafund internal transfers (based on the individual liabilities of the members who have moved between employers, given a monetary transaction does not take place).

As with the “analysis of surplus” approach, cashflows will be assumed to occur halfway through the period (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

Which approach will be used to set the actuarial valuation position?

As noted above, the Actuary will calculate the actuarial valuation position for each employer under both the “analysis of surplus” and “asset roll forward” approaches. In the majority of cases, they would expect the asset allocation to be broadly the same. However, in some instances one approach will provide a more credible answer appropriate to setting the contribution requirements under the Regulations. For example, where there has been a significant change in membership resulting from transfers of members from one employer to another in the Fund (intrafund transfers), or material data changes, then it may be that the



analysis of surplus approach provides a more appropriate asset share for that employer. Critical to the process is what is appropriate to set the employer contribution rates, taking into account the individual circumstances of that employer as required under the Regulations.

Other Adjustments

The following additional adjustments are also made at each triennial valuation:

- **Orphan Employers** – Other adjustments will also be made by the Actuary to allow for orphan bodies in the Fund (i.e. historic employers whose liabilities are the responsibility of all other remaining active employers in the Fund in the absence of a guarantor body within the Fund) to ensure no residual surplus/deficit exists at the valuation date in relation to these employers. Any surplus or deficit in relation to these bodies would typically be allocated on a pro-rata basis across the appropriate employers, given the collective nature of the LGPS. To inform this, the Administering Authority must consider the orphan body funding requirements as part of each triennial valuation and reserve appropriately.
- **Audited total Fund assets** – At the actuarial valuation date, the total assets calculated for all employers (using the approaches above) are reconciled to the total Fund assets to ensure they are equal, and any difference is adjusted for on a pro-rata basis. If any adjustment required, it is typically small by the nature of the process adopted.
- **Ill health captive** – The Fund also operates a captive insurance arrangement to cover the ill health early retirement risks. The premiums are paid into the captive funds, which forms part of a separate notional pot of assets tracked by the Fund Actuary at each triennial valuation, and these are used to cover any ill-health costs for employers over each valuation period. Further information can be found in the captive policy within Appendix C of the Fund's Funding Strategy Statement (FSS).

Employer Accounting disclosures

Whilst not impacting on contributions payable to the Fund, some employers will be required to report figures in their annual accounts relating to the appropriate accounting standard (e.g. IAS19, FRS101/102 etc).



The production of an employer pension accounting disclosure report requires the Fund's Actuary (or the employer's own nominated Actuary if disclosures are calculated outside of the Fund's standard bulk process) to obtain an updated employer asset share value in relation to the employer's participation in the Fund. This is calculated based on the roll-forward approach only, which was agreed with CIPFA when accounting standards were introduced in the early 2000's for public bodies. Whilst some of the details in the CIPFA guidance have been superseded by changes in the accounting standards, the underlying roll-forward approach is still recognised and maintained.

The starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or the provisional admission assessment undertaken if later).

One of the differences between valuation/cessation exercises and accounting exercises is that the Actuary will typically only allow for changes in the membership data between accounting assessments (e.g. leavers, deaths, transfers of staff etc) where this is requested by the employer. It is the employer's responsibility (in conjunction with their auditor) to request allowance for such events to be made in their accounting figures based on their own materiality threshold.

To comply with short reporting timescales for employers, some estimations may be made where only part year data is available (e.g. cashflows and investment returns may be estimated for a small number of months). Employers will be notified of this within their accounting disclosure.

Once a triennial actuarial valuation exercise has been completed (i.e. the employer's asset share has been rebased taking into account all factors), the next set of accounting disclosures will be adjusted to reflect the impact of the updated valuation results. The re-basing every three years will come through as an experience adjustment on both the assets and the liabilities.

Bulk Transfers

On occasion, there may be a bulk transfer of staff between two employers. For internal (or intrafund) transfers, where the two employers both participate in the same fund, if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on their balance sheet at the point of transfer, rather than at the subsequent actuarial valuation



(e.g. to reflect in inter-valuation accounting figures or for a contribution rate review). In such cases, in the same way as asset share calculations are undertaken on admission, the basis of transfer (i.e. fully funded or partially funded), will determine the value of assets to be transferred, alongside the underlying liabilities.

Where one of the employers involved in the transfer does not participate in the Fund, the value of the assets to be transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority as required).

To facilitate and aid in meeting reporting timescales for employers, the Fund may apply some estimation to cashflows and investment returns where only part year data is available. This will be notified to employers when bulk transfer estimates are provided.

Inter-valuation funding update / contribution review

During an inter-valuation period, there may be occasions where the Actuary needs to determine an updated asset figure for an employer. Other than cessation (see below), the two main scenarios where a determination may be required would be:

- In the lead up to the next actuarial valuation - Where the assessment of an updated funding level for the employer will assist with potential budgeting discussions in light of how contribution requirements may evolve following the valuation, and
- Where the Fund agrees to a review of an employer's contribution requirements in advance of a valuation being undertaken - In line with the Fund's inter-valuation contribution review policy which can be found in section 5 of the Employer Events Framework Policy Document. This policy sets out the circumstances when such a review may be undertaken.

In both cases, the starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or date of admission if later). This figure will be rolled forward to the review date allowing for the investment returns / contributions / net benefit payments.



In the case of a contribution rate review, the impact of membership movements (which could include both movements between employers and changes in underlying data due) may also need to be considered.

Cessation of participation in the Fund

When a cessation occurs, the Actuary will be commissioned by the administering authority to undertake an assessment of the termination position, informed by an up-to-date assessment of the employer asset share. The termination policy sets out the policy by which amounts payable on cessation are determined, according to the nature of exit and the funding positions on exit.

As for other scenarios above, the starting point for assessing the asset allocation on cessation will be the most recent actuarial valuation assessment undertaken (or date of admission if later). This figure will be calculated at the termination date allowing for the investment returns / contributions / net benefit payments and membership experience/data changes (as per the comments above). For cessations, the final asset share will be dependent on the treatment of any remaining active members on cessation where a transfer to other employers is taking place (i.e. whether or not the transfer is on a partial/fully funded basis). Any residual assets would then be compared to the remaining non-active liabilities to determine any final payment due, payable from/to the employer. Following termination, the liabilities would either become orphan or subsumed into another employer in the Fund depending on the circumstances. Further information can be found in section 6 of the Employer Events Framework Policy Document.



Appendix L: Roles and Responsibilities of Key Parties

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

<p>The Administering Authority should:</p>

- | |
|--|
| <ul style="list-style-type: none">• operate the Fund• collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations• have an escalation policy in situations where employers fail to meet their obligations• pay from the Fund the relevant entitlements as stipulated in the Regulations• invest surplus monies in accordance the Regulations• ensure that cash is available to meet liabilities as and when they fall due• ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default• manage the valuation process in consultation with the Fund's Actuary• prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary• establish a policy around exit payments and payment of exit credits/debts in relation to employer exits• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer• enable the Local Pension Board (LPB) to review the valuation and FSS review process as set out in their terms of reference |
|--|



- support and monitor the LPB more generally as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice

The Individual Employer should:

- ensure staff who are eligible are contractually enrolled and deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer
- pay all contributions, including their own, as determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date (including any exit payments upon ceasing participation where applicable)
- provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund
- understand the pensions impacts of any changes to their organisational structure and service delivery model
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context
- comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving/transferring employer)

The Fund Actuary should:

- prepare valuations including the setting of employers’ contribution rates at a level aiming to ensure fund solvency and long-term cost efficiency based on



assumptions set by the Administering Authority and having regard to its FSS and the LGPS Regulations

- provide advice so the Fund can set the necessary assumptions for the valuation
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund
- identify to the Fund and manage any potential conflicts of interest that may arise in the delivery of the contractual arrangements to the Fund and other clients

A Guarantor should:

- notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination
- provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations
- be aware of all guarantees that are currently in place
- work with the Fund and the employer in the context of the guarantee
- receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor

Pensions Committee

The Pensions Committee is responsible for taking decisions on funding, risk and investment strategy and approval of material decisions and policies which have been developed by Fund Officers after taking advice from the Fund actuary, investment, legal and covenant



advisers as may be applicable in the circumstances. This will include, but is not limited to, the following:

- decisions on the appropriate level of risk across funding, investment and covenant strategies
- approval of the FSS including the actuarial assumptions used to determine the valuation
- approval of policies relating to funding and risk management, such as flexibility on termination, interim contribution reviews and employer risk.
- approval of discretionary decisions made by the Fund where these are material.

Local Pension Board

The Local Pension Board has responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. In relation to the development of the FSS, this includes

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



Appendix M: Glossary of Terms

Actuarial Valuation

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

Administering Authority

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation. This is Shropshire Council in relation to the Shropshire County Pension Fund.

Admission Bodies

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

Admission Agreement

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

Assumptions

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

Benchmark

A measure against which fund performance is to be judged.



Benefits

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

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

Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

Bonds

Loans are made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts). See also ‘index linked gilts’ and ‘gilts’ below.

Career Average Revalued Earnings (CARE) Scheme

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

CMI

The ‘Continuous Mortality Investigation’ carries out research in relation to mortality and morbidity experience which can be used by actuaries to assess the funding required by pension funds and other bodies.

Code of Practice

The Pensions Regulator’s General Code of Practice.



CPI

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

CPIH

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

Contingent Assets

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

Covenant

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

Data (Section 13)

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

Debt Spreading Arrangement (DSA)

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



Deferred Debt Agreement (DDA)

A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed secondary rate until the termination of the DDA.

Deferred Employer

An employer that has entered into a DDA with the Fund.

Deficit

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

Deficit Recovery Period

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

Derivatives

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

Discount Rate

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

Early Retirement Strain

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



Employer's future service contribution rate ("Primary Rate")

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

Employing Bodies

Any organisation that participates in the LGPS, including admission bodies and fund employers.

Equities

Shares in a company which are bought and sold on a stock exchange.

Equity Protection

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

Exit Credit

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

Fund / Scheme Employers

Employers that have the statutory right to participate in the LGPS. These organizations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 fund Employers. For example, these include councils, colleges, universities, and academies



Funding or Solvency Level

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS)

This is a key governance document which the Administering Authority is obliged to prepare and publish that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Fund valuation date

The effective date of the triennial fund valuation.

Gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The "coupon" (i.e., the interest paid as part of the loan agreement), and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

Government Actuary's Department (GAD)

GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will usually mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's (subject to the nature including legal enforceability of the guarantee).

This may extend to the guarantor assuming responsibility for future funding needs relating to the pension obligations for the employer after it has terminated the Fund, with the assets and liabilities of the former employer subsumed by the guarantor.



Guarantee of exit debt

For the purposes of the FSS, a guarantee of the exit debt refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer, which may or may not also participate in the Fund (and if the guarantor is in the Fund, the liabilities are not subsumed in this case).

Hedging

A strategy that aims to reduce funding volatility and provide higher certainty of returns. This is achieved by investing in assets (usually bonds or gilts) that capture levels of real yield based on agreed levels so the assets mimic the change in liabilities.

Ill-health captive

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium. It works like insurance in that a fixed premium is paid by employers who are part of the captive and then the captive arrangement will meet ill health funding costs that may arise in future, in respect of the employer's members, providing the policy criteria is met.

Index linked gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e., the interest paid as part of the loan agreement), and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their 'real' value over time and protect against the potential effects of inflation.

Investment strategy

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

Letting employer

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



LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations, and certain governance requirements.

Liabilities

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

Liability driven investments (LDI)

A way of investing which gives multiple exposure to gilts, meaning that the Fund can hedge part of its assets against changes in liabilities in order to provide protection against changes in interest rate and / or market RPI inflation expectations.

Local Pension Board (LPB)

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

Long-term cost efficiency

This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Lower risk funding basis

An approach where the discount rate used to assess the liabilities is determined based on the expected long-term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This



basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

Mandatory scheme employers

Employers that have the statutory right to participate in the LGPS. These organizations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities, and academies.

Maturity

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

McCloud Judgment

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

Members

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

MHCLG

Ministry of Housing, Communities & Local Government

Minimum risk funding basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.



Non-statutory guidance

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

Notifiable events

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

Orphan liabilities

Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers in the Fund.

Pass-through arrangement

Pass-through is a contractual agreement between the two parties, external to the Fund, setting out how LGPS pension risk is shared. Where new employers join the Fund under such arrangements with the letting employer, a contribution rate for the new employer would be set in the normal way. The extent to which funding “cost” is then reallocated between the letting employer and the admitted body would then be agreed as part of the commercial agreement in place.

Pension Committee

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

Pensions Administration Strategy

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

Percentiles

A method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.



Phasing/stepping of contributions

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

Pooling

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

Prepayment

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

Present Value

The value of projected benefit payments, discounted back to the valuation date.

Primary rate of the employer's contribution

See definition of Employer's Primary Contribution Rate.

Profile

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

Prudent assumption

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e., the outcome is more likely to be overstated than understated. Legislation and Guidance require the assumptions adopted for an actuarial valuation to be sufficiently prudent.



Rates and adjustments certificate

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

Real return or real discount rate

A rate of return or discount rate of (CPI) inflation.

Recovery plan

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period (“the recovery period”, as defined in the Funding Strategy Statement). The recovery plan will set out the Secondary contributions payable by an employer over the recovery period. Secondary contributions can be positive or negative (i.e., an off set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund’s policy.

SAB funding basis or SAB basis

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2025 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers.

Scheduled bodies

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



Scheme manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each fund has a Scheme Manager which is the administering authority. For the Shropshire County Pension Fund this would be Shropshire Council as Administering Authority for the Fund.

Secondary rate of the employer's contribution

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

Section 13 Valuation

In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2025 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process

Solvency funding target

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

Strain costs

The costs arising when a member retires before their normal retirement date and receive their pensions immediately without actuarial reduction. As far as the Fund is concerned, where the retirements are not caused by ill health, these costs are invoiced directly to the



retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

Surplus reserve

The amount of assets (which may be zero), expressed as a proportion of an employer's liabilities, which will be retained in the Fund for the benefit of the employer to protect against adverse experience leading to unsustainable contributions levels.

Swaps

A generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

Valuation funding basis

The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the fund's investments, expressed as an expected out-performance over CPI in the long term by the fund's assets i.e. the "real rate".

50/50 Scheme

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



**Shropshire
County
Pension Fund**

Business Plan 2026-2029

Page 181



Contents

Version History	3
Background	4
Introduction	6
Key Stakeholders	9
Horizon Scanning	10
Delivering the Action Plan	12
Action Plan	15
Key Performance Indicators	21
Budget	22
Risk Register	24
Governance	26
Funding and Investments	27
Training Policy	29
Workforce Planning	30
Contact details	31



Version History

Version Number	Revision Date	Author(s)	Change
V0.1			First draft

Background

This Business Plan outlines the operations of the Shropshire County Pension Fund, a part of the Local Government Pension Scheme (LGPS) with over 51,400 members—15,976 of whom are currently receiving pensions. The fund invests to ensure it can provide pension payments when members retire. As of March 31, 2025, the fund's investment portfolio was valued at £2.626 billion.

Shropshire Council serves as the administering authority for the Pension Fund. Oversight and management responsibilities are delegated to the Pensions Committee, which consists of nine members: six councillors, two representatives from scheme members, and one representative for pensioner employers. The Committee convenes quarterly or more frequently as needed.

Supporting the Fund's oversight and governance is the Local Pension Board, made up of three employer representatives and three member representatives. The composition of both the Committee and the Board ensures that all essential stakeholders have representation.

The Section 151 Officer oversees the preparation of the Fund's statement of accounts, adhering to the CIPFA code of practice for local accounting in the UK.

Day-to-day administration is handled by the Shropshire County Pension Fund, with responsibilities delegated by the Section 151 Officer to the Head of Pensions—LGPS Senior Officer. There are 35 full-time equivalent staff dedicated to the Fund's administration and governance.

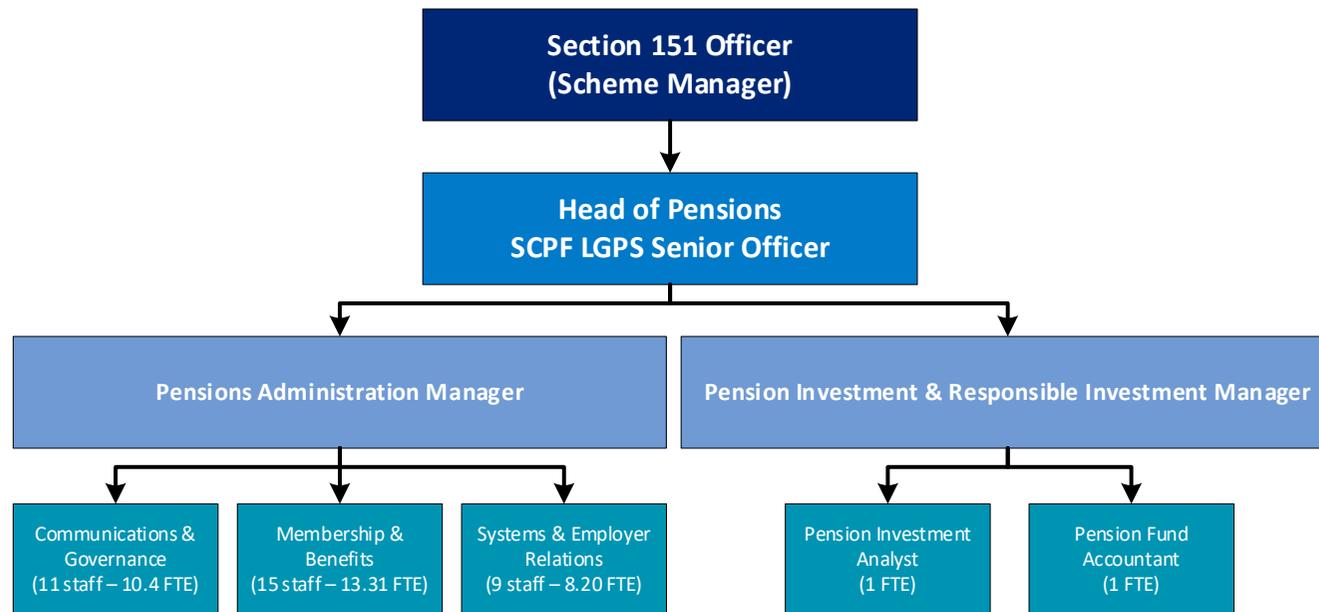


The Shropshire County Pension Fund is managed in collaboration with key suppliers, including its actuary (Mercers), bank (NatWest), investment custodian (Northern Trust), and administration software provider (Heywood). Further details on suppliers and investment management are available in the [Annual Report](#).

The Fund is one of 15 funds that make up the LGPS Central pool. LGPS Central Ltd is a Financial Conduct Authority regulated manager controlling approximately £100bn of assets as at 1st April 2026. From the 1st April 2026 LGPS Central Ltd are responsible for the oversight of all the Funds' assets.

The Pensions Committee is responsible for setting the Funds objectives and strategic asset allocation. This includes the Funds views on responsible investment and Environmental, Social and Governance (ESG) factors. The fund is a signatory to Stewardship Code 2020 and follows the Taskforce for Climate Related Financial Disclosures (TCFD) principles, in publishing its annual climate risk reports along with its own climate strategy.

Page 185



Introduction

The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally by Shropshire Council, providing current and future benefits for over 51,400 scheme members.

The Fund operates under the governance of the Superannuation Act 1972 and the Public Services Pensions Act 2013.

Administration of the Fund adheres to the following secondary legislation:

- Page 186
- The LGPS Regulations 2013 (as amended)
 - The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
 - The Public Services Pensions (Information about Benefits) Directions 2014

As of 31 March 2025, the Fund comprised 265 employer organisations, including Shropshire Council, consisting of 107 scheme employers, 42 scheduled/designated employers, and 116 admitted employers. Membership figures at this date were as follows:



Funded through contributions and investment returns, active member contributions are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay.

Employer contributions are determined via triennial actuarial valuations, with the most recent conducted on 31 March 2025. Employer rates range from 0% to 27.2%, and some employers also remit annualised cash payments toward deficit recovery.

The Fund was valued at £2.626 billion as of 31 March 2025. Strategic asset allocation was determined in June 2023 post-actuarial valuation, details of which are available in the Investment Strategy Statement (ISS) on the Fund's website. This allocation will be reviewed for committee approval in June 2026. Actual allocations may vary in response to investment manager decisions and market movements.

The purpose of this plan is to:

- Set out the long-term vision of the Shropshire County Pension Fund, and the context within which it operates.
- Describe the Fund's main objectives.
- Provide a basis for monitoring performance and reviewing progress (RAG RATING).
- Provide stakeholders, partners, and customers with a clear vision of what they can expect from the Fund and a basis on which it can be held to account.

The key objectives of the Fund include:

- **Governance:** To prioritise stakeholder interests, act with integrity, and ensure accountability. This is supported by a robust governance framework addressing risk management, compliance, and resourcing.





- **Investments and Funding:** The principal long-term investment objective is to achieve and sustain a funding level approximating 100% of estimated liabilities, whilst maintaining stable employer contribution rates. Employers are consulted on the funding strategy statement underpinning valuations and contribution rates, most recently as part of the 2025 valuation process.
- **Climate Change and Responsible Investment:** The Fund emphasises responsible investment, maintaining a Climate Change Strategy aligned with net zero targets by 2050 in accordance with the Paris Accord. The Shropshire County Pension Fund is a signatory to the UK Stewardship Code and has published annual Climate Risk and TCFD reports since December 2020.
- **Administration and Communication:** The Fund strives for excellence in administration by collaborating with partners, regularly reviewing processes, ensuring accuracy in income and payments, and providing clear communication and reliable reporting.

The Business Plan outlines the Fund's strategic objectives for the coming years and guides Committee and Board activities. Supporting documents include:

- Administration Strategy Statement
- Climate Change Strategy
- Communication Policy
- Funding Strategy Statement
- Governance Compliance Statement
- Investment Strategy Statement
- Reporting Breaches Policy
- Training Policy

These policies are made publicly available on the Fund's website <http://www.shropshirecountypensionfund.co.uk> and are reviewed annually by the Pension Committee and Board.

Key Stakeholders

Internal	External	Private Sector Partners	Cross Border Partnerships/ Other
Shropshire Council's Section 151 officer	Pension Fund members	Mercer	LGPS Central Ltd
Shropshire Council- Finance team	Prospective Pension Fund members	Grant Thornton	Central Pool Partner Funds
Shropshire Council- Transaction services	Employers	Investment Managers and Independent Advisor	
Pension Fund Committee	Prospective employers	Hymans Robertson	
Local Pension Board	Trade Unions	Northern Trust	
	Ministry of Housing, Communities and Local Government/ Department for Work and Pensions/ Treasury	Heywood Pension Technologies	
	The Pensions Regulator	Unit 4	
	Scheme Advisory Board	Prudential	
	The Pensions Ombudsman	AON and Independent Advisor	
	Pension Fund members' representatives	Barnet Waddingham	
	Pensions Employer Forum		

Horizon Scanning

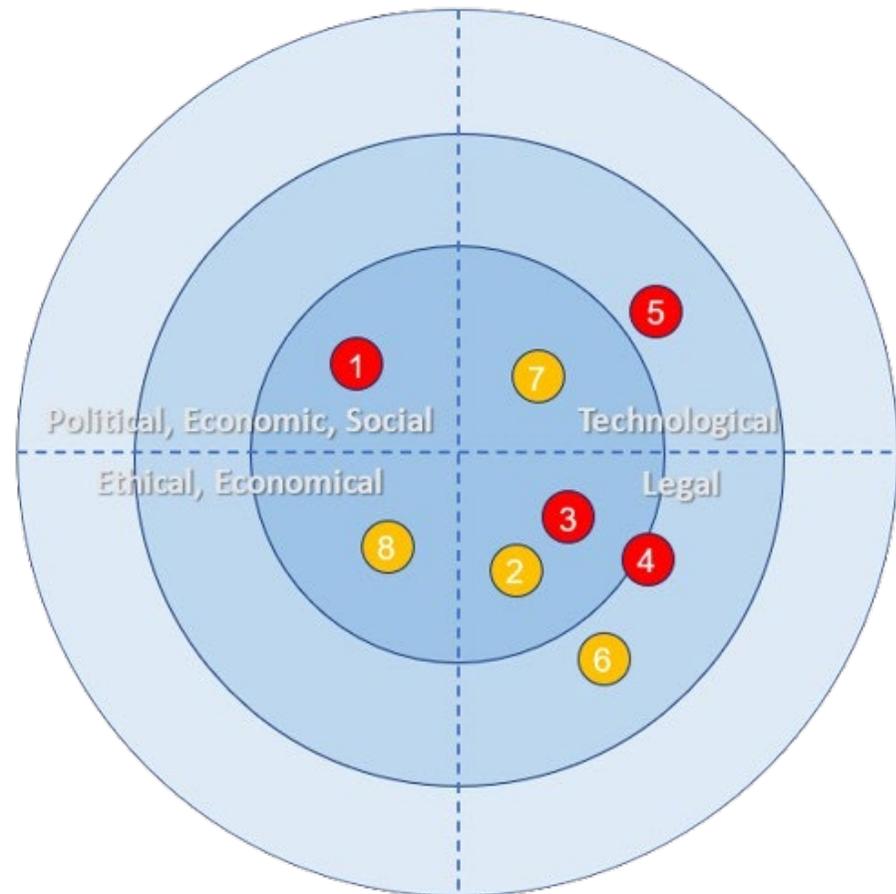
The following are key drivers of change that are likely to have a major impact on our activities in the short to medium term.

- **Regulatory changes:** Whether resulting from court cases (McCloud) or government initiatives (boycotts and divestment legislation, Access and Fairness and Access and Protection changes) such changes will require the Fund to change its policies and processes accordingly to ensure compliance.
- **Membership:** Both the number of employers and members continues to increase year on year. Employers are increasingly diverse with a wide range of requirements.
- **Investment pooling:** The revised national pooling guidance expected to enforce these outcomes from 2026, which will alter the pace and the original aims of asset pooling within the LGPS.
- **Responsible investment:** Increased expectations for all LGPS funds to effectively demonstrate they are managing all environmental, social and governance risks attached to investments effectively. There is a particular focus on climate change risks, driven by member expectations and changing national guidance and regulation, and an increasing focus on biodiversity risk.
- **Data quality:** The nationally driven Pensions Dashboard and the Fund's own online member portal (My Pension Online) allows members to review information on their individual pension position whenever they chose. Accurate data is also a must for the Fund actuary to set employer contribution rates and for the statutory issuing of Annual Benefit Statements by the Fund each year. This means all data held by the Fund needs to be accurate and up to date, which in turn requires all employers to provide the Fund with high quality payroll data every month on all members.



- **Digital channels / customer service:** Fund members and employers increasingly expect to be able to interact with the Fund online, and for services to be accessible remotely and outside normal business hours. The Fund needs to respond to facilitate these changing expectations and respond to members enquiries promptly and accurately.
- **Governance scrutiny:** Ongoing national and local oversight continues to raise governance and compliance standards, including the introduction of the Pensions Regulator’s General Code, the Scheme Advisory Board’s Good Governance review, and new Cyber Security Principles.

Event					
1	Fit for the Future Pooling changes				
2	Good Governance				
3	Access & Fairness Regulation changes				
4	Access & Protections Regulations				
5	Dashboard Go-live				
6	Change to Inheritance Tax Regulations				
7	System change and developments				
8	Climate Change compliance				
Impact Assessment					
	Low		Medium		High
Time Horizon					
	5+ years				
	Within 5 years				
	Already here				



Delivering the Action Plan

Monitoring and Reporting

To assess whether we are achieving our business plan aims, we will:

- Continually track progress on key priorities and budget adherence within the Pension Fund Management Team.
- Give quarterly updates on these priorities to the Pension Fund Committee, which will also be communicated to the Pension Board.
- In each quarterly update, we will:
 - Point out any areas where targets are surpassed or not met, explain the reasons, and show if planned priorities need to change as a result.
 - Report any major instances of additional spending or underspending compared to the set budget as soon as they are identified.

Page 192

Business as Usual

The business plan outlines the main priorities for the next three years, focusing on areas of change and special projects that go beyond regular “business as usual” responsibilities.

Day-to-day management of the fund requires a broad range of processes and procedures, some of which are listed below. Each supports the Fund’s objectives. Managing the Fund is a significant, complex, and highly regulated task, demanding expertise from both internal officers and external advisors.

The following are key examples of routine daily duties.

Governance

- Set agendas and report to the Pensions Board and Committee.
- Implement and monitor governance policies, including training, conflict of interest, risk registers, and compliance with The Pensions Regulator's updated Code of Practice.
- Ensure compliance with procurement, health & safety, and data protection laws.
- Respond to Freedom of Information requests.
- Support internal and external audits.
- Prepare and publish the Annual Report and Statement of Accounts.
- Complete statutory and non-statutory returns.
- Organise annual employer meetings
- Record and report breaches to the Board/ Committee
- Maintain a cyber security policy

Investments

- Produce annual accounts and reports.
- Provide quarterly investment updates for the Board and Committee.
- Reconcile private market investments quarterly.
- Review investment costs per the Cost Transparency Initiative.
- Complete statutory returns.
- Monitor fund cashflow and manage invoicing.
- Perform monthly bank reconciliation and management account preparation.
- Collaborate with LGPS Central and other funds on investment initiatives.
- Prepare IAS 19 disclosure data for employers.
- Oversee strategic asset allocation.

Administration

- Maintain accurate member records.
- Calculate and notify members about pension and death benefits.
- Provide retirement benefit estimates and cost details to employers.
- Process monthly pensions for retirees and beneficiaries.
- Produce and distribute annual benefit statements, payslips, and P60s via 'My Pension Online'.
- Carry out a 'Year End' check, all records to be checked from postings and employer forms to be reconciled to total of monthly postings.
- Data cleansing to be undertaken following last i-Connect submission of each year.
- Address Tracing for members of the Fund
- Communicate with members throughout their fund lifecycle.
- Respond to ad-hoc inquiries by various channels.
- Maintain the fund website and member portal.
- Inform new employers of responsibilities and offer ongoing training.
- Track Officer, Committee, and Board training.
- Administer the Internal Dispute Resolution Procedure.

- Provide information to the Actuary and manage employer entries/exits.
- Fulfil statutory reporting and stakeholder information needs, including KPIs.
- Update pensions software and provide legislative updates to employers and members.



Action Plan

Project	Actions	26/27	27/28	28/29
<p>McCloud Remedy:</p> <p>To implement the 1st October 2023 McCloud legislation and to ensure any guaranteed amounts are paid to protected members.</p>	<ul style="list-style-type: none"> • Ensure the system is configured to allow all calculations to perform the underpin calculation. • Rectification cases of past cases during the remedy period to be undertaken. This is only possible following the passing of relevant legislation to allow these calculations to be run. • This should take place before Summer 2026. 	X		
<p>Implementation of new regulations expected to be passed in Spring 2026 and beyond:</p> <p>The following consultations were launched in 2025;</p> <ul style="list-style-type: none"> • Scheme improvements (access and protections) • Access and fairness <p>Both will result in possible scheme changes and need for rectification of members benefits.</p>	<p>A project plan will be created as soon as the relevant legislation is passed, and the Fund will deal with any cases that need attention within the specified timescales.</p>	X	X	

Project	Actions	26/27	27/28	28/29
Implement a Workforce Plan: Following work carried out by Hymans Robertson about the structure and role make up within the Team.	This Plan is designed to ensure that there is resilience within the Team to cope with staff leaving their positions and difficulties faced nationally with recruitment.	X		
Internal Audit of Cyber Resilience: Specific Audit check as requested by the Fund.	Ensuring compliance with all relevant legislation by the Fund and Shropshire Council.	X	X	X
External Audit of Pension Fund (annual requirement)	Providing information required within the agreed timescales.	X	X	X
Production of Pension Savings Statements (annual requirement): Comply with HMRC regulations.	<ul style="list-style-type: none"> Identify the members who have breached the annual allowance. Provide a pension saving statement by the 5th October deadline, each year. 	X	X	X
Pensions Increase (annual requirement): To ensure pensioners and deferred members are updated with annual increase amount.	Bulk process to update the system with the confirmed CPI increasing April each year.	X	X	X
Pensions Dashboard: Implement in line with national guidelines by October 2026.	To comply with the Pensions Dashboard Programme, allowing all relevant data from the Fund to be published and responses provided to individuals within specified time scales.	X	X	
Bulk Revaluation (annual requirement): Annual CARE uprating to be applied to active records.	Bulk process to be run after year end postings are complete in May/June each year.	X	X	X



Project	Actions	26/27	27/28	28/29
<p>P60 to Pensioners (annual requirement):</p> <p>To produce a P60 for pensioner members by 31st May.</p>	<p>Following year end payroll processes run P60 production in end March/April each year.</p>	X	X	X
<p>Promotion campaign for My Pension Online:</p> <p>Promotion campaign will be run along with target mailing and segmented communications for different member types.</p>		X	X	X
<p>Member and employer satisfaction:</p> <p>Member and employer satisfaction surveys to be developed (2025/2026) and implemented with regular feedback to Management Team and other key stakeholders to inform service delivery priorities and improvements (from 2026/2027).</p>		X	X	X
<p>Data Quality:</p> <p>Work with employers to implement the new employer rates from 1 April 2026- 2029.</p>	<ul style="list-style-type: none"> Monitoring of employers to ensure correct employer rates are implemented from 1 April 2026. Data Quality Workplan in place to maintain data in preparation for the next valuation in 2030. 	X	X	X

Project	Actions	26/27	27/28	28/29
<p>UK Stewardship Code:</p> <p>Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code 2020 comprises a set of 12 'apply and explain' Principles for asset owners. As part of the Fund's desire to demonstrate its good governance and stewardship of its assets, the Fund submitted its first report in October 2022 and has been a full signatory every year since.</p>	<ul style="list-style-type: none"> ESG monitoring is in place as part of business as usual. Resources have been allocated to review the new reporting regulations in place for 2026. 	X	X	X
<p>Covenant Review:</p> <p>Work with Actuary to review Employer covenants on an annual basis to monitor risk to fund.</p>	<ul style="list-style-type: none"> A full review of employer covenants was undertaken as part of the 2025 valuation exercise. Ongoing checks completed each year. 	X	X	X
<p>Climate Change Risk:</p> <p>The Fund issues an annual climate risk TCFD report as part of its commitment to net zero. In addition, the Fund supports these reports by undertaking Climate scenario analysis as part of the valuation process to ensure that developments in this field are fed into ongoing analysis.</p>	<ul style="list-style-type: none"> Climate Risk reports and TCFD reports have been commissioned with LGPS Central. Alternative Investment managers, ESG policies, and progress on Climate Risk monitoring are reviewed periodically with a view to establishing full portfolio monitoring. 	X	X	X

Project	Actions	26/27	27/28	28/29
<p>Biodiversity Risk:</p> <p><i>(awaiting agreement)</i></p> <p>The Government is currently consulting on TNFD (Taskforce for Nature related Financial Disclosures). The Fund is monitoring the position and discussing potential data sources with investment managers and other Funds with a view to be able to report in a similar context to TCFD on climate.</p>	<ul style="list-style-type: none"> • Discuss the format of TNFD reports with LGPS Central to establish what can be accurately reported. • Consider integration of Biodiversity risk into climate change strategy as whilst different risks there is an underlying fundamental link. • Liaise with Investment Managers with a view to establishing full portfolio monitoring. 		X	X
<p>Investment Strategy Statement:</p> <p>The Fund sets a triannual investment strategy which was last reviewed in June 2023.</p> <p>The Fund is currently working with the Pensions Committee and Board following the 2025 valuation results to agree the revised strategic asset allocation.</p> <p>Draft proposal will be presented at the March 2026 Pensions Committee with the revised Investment Strategy Statement (ISS) to be delivered to the June 2026 Pensions Committee meeting.</p>	<p>Training and Investment Strategy workshops have been held with both Committee and Board Members.</p>	X		



Project	Actions	26/27	27/28	28/29
<p>Pooling:</p> <p>The Fund works directly with LGPS Central to ensure that appropriate products are available to meet future investment requirements and allow transition from legacy managers as investments mature.</p> <p>Under the Fit for the Future Proposal within the Pensions Bill responsibility for the implementation of strategic assets allocations and control of Fund assets passes to LGPS Central from 1st April 2026.</p>	<p>The Fund will work directly with LGPS Central Ltd to ensure that appropriate arrangements are in place for oversight of assets and that all legacy assets outside the pool that come under pooled oversight are only transferred to pooled products, when there is a clear and robust economic argument for change.</p>	X	X	X

Page 200

Key Performance Indicators

KPI REF.	Pension Fund	26/27 Target
KPI 1	All administration KPI's as reported to Committee and Board	95%
KPI 2	Issue Annual Benefit Statements to 100% of eligible members	100%
KPI 3	Members signed up for the online portal (My Pension Online)	60%
KPI 4	Employers submitting monthly payroll and membership information via online portal	100%
KPI 5	TPR Data Scores- Common Data	100%
KPI 6	TPR Data Scores- Scheme Specific Targets	100%
KPI 7	Making publicly available Committee and Board agendas and reports one week before each meeting	100%
KPI 8	Exit/ cessation of employers concluded and agreed plan for funding deficit/ surplus- within 6 months of notification of exit	100%
KPI 9	Pension Fund Climate Change Targets delivered in full each year	100%

Budget

The pension fund organises its spending for managing the Pensions Fund based on CIPFA's guidelines:

- **Investment management:** covers expenses related to handling the Fund's assets, including payments made to investment managers and custodians.
- **Administration:** includes all tasks the Administering Authority is required to carry out to manage entitlements and provide scheme and benefits information to members.
- **Oversight and Governance:** refers to the costs associated with monitoring and accounting for the Pension Fund, as well as any professional advice or support needed by the Fund.

The Budget is reviewed every year and is designed to cover the costs of managing the Pension Fund's legal responsibilities, including administering the scheme and overseeing investments. At the time of writing, the budget resources fully meet the Fund's regulatory requirements. The forward budget also incorporates new projects and initiatives outlined in the Fund's Business Plan.



Operational Expenses	2025-26 Budget £m	2026-27 Budget £m	2027-28 Budget £m
Administrative Costs			
Employee costs	1.450	1.500	1.550
IT costs	0.420	0.430	0.445
Office accommodation	0.040	0.040	0.040
Consultants	0.085	0.090	0.090
Printing, postage and design	0.062	0.064	0.066
Subscriptions	0.020	0.022	0.022
Other costs	0.035	0.035	0.035
Total	2.112	2.181	2.248
Investment Management Expenses			
Management fees	12.400	12.900	13.500
Performance fees	0.670	0.700	0.730
Other fees	4.500	4.600	4.800
Transaction costs	3.400	3.500	3.600
Custody fees	0.20	0.022	0.022
Total	20.990	21.722	22.652
Oversight and Governance Costs			
Investment advice	0.280	0.290	0.300
Employee costs (pensions investment)	0.410	0.420	0.430
Actuarial advice	0.270	0.100	0.110
Responsible engagement overlay	0.053	0.054	0.056
LGPS Central pooling costs	0.730	0.750	0.770
External audit	0.105	0.108	0.11
Performance analysis	0.028	0.029	0.030
Internal audit	0.026	0.027	0.028
Legal and Committee	0.024	0.025	0.026
Other costs	0.048	0.050	0.051
Total	1.974	1.853	1.912
Total Management expenses	25.076	25.756	26.812

Risk Register

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. Shropshire Council has a formal risk management strategy and risk registers for Pension Fund Investment, Investment Pooling and Pension Administration are included within this overall Strategy. The risks listed below highlight the most likely risks that will cause this biggest impact. This is not the full risk register.

Page 204



Description of risk	Responsible officer	Current controls in place	Risk status
Vulnerable to loss of or over-reliance of key staff due to long term sickness or staff turnover resulting in reduction of service to scheme employers	Vicky Jenks Peter Chadderton Justin Bridges	<ul style="list-style-type: none"> • Procedures notes provided and reviewed annually. • Team structure reviewed taking into account current workload, new requirements and capacity. • Training Policy in place and training requirements assessed. • Monthly 1:1 and Annual Appraisals monitor staff performance, and requirements. • Qualifications available. • Workforce Strategy being created. 	High
Cyber Incident resulting in loss of data leading to fines by the ICO and reputational damage	Vicky Jenks Peter Chadderton Justin Bridges	<ul style="list-style-type: none"> • Regular reviews in place with software providers to assess. • Fund Cyber Policy in place. • Service impact Assessment and Business improvement plan in place reviewed annually and tested. 	Medium
Failure of Administration Team to perform their tasks, lack of resource, capability, or conduct	Vicky Jenks	<ul style="list-style-type: none"> • Annual Audits, internal & external carried out. • Take part in the National Fraud initiative. • Data and payment reconciliation completed monthly • Administration Strategy in place. • Regular monitoring resources and workloads. • Line management 1:1s with all staff held monthly, poor performance managed with support from HR. 	Medium
Data Quality	Vicky Jenks	<ul style="list-style-type: none"> • Employer training and team training provided. • Administration Strategy in place. • Internal controls with documented procedure notes. • Employers' data collected monthly • Breaches recording, monitoring & reporting to committee and Board. 	Medium

Governance

Governance Strategy: This document has been prepared by Shropshire Council, as the administering authority, to outline the governance arrangements of the Shropshire County Pension Fund in accordance with Regulation 55 of The Local Government Pension Scheme Regulations 2013.

Pension Administration Strategy Report: Administering authorities of pension funds have the discretion to produce a pensions administration strategy statement. Shropshire Council, as the administering authority, prepares this report pursuant to Regulation 59 of The Local Government Pension Scheme Regulations 2013.

This report details the fund's administrative procedures and sets out the policies and performance standards aimed at delivering an efficient, inclusive, and high-quality administration service.



Funding and Investments

Funding Strategy Statement: Under Regulation 58 of The Local Government Pension Scheme 2013, administering authorities must publish a funding strategy statement (FSS). The FSS outlines the fund's prudent approach to pension liabilities and stable employer contribution rates, informing actuarial valuations every three years. It details actuarial methods, deficit recovery plans, ill health insurance, and employer participation. Developed alongside the Investment Strategy Statement (ISS), the FSS takes account of financial and demographic risks.

The FSS aims to:

- Page 207
- Set a transparent, fund-specific strategy for meeting pension liabilities.
 - Establish contributions that secure solvency and cost efficiency.
 - Maintain stable primary contribution rates.

Investment Strategy Statement: Required under regulation 7 of LGPS (Management and Investment of Funds) Regulations 2016, the ISS explains investment objectives, asset allocation, targeted performance, and responsible investment approaches. The committee prioritises safeguarding beneficiaries' financial interests, mainly fund members and local council taxpayers.

The fund invests assets through the LGPS Central Pool when suitable options arise, aiming for full funding of liabilities and stable employer contributions. The strategy considers diversification, suitability, and risk management across various asset types including equities, bonds, property, alternatives, derivatives, and more.

Investment beliefs include:

- Long-term investing delivers better results.
- Asset allocation drives long-term returns.
- Risk premiums and market inefficiencies offer opportunities.
- Diversification is essential but should not be excessive.
- Flexibility in asset allocation protects against risks.
- Responsible investment enhances performance; selection criteria reflect this.
- Cost minimisation is important, but net return matters most.

Climate Change: Climate change is a significant risk; the Fund commits to net zero by 2050 with a Climate Strategy under review. Actions taken include carbon benchmarks, shifting equity portfolio to sustainable funds, and improved climate data collection.

The Fund publishes TCFD reports and supports early adoption for transparency. TNFD aims to guide capital towards nature-positive outcomes, and the Fund will integrate TNFD as information develops.



Training Policy

Shropshire Council, as the Administering Authority for the Shropshire County Pension Fund, aims to ensure that:

- Individuals responsible for financial management and decision-making of the LGPS Fund have the necessary knowledge and skills to fulfil their duties.
- Staff handling daily fund administration are suitably equipped to manage their responsibilities.
- Those overseeing fund governance possess sufficient expertise to assess advice, make sound decisions, and manage conflicts of interest.

Everyone covered by this policy is expected to commit to ongoing training and help achieve these objectives.

Page 209
To meet these goals, the fund follows seven key principles in line with the Chartered Institute of Public Finance (CIPFA) Code of Practice 2021:

- Adopts the main principles of the LGPS Knowledge and Skills Code.
- Recognises effective LGPS management requires relevant knowledge and skills.
- Maintains formal objectives, policies, strategies, and reporting for knowledge and skills acquisition and retention.
- Uses the CIPFA LGPS Knowledge and Skills Framework as guidance.
- Allocates adequate resources so staff and members can acquire and retain required LGPS knowledge and skills.
- Reports annually on knowledge and skills policy implementation in the fund's annual report.
- Delegates responsibility for applying the CIPFA Code of Practice to an appropriate officer, who will follow the authority's policy and CIPFA Standards where applicable.

Workforce Planning

Effective workforce planning is critical to achieving the objectives outlined above. Ongoing challenges in recruiting and retaining staff, combined with a dynamic work environment that includes complex pension legislation and rapidly evolving technology, have made meeting service demands increasingly complex.

The departure of experienced personnel can significantly affect the delivery of efficient and effective services.

To address these concerns, the Fund will be working with external advisors to create a workforce plan.

Additionally, the workforce plan will emphasise the importance of defined career pathways, including clear training programmes and opportunities for professional qualifications.

Leveraging automated processes to manage high-volume tasks will also be prioritised, enabling team members to concentrate on higher-value activities and consistently deliver excellent service to all stakeholders.



Contact details

The Shropshire County Pension Fund is a data controller under data-protection law. This means we store, hold and manage your personal information in line with statutory requirements to enable us to provide you with pension administration services. To enable us to carry out our statutory duty, we must share your information with certain bodies, but will only do so in limited circumstances. For more information about how we hold your information, who we share it with and what rights you have, you can ask for this information from the fund, please visit www.shropshirecountypensionfund.co.uk.

If you can read this but know someone who cannot, please contact us on 01743 252130 so we can provide this information in a more suitable format.

Office hours: Monday to Thursday 8.45am to 5.00pm

Friday 8.45am to 4.00pm

Website: www.shropshirecountypensionfund.co.uk

Have a query? Get in touch via our [contact form](#)

Tel: 01743 252130

Write: Pensions, PO Box 4826, Shrewsbury, SY1 9LJ

Administered by Shropshire Council.





Shropshire County Pension Fund





Pensions Committee
Date 20 March 2026

Item

Public

Corporate Governance Monitoring Report

Responsible Officer:	Peter Chadderton		
email:	peter.chadderton@shropshire.gov.uk	Tel:	07990 086399
Cabinet Member (Portfolio Holder):			

1. Synopsis

- 1.1 The report is to inform members of corporate governance changes including the government's latest "LGPS - Fit for the Future" consultation, and updates since the last committee together with a review of socially responsible investment issues arising in the quarter, 1st October 2025 to 31st December 2025.

2. Executive Summary

- 2.1. Detail is provided on the actions taken by the Funds key stewardship partners in respect of the quarter from 1st October 2025 to 31st December 2025.
- 2.2. An update on the Funds position in respect of the letter received from the Palestine Solidarity Campaign and the actions taken by the Scheme Advisory Board.
- 2.3. Information is also included on the government's latest Local Government Pension Scheme (England and Wales): Fit for the future consultation and confirmation of the changes since the last Committee.
- 2.4. Confirmation of the Funds success in maintaining its status as a signatory to the FRC's Stewardship Code.
- 2.5. An update to the Climate Stewardship Plan reflecting the recommendations in the Climate Stewardship report presented in December.

3. Recommendations

- 3.1. Members are asked to note and accept the position as set out in the report in respect of voting and engagement activity.

- LGPS Central at [Appendix A](#),
 - Columbia Threadneedle Investments Responsible Engagement Overlay Activity Report at [Appendix B](#) and
 - LAPFF Engagement Report at [Appendix C](#).
- 3.2. Members are asked to note and accept with or without comment the changes to the Climate Stewardship Plan as a result of the Climate Risk Report presented in December 2025. The revised plan is attached as at [Appendix E](#).

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. Risk Management
Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 4.2. Human Rights Act Appraisal
The recommendations contained in this report are compatible with the Human Rights Act 1998.
- 4.3. There are no direct Equalities or Community consequences.
- 4.4. Environmental Appraisal
The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

5. Financial Implications

- 5.1. There are no direct financial implications arising from this report.

6. Climate Change Appraisal

- 6.1 The Fund takes responsible investment very seriously and has a Climate Change Strategy (updated in September 2024) in place committing to net zero by 2050 in line with the Paris accord on climate change adopted in 2015 and setting out interim targets to achieve that goal.
- 6.2 Responsible investment is a key process the investment managers go through before investing and something the fund considers as part of investment opportunities. Thorough due diligence is undertaken considering all risks including climate change. The investment managers vote where applicable on the Fund's behalf, Columbia Threadneedle Investments engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which undertakes engagements on behalf of all LGPS members.

- 6.3 Shropshire County Pension Fund is a signatory to the UK stewardship code.
- 6.4 Shropshire County Pension Fund has also received and published Climate Risk Reports and TCFD reports since December 2020. The latest report from December 2025 is publicly available on our website.

7. Background

- 7.1 The Shropshire County Pension Fund has been actively voting for over seventeen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by LGPS Central through EOS @ Federated Hermes (EOS) on all equity portfolios since the 1st January 2025 which ensures a consistency of approach. [Appendix A](#) to this report shows the engagement examples by EOS and engagement work by LGPS Central.
- 7.2 Prior to January 2025 voting was undertaken by both LGIM in respect of the Funds passive equity portfolio and EOS on behalf of LGPS Central.
- 7.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. Columbia Threadneedle Investments (CTI) provides this responsible engagement overlay on the Fund's global equities portfolios.
- 7.3 CTI engage with companies across five key engagement themes and a rolling program of 10 projects. The current themes and projects are shown below:

Theme	Project
Climate Change	Coal phase out
	Deforestation
Environmental Stewardship	Emissions and plastic waste
	Sustainable supply and demand of critical minerals
	Responsible Water Stewardship
Human Rights	Responsible governance of Artificial Intelligence
Public Health	Diversity in clinical trials
	Sustainable Food Systems
Governance	Improving board gender diversity in Asia
	Independent Board Evaluation

- 7.4 Engagements often operate over a period of several years reflecting the time taken to build relationships and develop real change. A copy of their quarterly report is attached at [Appendix B](#).

- 7.5 In addition the 86 LGPS Scheme members and the pooling companies are represented by the Local Authority Pension Fund Forum (LAPFF). LAPFF use the holdings of the entire Local Government Pension Scheme to leverage engagement with companies on a range of ESG issues and their quarterly report is attached at [Appendix C](#).

8. Manager Voting Activity

- 8.1. The LGPS Central stewardship report at [Appendix A](#) is a generic report across all of the investments operated by LGPS Central and those products that LGPS Central can vote on through Legal and General, it is not specific to the products in which the Fund is invested. This means that the majority of examples and engagements will relate to the Fund's portfolio but not all. In respect of the report at [Appendix A](#), the following five companies were not held by the Fund as at the 31st December 2025 – Exxon Mobil, Cemex, ThyssenKrupp, Volution, and J D Weatherspoon PLC.

- 8.2. The Fund holds the following public market investments which are voted on and engaged with by LGPS Central:

- LGPS Central Global Equity (Multi Manager Fund)
- LGPS Central Sustainable Equities Broad Fund
- LGPS Central Sustainable Equities Targeted Fund
- LGPS Central Investment Grade Credit Fund (Engagement Only)
- Legal and General Investment Managers (LGIM) Low Carbon Global Equity Passive Fund.

- 8.3 The Funds investments are held on a pooled basis so the Fund actually holds units in a pool which has underlying investments, this means unlike previous segregated mandates the equities are in the name of LGPS Central or LGIM. On average there are approximately between 1700/2000 underlying holdings in the portfolios at any given point.

- 8.4 LGPS Central have set their stewardship themes for three years covering 2024 to 2027 reflecting again the average length of engagements to impact real change.

Their current themes are:

- Climate Change
- Natural Capital
- Human Rights Risk
- Sensitive and Topical Issues

- 8.5 LGPS Central have developed the following scale to allow transparency and understanding of the success of engagements and these are reflected where appropriate in the report at [Appendix A](#) in section 4 pages 19-21.

The engagement response will be measured across 4 levels:

- Level 0 No progress has been made as a result of engagement.
- Level 1 Minimum expectations have been met.
- Level 2 Moderate progress.
- Level 3 Successful outcome.

- 8.6 For example in the case of an engagement on climate change the four levels would reflect the following positions:
- Level 0 No progress or a failure by the company to engage.
 - Level 1 Companies disclosing data to facilitate carbon performance assessment.
 - Level 2 Progress observed in Climate Action100+ Benchmark Framework, Companies improving on TPI (Transition Pathway Initiative) quality ladder, Companies partly aligning with LGPS Central Net Zero Strategy.
 - Level 3 Complete and demonstratable alignment to LGPS Central Net Zero Strategy.
- 8.7 The report shows that nine priority companies that LGPS Central and partners have had successful level 3 engagement with across 31 companies on the identified priority list. It also shows the escalation proposed on all companies where there is a failure to see adequate progression. Their highest current level of escalation is level 3 across the priority companies. This applies to five engagements that impact the Fund's portfolio, two in respect of Human Rights Risks and three in respect of Sensitive and Topical issues. Level 3 as set out in the report is the highest level of engagement, including actions such as potential public statements and extending voting dissent to appointments and approval of annual report/accounts.

9. Responsible Engagement Activity

- 9.1. During the last quarter Columbia Threadneedle Investments have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at [Appendix B](#) in the REO Activity report. This report covers companies across all the Fund's equity portfolios and includes engagement examples from Amazon, Mercedes Benz and HDFC Bank.
- 9.2. In addition to the public overview Columbia Threadneedle Investments also produce a confidential report on an ongoing engagement which can be shared with Committee members on request.
- 9.3. As part of the service provided by Columbia Threadneedle, they screen holdings against breaches and controversies around the UN Global Compact which is a voluntary initiative to get CEO's to adopt sustainable and socially responsible practices. There were no reported breaches in the last quarter.
- 9.4. In addition to the service provided by Columbia Threadneedle Investments, the Fund is also a member of the LAPFF (Local Authority Pension Fund Forum). The LAPFF use the combined power of LGPS Members to engage with companies on behalf of the LGPS. An update on the engagement activities of the LAPFF for the quarter is attached at [Appendix C](#).
- 9.5. The LAPFF engagement is not specific to companies in the Fund's portfolio. The LAPFF use Pension Fund share holdings at an aggregate level to determine engagement companies, and they often engage at a sector level as well as with specific companies. Examples of some of the companies within the Shropshire portfolio on 31st December 2025 include an article on mining which covers Glencore. The article on CAHRA's (conflict affected and high-risk areas) covers three companies on the Palestine Solidarity campaigns list in Volvo, Microsoft and

Chevron all of which are held by the Fund and is a continuation of the work presented in December. The article on governance looks at United Utilities and follows similar line to the engagement with Severn Trent in the previous quarter looking again at water quality and accountability.

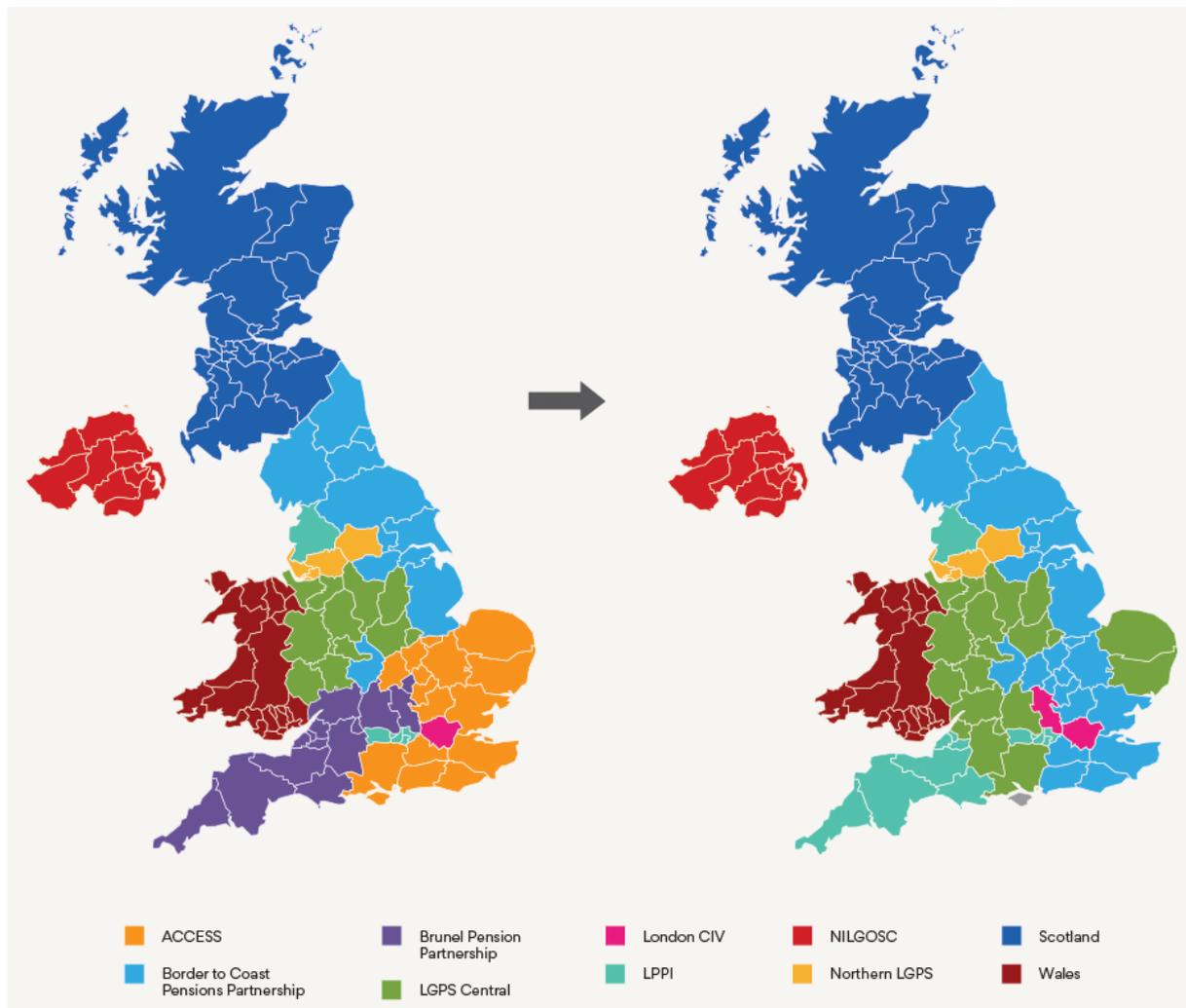
10. Conflict Affected Areas

- 10.1 On the 28th August 2025 Committee members received a letter from the Palestine Solidarity Campaign (PSC) requesting the Fund divest from companies involved in breaches of International Humanitarian Law supported by a legal position paper.
- 10.2 The Fund's position on investment in companies in conflict affected and high-risk areas is set out in our CAHRA statement which is available on the Funds [website](#) and is backed by legal opinion from Nigel Giffen KC which was obtained by the Scheme Advisory Board on behalf of the LGPS.
- 10.3 The report in September outlined the Scheme Advisory Boards (SAB) response at that time. Since that date SAB have written directly to MHCLG on the 13th October 2025 as promised and a copy of their letter is available on the SAB website [here](#). The letter clearly sets out SAB's view that having already obtained legal advice regarding allegations of criminality by administering authorities, the onus is on the government to provide clarity in the light of opposing opinion provided by Palestine Solidarity Campaign. In this respect they cite the previous Secretary of State did communicate the Governments views on the appropriateness of investments in Russia following the invasion of Ukraine.
- 10.4 To date SAB have not received a response from the Minister to their letter but they continue to raise the issue when the opportunity arises and have advised that funds continue in the interim to act in accordance with their own policies. At this point it is not known if the recent recommencement of hostilities in the Gulf will lead to a Government response on this matter.
- 10.5 The Fund continues to keep the position under review and looks to Central Government for direction in these matters as was the case in the Russian invasion of Ukraine. Whilst recognising the hardship for people living in these areas, for the reasons outlined in our CHARA statement, the Fund believes that the effective stewardship of assets provides the best long-term outcomes for stakeholders and society.
- 10.6 The Fund continues to work with stewardship partners to ensure that all companies operating in impacted areas have appropriate policies in place and promote formal adoption of the UN guiding principles in these areas.

11. Local Government Pension Scheme (England and Wales): Fit for the future consultation

- 11.1. The background to the consultation was set out in the paper to Committee in September 2025.
- 11.2. Since the December report the Isle of Wight have confirmed their intention to join LGPS Central and the map below now accurately show the changes to the pools

from the 1st April 2026 when the existing 8 members of LGPS Central will be formally joined by Gloucestershire, Hampshire, Isle of Wight, Norfolk, Oxfordshire, Suffolk, and Wiltshire to form a combined pool of 15 LGPS Funds with a combined asset value of approximately £100 Bn



- 11.3. Work is expected to complete on a revised Shareholder Agreement which will be signed by all of the partner funds prior to the 31st March 2026 deadline.
- 11.4. The Pensions Bill which provides the formal legislation for all these changes is still going through the House of Lords. MHCLG have confirmed they expect the Bill to be on the statute books prior to 31st March 2026 and that all Funds should continue to work towards this deadline.
- 11.5. A technical consultation was issued on the 21st November 2025 to consider two draft statutory instruments and whether these effectively deliver the policy proposal set out in the government’s response to the fit for the future consultation. The consultation can be seen [here](#) and covers two draft statutory instruments. The first covers the LGPS (Pooling, Management and Investment of Funds) Regulations questions 1 to 23. This first regulation covers a number of areas from the fit to the future consultation including the investment of funds, asset pooling companies, investment strategy, local investments, the role of the Secretary of state in issuing regulations and transitional requirements. The second regulation

LGPS (Amendment) Regulations 2026 questions 24 to 29 concerns the governance proposals in particular, looking at strategies required, the role of the LGPS Senior Officer, the role of the independent person, the knowledge and understanding requirements and independent governance reviews.

- 11.6. The response to the consultation was agreed with the Pensions Committee Chair and the LGPS Senior Officer and submitted prior to the deadline of the 2nd January 2026. A copy of the Response is included at [Appendix D](#) as agreed at the December Committee meeting.

12. Stewardship Code

- 12.1 Under delegated authority from the Committee in September 2025 the Fund sent its renewal application to retain its status as a signatory to the code.
- 12.2 The application covered the original twelve principles which can be sub divided into the following four categories:
- Principles 1 to 5 cover the Funds purpose and governance.
 - Principles 6 to 8 cover the Funds investment approach.
 - Principles 9-11 cover engagement.
 - Principle 12 covers exercising rights and responsibilities.
- 12.3 In February 2026 the FRC confirmed that the Fund had been successful in retaining its signatory status, which is great result and confirms the Funds approach to stewardship activities.
- 12.4 A copy of the final application is available on the Funds [website](#) for public review.

13. Climate Stewardship Plan

- 13.1 The climate stewardship plan is reviewed annually to incorporate any recommendations presented to the committee in the Climate Risk Report received in December.
- 13.2 The Climate Risk report presented in December recommended that the following five companies were removed from the climate priority listing:
- 1) CRH
 - 2) Air Liquide
 - 3) Next Era Energy
 - 4) Linde
 - 5) Taiwan Semiconductor Manufacturing Company (TSMC)

These companies were recommended for removal based on two factors

- 1) Financed Emission Contribution: These companies no longer rank among the Funds top contributors to financed emissions.
- 2) Alignment with LGPS Centrals stewardship priorities: The removal of these companies allows greater alignment with the LGPS Central Priority companies. This alignment is considered crucial by all parties to ensure focused

engagement efforts, with meaningful updates and allowing time for thorough company research.

13.3 Glencore, BP, Shell and Holcim have all been retained in the plan due to their impact on the portfolio.

13.4 Two new companies have been added to the list RWE a German energy company which was the largest single contributor to financed emissions in the December Report. ArcelorMittal a multinational steel manufacturer which whilst representing less than 0.1% of the Fund's holdings, accounted for 0.32% of the Funds financed emissions.

13.5 A copy of the updated Climate Stewardship plan is included at [Appendix E](#) for approval.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Climate Risk Report, Pensions Committee 5 December 2025

Corporate Governance Monitoring report, Pensions Committee 21 March 2025

Corporate Governance Monitoring report, Pensions Committee 20 June 2025

Corporate Governance Monitoring report, Pensions Committee 19 September 2025

Corporate Governance Monitoring report, Pensions Committee 05 December 2025

Local Member:

N/A

Appendices [Please list the titles of Appendices]

Appendix A – LGPS Central Stewardship Report 1st October 2025 to 31st December 2025

Appendix B – Columbia Threadneedle Investments Engagement Overlay Report 1st October 2025 to 31st December 2025

Appendix C – LAPFF Quarterly Engagement Report 1st October 2025 to 31st December 2025

Appendix D – Consultation Response

Appendix E – Climate Stewardship Plan 2026

Stewardship Update

Q4 2025 (OCTOBER - DECEMBER 2025)





Responsible Investment & Engagement

LGPS Central's approach



LGPS Central's approach to Responsible Investment & Engagement carries two objectives:

OBJECTIVE #1

Support investment objectives

OBJECTIVE #2

Be an exemplar for responsible investment within the financial services industry, promote collaboration and raise standards across the marketplace

These are met through three pillars:



This update covers LGPS Central's *stewardship* activity. Our stewardship efforts are supplemented by global engagement and voting services provided by EOS at Federated Hermes. For more information, please refer to our Responsible Investment & Engagement Framework and Annual Stewardship Report.

Additional Disclosures

- Responsible Investment & Engagement Framework
- Climate Report
- Voting Principles
- Voting Disclosure
- Voting Statistics
- Stewardship Code Report

Signatory of:



01 Q4 Stewardship Activity Overview

Key Stewardship Developments and a summary of engagement and voting activities and key stewardship developments

Key Stewardship developments

Shifting Dynamics shaping the 2026 Proxy Season

The forthcoming proxy season is unfolding amid notable shifts in the US governance environment, with several developments likely to influence voting outcomes and stewardship practices. Recent regulatory changes may reduce the opportunity for effective shareholder oversight. The SEC's updated 13D/13G guidance has broadened the threshold for when routine engagement may be viewed as "control-seeking," increasing the compliance burden for large investors involved in director elections or other stewardship matters. At the same time, a small but growing set of high-profile companies has chosen to reincorporate outside Delaware, favouring jurisdictions with more management-friendly legal regimes. Though limited in number, such moves risk weakening minority shareholder protections and shaping precedent for others.

Uncertainty also surrounds the future cadence of US corporate reporting. Proposals to shift from quarterly to semi-annual updates are framed as a means to reduce short-term market pressure, yet quarterly disclosures remain fundamental for efficient capital allocation. Any change in reporting frequency will need to balance managerial flexibility whilst maintaining market transparency.

The stewardship landscape is further complicated by the SEC's temporary suspension of no-action reviews for shareholder proposals. Issuers are now expected to determine, and justify, which resolutions reach the ballot, with decisions required 80 days before the AGM. While some companies have held discussions with filers, engagement windows are often compressed, limiting meaningful dialogue and increasing the risk of inconsistent or opaque decision-making.

Regulatory scrutiny of proxy advisors is also intensifying. A new Executive Order directing enhanced oversight and methodological disclosure may reduce support for environmental and social proposals, aligning with ISS's shift

toward more case-by-case assessments in its 2026 benchmark policy. Longer term, this may accelerate a broader move toward customised policies for institutional clients in place of one-size-fits-all benchmarks, even as the majority of recommendations continue to align with management. In a context of rising information volumes and increasing use of AI-driven tools by market participants, the evolving role of proxy advice remains a critical area to watch.

Concerns about investor democracy have been amplified by ExxonMobil's newly approved retail voting mechanism, which would automatically cast retail investors' votes in line with management unless they actively opt out. Given that retail investors hold around 40% of Exxon's shares yet historically exhibit low voting participation, this approach risks entrenching management support and weakening the influence of dissenting or institutional voices. Advocacy groups have challenged the decision on the grounds that it conflicts with Rule 14a-4, which requires informed, meeting-specific voting authority.

Disclosure practices across US markets also continue to evolve. Companies are increasingly referencing artificial intelligence both as a strategic opportunity and a risk, though recent SEC enforcement action against misleading AI-related disclosures underscores the need for accuracy and balanced reporting. Human capital reporting is also shifting, with decreasing emphasis on DEI-specific language and potential moves towards more granular retention disclosures, including breakdowns by diversity characteristics.

Together, these developments suggest a proxy season defined by tightening shareholder rights, heightened regulatory scrutiny, and evolving corporate disclosure norms, conditions that will shape stewardship priorities and require careful monitoring by long-term investors.



Audit Reform Bill

The UK Government confirmed that it would not proceed with the long-awaited Audit and Corporate Governance Reform Bill, originally designed in the aftermath of major corporate failures such as Carillion and BHS a decade ago. The Department for Business and Trade framed the decision as part of a broader agenda to “cut red tape” and reduce perceived regulatory burdens in order to boost economic growth.

The abandoned legislation would have represented the most significant overhaul of the UK’s audit and reporting framework in a generation. Core proposals included the creation of a new Audit, Reporting & Governance Authority (ARGA) to replace the Financial Reporting Council (FRC) and a reclassification of certain large private companies as Public Interest Entities, bringing them under stricter audit and disclosure requirements. The reforms also sought to increase competition in the audit market by reducing systemic reliance on the Big Four firms, improving audit quality, strengthening board-level accountability, and enhancing the reliability of information available to investors.

The Government justified the U-turn by arguing that audit quality has improved since the Carillion collapse. However, the past five years have seen continued high-profile governance and audit failures, including WHSmith, Thomas Cook, and Patisserie Valerie, indicating that systemic vulnerabilities persist across the UK’s governance ecosystem. The decision, therefore, raises questions about whether incremental improvements within existing regulatory structures are sufficient to safeguard market integrity.

Rather than pursuing structural audit reform, the Government stated it will now prioritise streamlining corporate reporting. This shift appears to be aligned with political commitments to deregulation but leaves unresolved many of the core issues originally identified by the Kingman, Brydon, and CMA reviews.

The retreat from reform also contrasts with emerging evidence on global governance risk. Approximately 10% of large US-listed companies engage in securities fraud each year, destroying around 1.6% of equity value annually, equivalent to USD 800 billion in 2021. While the UK market has structural differences, the finding underscores the scale of value destruction associated with weak governance, poor audit quality, and insufficient oversight.

High-quality, reliable financial and nonfinancial reporting is foundational to effective stewardship, informed voting, and long-term capital allocation.



Engagement Highlights

Human Rights

LGPSC is a lead investor with Find It, Fix It, Prevent It, a collaborative engagement initiative focusing on Modern Slavery in the UK construction sector. We met with Volution twice last year to discuss their Modern Slavery disclosures. See page 14 for details of our engagement with the company. We also co-signed letters to 18 AIM listed and FTSE 350 companies in February 2025 requesting reporting in line with Section 54 of the Modern Slavery Act 2015. As of the reporting period, 15 companies have aligned their disclosures.

We cosigned a letter to UK government encouraging the introduction of mandatory corporate human rights due diligence. The letter emphasised the operational efficiency that strong human rights risk management practices can have and the absence of mandatory human rights due diligence requirements in the UK, put some UK firms at a competitive disadvantage in key export markets to companies that are implementing stronger standards.

We engaged with several companies in Israel to understand how they identify, assess, and manage human rights risks in a complex and evolving environment. Our discussions focused on governance structures, due diligence processes, and measures to protect employees, contractors, and affected communities. We encouraged firms to strengthen risk assessments, increase supply chain transparency, and align practices with internationally recognised standards.

Our engagement approach aligns with the expectations outlined in the investor statement Responsible Corporate Policy and Practices on Human Rights in Conflict-Affected and High-Risk Areas¹, which we previously co-signed. This framework guides our dialogue on responsible business conduct, conflict-sensitive due diligence, and the need for clear board-level oversight of human rights issues. We sought clarity on grievance mechanisms, escalation pathways, and how companies ensure their operations remain consistent with responsible business expectations in high-risk contexts.

In addition to engaging with companies, we held a constructive dialogue with an Israeli banking trade association. We discussed the financial sector's approach to human rights due diligence, expectations for banks operating in high-risk areas, and the role of industry bodies in promoting consistent standards. We welcomed the Association's openness to investor perspectives and its willingness to discuss emerging best practices.

We observed varying levels of maturity, with some organisations demonstrating well-developed frameworks and others identifying areas for improvement. We will continue to monitor progress,

follow up on commitments, and maintain open communication with companies and sector bodies to support ongoing improvement and alignment with international standards.

Climate Risk

We cosigned letters to 93 UK-listed companies, requesting that they put their next climate transition plan to a requesting that they put their next climate transition plan to shareholder vote at their AGM. As of 31st December, 8 companies have committed to putting their climate transition plan to a shareholder vote at their AGM. We engaged with ArcelorMittal to set credible interim decarbonisation targets. The company is waiting for policy certainty before setting interim targets. We plan to meet with the company before their AGM to continue engagement.

We engaged with Societe Generale encouraging the bank to disclose sub-sector sustainable finance targets. Currently they only report on aggregate target which lags peers in transparency. We shared some peer analysis with the company who have set sub-sector targets. We are meeting with the company ahead of proxy season to continue engagement. We also met with Barclays CEO in person to ensure that the company is still committed to the enhancements made to the Oil & Gas financing policy, where financing would not be provided to companies expanding Oil & Gas fields.

Just Transition

We are part of the IIGCC's pilot collaborative engagement on the Just Transition in emerging markets. We engaged with HDFC bank to encourage the firm to demonstrate leadership in Just Transition. During second meeting with the bank, they outlined their approach to social and climate initiatives and stated that they are awaiting the publication of the Indian Sustainable Finance Taxonomy to inform the adoption of a more formal Just Transition strategy. We plan to meet with the company in H1 2026 following the publication of the Taxonomy.

Deforestation

We sent a letter to the European Commission outlining LGPSC's position on the EU Deforestation Regulation (EUDR). The EUDR provides a legal framework and due diligence requirements for companies exporting forest-risk commodities (e.g. palm oil, soya, wood, cocoa etc) into the EU. The legislation would require companies to ensure that products are not being sourced from recently or illegally deforested land and has been twice delayed. We emphasised that postponing the regulation would create uncertainty, undermine investor confidence, and expose companies and pension savers to greater climate and biodiversity related risks.

¹ [Call-FIR-FIDH-CAHRA-MAY-2025.pdf](#)



Voting Highlights



Image source: tesla.com

TESLA

Tesla, Inc.

We voted against the executive pay package due to the sheer magnitude, dilution risk, and lack of clarity in the performance metrics. The resolution received significant dissent. See further detail on page 17.



Image source: microsoft.com

Microsoft

Microsoft Corporation

We supported two shareholder resolutions seeking greater oversight and management of human rights risks. Both resolutions received significant support. See further detail on page 18.

FIGURE 1: OVERVIEW OF ENGAGEMENTS DURING THE QUARTER

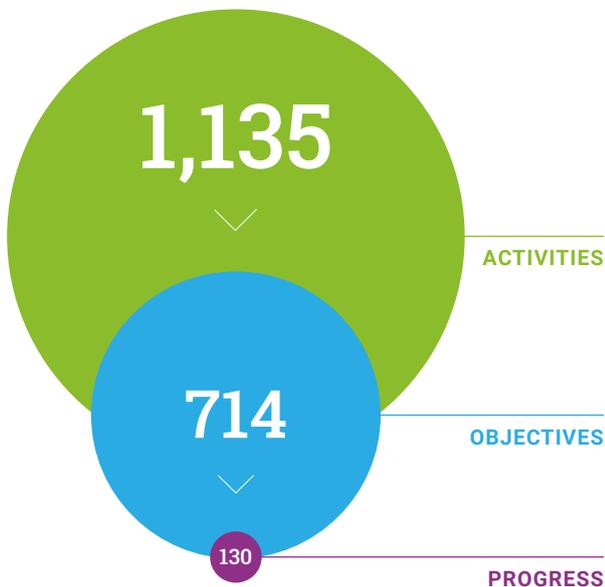
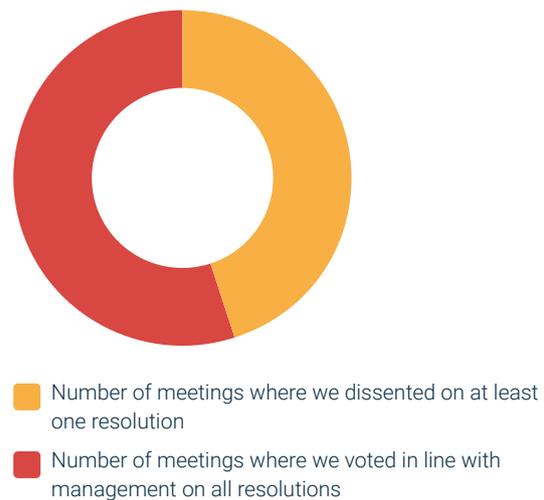


FIGURE 2: GLOBAL VOTING

We voted at 571 meetings (4,526 resolutions) during the quarter under review.





02 Engagement Case Studies

In this section, we provide more detailed examples of ongoing or new engagements related to the four Stewardship Themes identified in collaboration with our Partner Funds.



How we measure progress:

- No Progress Made
- Moderate Progress
- Minimum Expectations
- Successful Outcome



During this quarter, our engagement efforts involved 682 companies. We conducted 1,135 engagement activities aimed at 714 specific objectives, with positive progress measured on 130 occasions. Most engagements were carried out through issuing letters or holding remote meetings with companies. In these interactions, we or our stewardship provider (in the majority of cases) engaged with or communicated with the Chair, a Board member, or a member of senior management.





Climate Change Engagements

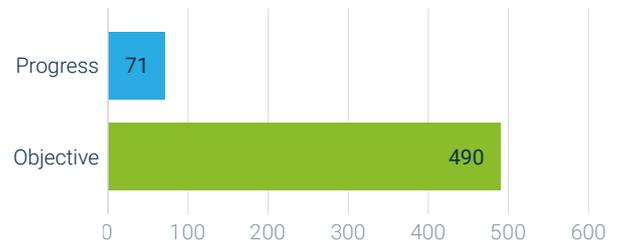


This quarter, our climate change engagement set comprised 376 companies with 654 engagement activities². There was progress on 71 specific engagement objectives.

FIGURE 3: BREAKDOWN OF CLIMATE CHANGE ENGAGEMENT BY TYPE



FIGURE 4: CLIMATE CHANGE ENGAGEMENT BY OUTCOME



² There can be more than one climate-related engagement issue and/or objective per company.



Cemex, S.A.B. de C.V

PROGRESS:

■ Minimum Expectations

OBJECTIVE:

To disclose forward looking capex associated with decarbonisation projects.

ENGAGEMENT:

We met with members of senior management to discuss board composition, decarbonisation strategy, and the transparency of climate related capital allocation. Management noted that governance has evolved in recent years, including the separation of the Chair and CEO roles and the increased independence and diversity of the board.

Cemex outlined progress in reducing Scope 1 and 2 emissions and described a defined pathway to achieving its 2030 climate targets. However, the company acknowledged that the post 2030 decarbonisation pathway remains subject to technological and policy uncertainties. Management cited regulatory constraints in the US construction sector and the limited commercial viability of CCUS technologies as factors shaping capital planning.

The company explained that its US growth strategy focuses on aggregates and additives, areas that currently offer lower emissions intensity compared to cementitious materials. It also noted that existing efficiency projects through 2030 are relatively small in scale and that the future of Cemex Ventures, the company's venture capital arm, is being reassessed by the new CEO. Management emphasised that policy clarity, including effective carbon pricing frameworks and updated building standards, would support long-term investment decisions.

OUTCOME:

We will continue to encourage Cemex to provide clearer forward-looking disclosures on decarbonisation related capital expenditure and will share peer benchmarking to illustrate emerging best practice.



thyssenkrupp

thyssenkrupp AG

THEME:

Climate Change

OBJECTIVE:

To set a medium-term target for reducing its greenhouse gas emissions by between 2030 and 2035 that covers at least 95% of Scopes 1 and 2 emissions and the most relevant Scope 3 emissions.

ENGAGEMENT:

In an email to investor relations EOS communicated expectations for the company to set Paris-aligned medium-term targets to reduce its greenhouse gas emissions covering at least 95% of Scope 1 and 2 emissions and the most relevant Scope 3 emissions for 2035.

At an in-person meeting in September 2022, the company confirmed its ambition to align with a 1.5-degree pathway and to set science-based targets to achieve this. The company discussed investment in a direct reduction steel plant that will be capable of running on green hydrogen, but acknowledged the uncertainty around the timing and volumes of green hydrogen coming online.

In a meeting with the head of sustainability in April 2024 the company confirmed that it was in the process of finalising its 1.5°C aligned carbon reduction plan. It did indicate some complications due to the uncertainty of whether the steel business would remain as an integral part of the group or not, but either way it expected Science Based Targets initiative (SBTi) approval for 1.5°C by the end of the year.

RESULT:

The company confirmed that it had received SBTi approval of the steel business targets to 1.5°C and had submitted targets for the rest of the group for approval, which it expected to get by the end of 2025. This covers 90% of its Scopes 1 and 2 emissions, and about 50% of the group's Scope 3 emissions. The company also confirmed that it had received SBTi validation for 1.5°C for the whole group.



Ashtead group

Ashtead Group Plc

THEME:

Climate Change

OBJECTIVE:

To disclose a credible climate strategy.

ENGAGEMENT:

EOS has been engaging with the company on its climate strategy since 2022. The Head of ESG confirmed the company would be validating their reporting with Carbon Trust and in the longer term is working with its associations in UK, Europe and the US to develop a scope 3 emissions reporting standard for the rental business with the aim of completing it in 2024.

The company published its scope 3 emissions for the first time in its 2024 Annual Report. Following further engagement the company published further disclosures in its 2025 annual report and EOS carried out a full review of how the company had progressed on its climate strategy. EOS determined that it has made credible progress in embedding climate considerations into its business strategy. It aligns disclosures with TCFD, sets a

clear target to reduce Scope 1 and 2 emissions intensity by 50% by 2034, and integrates climate risk management into governance structures. Its capital allocation strategy prioritises organic growth, acquisitions, and fleet modernization, which supports low-carbon opportunities such as offshore wind and subsea decommissioning. These steps position Ashtead to capture financial benefits from the energy transition while mitigating regulatory and operational risks. However, while Ashtead conducts scenario analysis and demonstrates strong climate governance (TPI Level 3), transparency on Paris-aligned pathways and absolute emissions reductions remains limited.

To fully align with long-term shareholder value and the Paris goals, Ashtead would need to strengthen disclosure on scenario assumptions, set Scope 3 targets, and seek independent validation of its scope 3 emissions reduction strategy against 1.5°C pathways.

RESULT:

Overall, the company shows a credible approach with room for improvement in demonstrating Paris consistency and long-term resilience. Having been open for 3 years EOS will close this engagement and review the priority of further engagement to improve strategy around scope 3 emissions reductions and developing climate scenarios.



Natural Capital Engagements

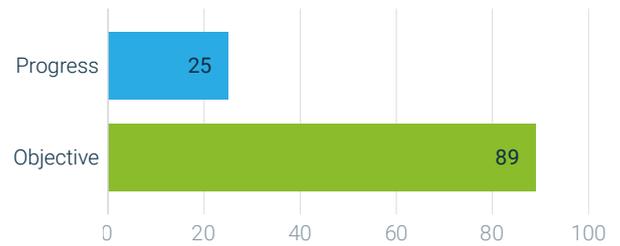


This quarter our natural capital-related engagement set comprised 111 companies with 181 engagement activities. There was progress on 25 specific engagement objectives.

FIGURE 5: BREAKDOWN OF NATURAL CAPITAL ENGAGEMENT BY TYPE



FIGURE 6: NATURAL CAPITAL ENGAGEMENT BY OUTCOME





Deere Group

OBJECTIVE:

To articulate a biodiversity strategy, including how it plans to help customers minimise their negative impact on biodiversity.

ENGAGEMENT:

Since 2020, EOS have been engaging on its precision agriculture offerings, and the role these play in mitigating negative impacts of agriculture on biodiversity and soil health, while also supporting yields and reducing costs for customers. This can help drive sales, leading to improved revenue and long-term profits. In a call with investor relations in 2020, EOS encouraged Deere to articulate its approach to biodiversity and, in a subsequent call in 2021, it said it would include related information in its sustainability reporting. In calls in 2023 and 2024, the company detailed how its technologies, including See & Spray and ExactShot, reduce pesticide and nitrogen use respectively, supporting biodiversity and soil health, while lowering growers' costs. EOS encouraged Deere to provide more detail on the benefits of its precision agricultural technologies through case studies in its reporting. During a visit to the company

headquarters in 2025, EOS discussed strategy for increasing 'highly engaged' acres (shown by Deere's operations centre to have high utilization of precision agriculture technologies).

OUTCOME:

Deere has provided more details on precision agriculture in each successive sustainability report. Its 2024 business impact report, published in 2025, included case studies, providing examples of the cost savings, soil health benefits and potential crop marketing advantages associated with its precision agriculture offerings. On the company's Q4 2025 results call, it highlighted that 147m acres are now 'highly engaged', up from 125m at the end of 2024. Through its extensive efforts to communicate the benefits to growers of adopting its precision agriculture technologies and the support it offers through its operations centre, Deere is helping mitigate negative impacts on biodiversity and soil health, while supporting yield improvements and cost savings for customers – dynamics that we expect should support Deere's long-term sales and profitability. EOS intend to continue monitoring Deere's progress in precision agriculture, and to engage the company on auditor tenure, supply chain rights and talent management.



Sensitive/Topical Activities

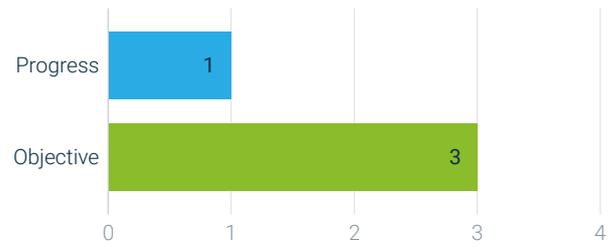


This quarter, our sensitive and topical activities engagement set comprised of 15 companies with 16 engagement activities. There was 1 instance of progress recorded during the quarter.

FIGURE 7: BREAKDOWN OF SENSITIVE/TOPICAL ACTIVITIES ENGAGEMENT BY TYPE



FIGURE 8: SENSITIVE/TOPICAL ACTIVITIES ENGAGEMENT BY OUTCOME





Human Rights Risks



This quarter our human rights-related engagements comprised 180 companies with 284 engagement activities. There was progress on 33 specific engagement objectives.

FIGURE 9: BREAKDOWN OF HUMAN RIGHTS-RELATED ENGAGEMENTS BY TYPE

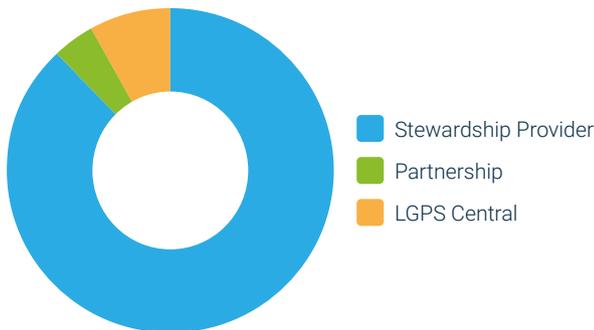
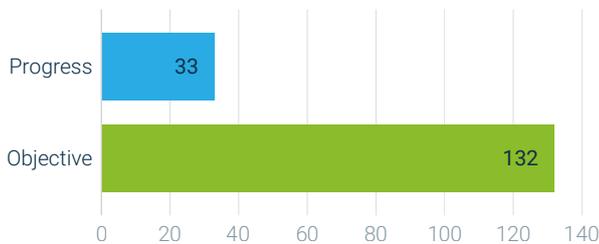


FIGURE 10: HUMAN RIGHTS-RELATED ENGAGEMENTS BY OUTCOME



volution

Volusion Group Plc

PROGRESS:

Moderate Progress

OBJECTIVE:

To improve modern slavery disclosure.

ENGAGEMENT:

We met with senior representatives, including the Company Secretary and the Head of Procurement, to discuss the company's approach to identifying and mitigating modern slavery risks within its supply chain. Volusion described ongoing work to strengthen due diligence processes; however, its public disclosures continue to fall short of sector peers in several areas, including saliency assessment, supply chain mapping, and clarity around governance oversight. Although the company has begun to enhance reporting, its 2025 Modern Slavery Statement introduced only incremental changes.

OUTCOME:

Given the limited progress, we abstained on the approval of the Financial Statements and wrote to the company explaining the rationale for our voting decision. We have requested a meeting with the Non-Executive Director responsible for sustainability oversight in H1 2026 to further escalate our concerns and to encourage clearer disclosure and more rigorous risk assessment practices.



03 Voting

Policy

For UK-listed companies, we vote our shares in accordance with a set of bespoke LGPS Central UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor, EOS at Federated Hermes.

Commentary

Between October - December 2025, we:

Voted at

571

MEETINGS

and on

4,526

RESOLUTIONS GLOBALLY

Opposed one or more resolutions at

44.7%

MEETINGS

and our dissent level was

11.3%

Supported

47.7%

OF SHAREHOLDER PROPOSALS

(41 out of 86 resolutions)

Environmental

12

INSTANCES

we dissented on **director elections** due to environmental concerns

Supported

11

ENVIRONMENTAL-RELATED SHAREHOLDER RESOLUTIONS

Topics included: climate risk, plastic pollution, deforestation, and seafood sourcing.

Social

76

INSTANCES

we dissented on **director elections** due to social concerns

Supported

5

SHAREHOLDER RESOLUTIONS

Topics includes: artificial intelligence oversight, human rights risk assessment, regenerative agriculture effectiveness, supplier code of conduct compliance.

Remuneration

We dissented on

244

OF REMUNERATION-RELATED PROPOSALS, OF WHICH:

Opposed

4.1%

OF PROPOSALS IN THE UK

Opposed to

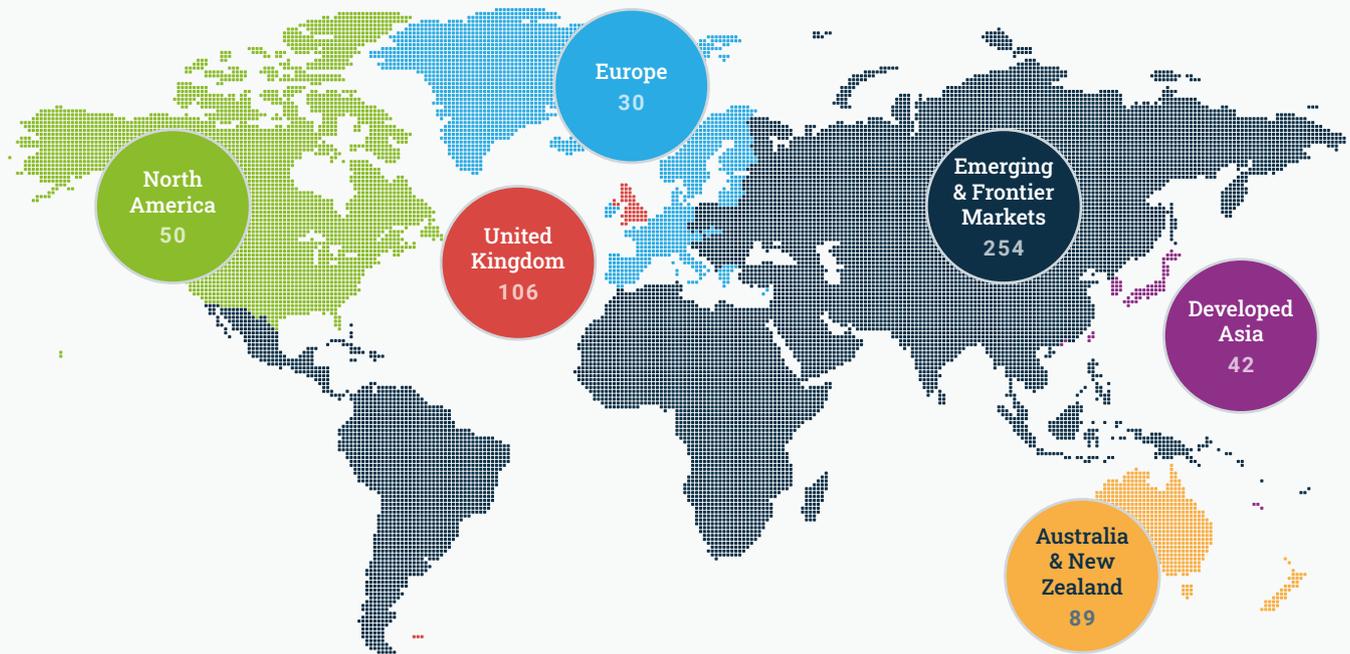
7% IN THE US

The vast majority of dissent, 76.2%, came from Emerging/ Frontier Markets and Australia & New Zealand.



Number of meetings voted on by region:

FIGURE 11: NUMBER OF MEETINGS VOTED ON BY REGION



Overview of Voting Activity:

FOR	3,661	80.9%
AGAINST/WITHELD	571	12.6%
ABSTAIN	291	6.4%
OTHER	3	0.1%
	4,526	100%

A full overview of voting decisions for securities held in portfolios within the company's Authorised Contractual Scheme (ACS) – broken down by market, issues and reflecting the number of votes against and abstentions – can be found on our website [here](#).

Number of resolutions voted on by theme:

AMEND ARTICLES	417	9.2%
AUDIT + ACCOUNTS	450	9.9%
BOARD STRUCTURE	2,106	46.5%
CAPITAL STRUCTURE + DIVIDENDS	521	11.5%
OTHER	162	3.6%
POISON PILL/ ANTI-TAKEOVER DEVICE	19	0.4%
REMUNERATION	766	16.9%
SHAREHOLDER RESOLUTION ESG	85	1.9%
	4,526	100%



Examples of voting decisions

T E S L A

Tesla, Inc.

THEME:

Remuneration

RATIONALE:

We voted against the executive pay package. While most NEOs received modest compensation in FY24, we have significant concerns about one NEO receiving an outsized, entirely time-based equity award. The rationale for the award's size and lack of performance conditions is insufficiently disclosed. In FY25, the NEO was granted a time-based equity mega-award that delivers value only if his 2018 mega-award is reduced or forfeited due to ongoing litigation. Although this award was granted after FY24, its size and design raise substantial concerns, justifying opposition to this year's advisory proposal. We also opposed a related resolution to approve the issuance of common stock to the CEO. The award structure increases the CEO's voting influence and control, as it consists of 12 tranches valued at over \$7 billion each. The total award of \$87.8 billion provides exceptionally high pay opportunities over the next decade and restricts the board's ability to adjust future compensation in response to unforeseen events or changes in company performance or strategy. The high value of each tranche may reduce the CEO's incentive to achieve all goals and maximize shareholder value. Some performance goals lack clarity, and certain operational metrics could result in duplicative performance assessments. Although the award aims to retain the CEO's focus on Tesla, there are no explicit requirements to ensure this. Finally, the extreme value and large number of shares granted pose a significant risk of shareholder dilution.

RESULT:

The resolutions received 21.8% and 23.4% respectively.

CINTAS

Cintas Corporation

THEME:

Governance

RATIONALE:

We supported a shareholder resolution to amend the governing documents, allowing holders of at least 10% of combined outstanding common stock to call a special shareholder meeting. The current 50% threshold is unusually high and does not align with market best practices. Without the ability to call a special meeting, shareholders cannot remove directors or propose resolutions between annual meetings. This limitation may also prevent shareholders from responding promptly to beneficial offers. Restricting special meetings can insulate management, negatively impact corporate performance and shareholder returns, and infringe shareholder rights.

RESULT:

The proposal received 45.3% support, which is considered significant. We note that a similar resolution filed in 2022 received 48.2% support. Considering that the executive chairman holds 14.2% of outstanding shares, the resolution could have achieved materially higher shareholder support estimated to be nearly to 60%.



Microsoft Corporation

THEME:

Human Rights

RATIONALE:

We supported a shareholder resolution requesting a report on the risks of operating in countries with significant human rights concerns (including conflict zones). The proponent highlights valid concerns about potential complicity in human rights violations in high-risk countries, which could increase the company's reputational, legal, and workforce risks. The company states that its datacenter installations will align with its commitments to protecting fundamental rights as stated in the Trusted Cloud Principles. However, the company has not disclosed how these assurances will be implemented or enforced, nor has it provided an oversight mechanism. As the company expands its data center footprint, further disclosure on its human rights due diligence process for site selection would help shareholders assess how related risks are managed. We also supported a shareholder resolution requesting a report on the effectiveness of the company's human rights due diligence processes in addressing misuse of its artificial intelligence and cloud products. Hence, this support is warranted because Microsoft has not provided sufficient transparency into its due diligence processes for customer-end use applications, especially in conflict-affected areas. Inadequate due diligence exposes the company to legal, financial, operational, and reputational risks. Shareholders would benefit from a report evaluating the effectiveness of Microsoft's processes in preventing, identifying, and addressing customer misuse of its artificial intelligence and cloud services.

RESULT:

Both resolutions received significant support, 27.5% and 26.3%, respectively. We would expect the company to consult with shareholders on these matters.

wetherspoon

JD Weatherspoon Plc

THEME:

Board Composition

RATIONALE:

We did not support the re-election of the Remuneration Committee Chair and member of the Audit Committee as she is considered non-independent by virtue of a nineteen-year tenure. The Remuneration Committee Chair should be independent in line with the UK Corporate Governance Code. It is vital that the Remuneration Committee recognises and manages potential conflicts of interest when designing and determining remuneration.

RESULT:

The resolution received 15.1% dissent.



04 H2 2025 Stewardship Strategy Reporting

Progress report against LGPS Central's 3 year Stewardship Strategy

STEWARDSHIP THEME:



CLIMATE CHANGE

Company Name	Engaged as at Dec 2025	Progress	Momentum	Escalation Grade	Assicated Voting Dissent	Removal
SHELL	✓	Level 2	-	Level 2	✓	✗
HOLCIM	✓	Level 1	⬆	Level 2	✗	✗
CEMEX	✓	Level 1	⬆	Level 2	✗	✗
ARCELORMITTAL	✓	Level 1	⬆	Level 1	✗	✗
BP	✓	Level 1	⬇	Level 2	✓	✗
SOCIETE GENERALE	✓	Level 1	⬆	Level 1	✗	✗
RWE	✓	Level 3	⬆	-	✗	✓
BHP	✓	Level 3	-	-	✗	✓
CRH	✓	Level 3	⬆	-	✗	✓
RIO TINTO	✓	Level 3	⬆	-	✓	✓
GLENCORE	✓	Level 1	⬆	Level 1	✓	✗

STEWARDSHIP THEME:



NATURAL CAPITAL

Company Name	Engaged as at Dec 2025	Progress	Momentum	Escalation Grade	Assicated Voting Dissent	Removal
GLENCORE	✓	Level 0	-	Level 2	✗	✗
RIO TINTO	✓	Level 2	⬆	Level 1	✗	✗
SHERWIN WILLIAMS	✓	Level 3	⬆	-	✗	✓
COSTCO	✓	Level 1	⬆	Level 1	✗	✗
REPSOL	✓	Level 2	⬆	Level 1	✗	✗
LYONDELLBASEL	✓	Level 1	⬆	Level 1	✗	✗



STEWARDSHIP THEME:



HUMAN RIGHTS RISKS

Company Name	Engaged as at Dec 2025	Progress	Momentum	Escalation Grade	Assicated Voting Dissent	Removal
COSTCO	✓	Level 3	⬆	-	⊗	✓
NVIDIA	✓	Level 0	-	Level 3	⊗	⊗
TJX COMPANIES	✓	Level 3	-	-	-	✓
MOTOROLA	✓	Level 1	-	Level 3	✓	⊗
BHP	✓	Level 2	-	Level 2	⊗	⊗
BARRAT	✓	-	-	-	-	✓
VOLUTION	✓	Level 2	⬆	Level 3	✓	⊗

STEWARDSHIP THEME:



SENSITIVE/TOPICAL ACTIVITIES

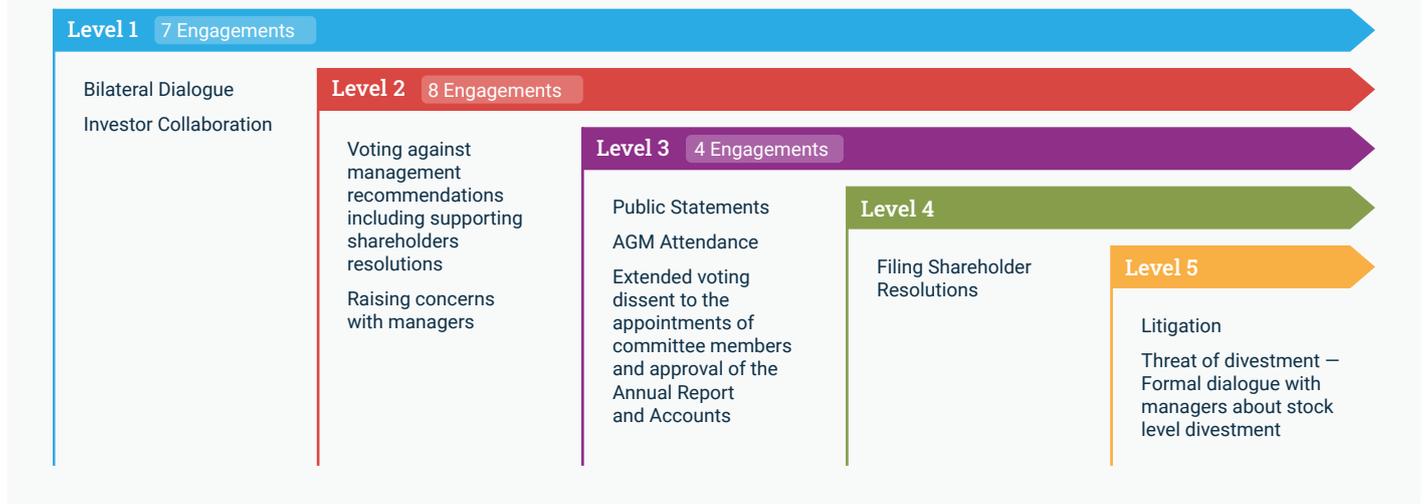
Company Name	Engaged as at Dec 2025	Progress	Momentum	Escalation Grade	Assicated Voting Dissent	Removal
TESLA	✓	Level 0	-	Level 3	✓	⊗
HYUNDAI	✓	Level 3	⬆	-	⊗	✓
KIA	✓	Level 0	-	Level 3	✓	⊗
META	✓	Level 0	⬇	Level 3	✓	⊗
AMAZON	✓	Level 0	-	Level 2	✓	⊗
BERKSHIRE HATHAWAY	✓	Level 0	-	Level 2	✓	⊗
M3	✓	Level 3	⬆	-	⊗	✓

Barrat has been removed from the priority list due to the company's acquisition of Redrow. NVIDIA has been engaged via our external manager. Glencore has been engaged on climate, but due to merger talks with Rio Tinto engaging on nature was paused. Meta's progress score has been lowered due to content moderation changes announced in 2025. BP's progress score has been lowered due to the company's strategic reset. Momentum is calculated based on the H1 Stewardship Strategy Reporting.



Escalation Strategy

FIGURE 12: 2025 ESCALATION STRATEGY



Measures of Success

FIGURE 13: MEASURES OF SUCCESS

	Climate Change	Natural Capital	Human Rights Risks	Sensitive/Topical Activities
LEVEL 3: SUCCESSFUL OUTCOME	<ul style="list-style-type: none"> Company demonstrate alignment with LGPSC net zero strategy. 	<ul style="list-style-type: none"> Company undertook a nature impacts and dependencies assessment and has published an ambition to align with the GBF. Company has disclosed robust petrochemical strategy underpinned by credible targets. 	<ul style="list-style-type: none"> Company demonstrates full alignment with UNGPs or Modern Slavery Act. 	<ul style="list-style-type: none"> Company has disclosed a plan for: <ul style="list-style-type: none"> Addressing the alleged controversy. Improve ESG practices at reasonable level.
LEVEL 2: MODERATE PROGRESS	<ul style="list-style-type: none"> Progress observed in the Climate Action 100+ Benchmark Framework, CDP. Companies improving on TPI management quality ladder. Companies are partly aligned with LGPSC net zero strategy. 	<ul style="list-style-type: none"> Progress on undertaking a nature impacts and dependencies assessment or on publishing an ambition to align with the GBF. Progress on developing a robust petrochemical strategy underpinned by credible targets. 	<ul style="list-style-type: none"> Partial progress observed by Find it, Fix it and Prevent it, Corporate Human Rights Benchmark and LAPFF research. 	<ul style="list-style-type: none"> Company has disclosed a plan for: <ul style="list-style-type: none"> Partly addressing the alleged controversy including acknowledgment of the controversy. Partly improve ESG practices at reasonable level.
LEVEL 1: MINIMUM EXPECTATIONS	<ul style="list-style-type: none"> Companies disclosing data to facilitate carbon performance assessment if relevant. 	<ul style="list-style-type: none"> Evidence of constructive meeting with companies. 	<ul style="list-style-type: none"> Companies responded to engagement request. 	<ul style="list-style-type: none"> Companies responded to engagement request.
LEVEL 0: NO IMPROVEMENT	<ul style="list-style-type: none"> No progress made. 	<ul style="list-style-type: none"> No progress made. 	<ul style="list-style-type: none"> No progress made. 	<ul style="list-style-type: none"> No progress made.



Partner Organisations

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Shropshire County Council

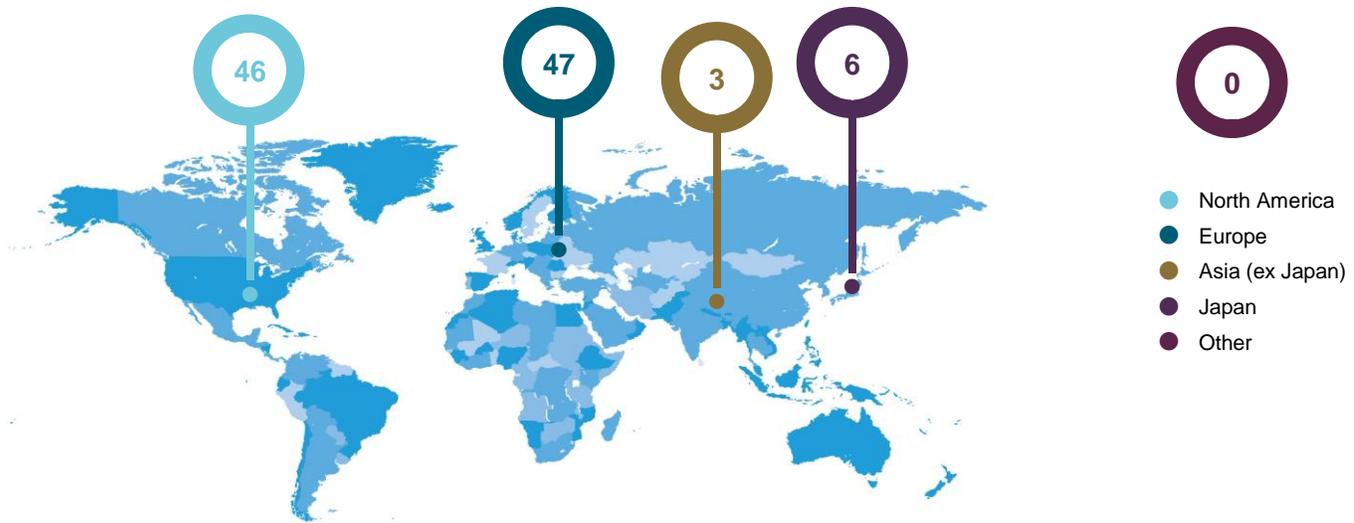
Q4 2025

The purpose of the *reo*[®] (responsible engagement overlay) service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The *reo*[®] approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities.

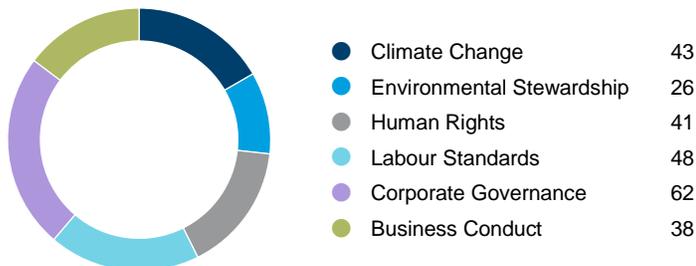
Companies engaged this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
150	102	19	19

Companies engaged by region



Engagement by theme



Milestones achieved by theme

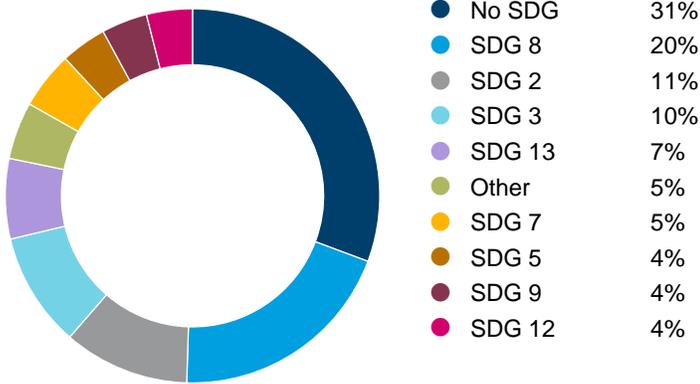


Engagements and Sustainable Development Goals (SDGs)

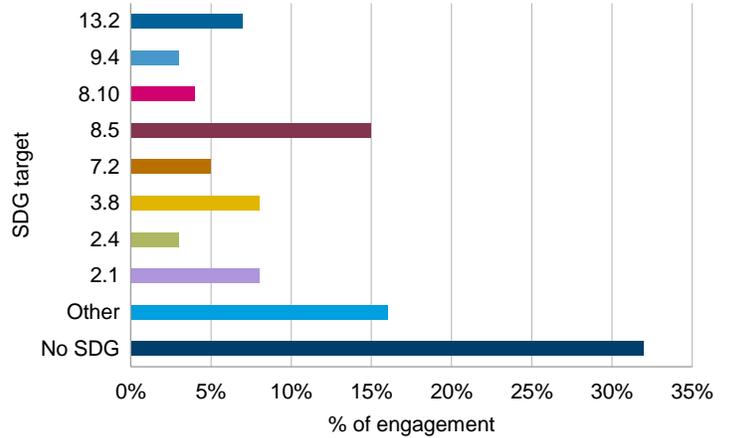
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.

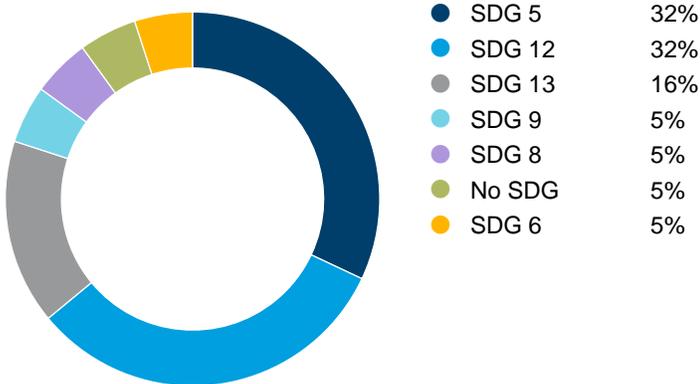
Engagement: SDG level



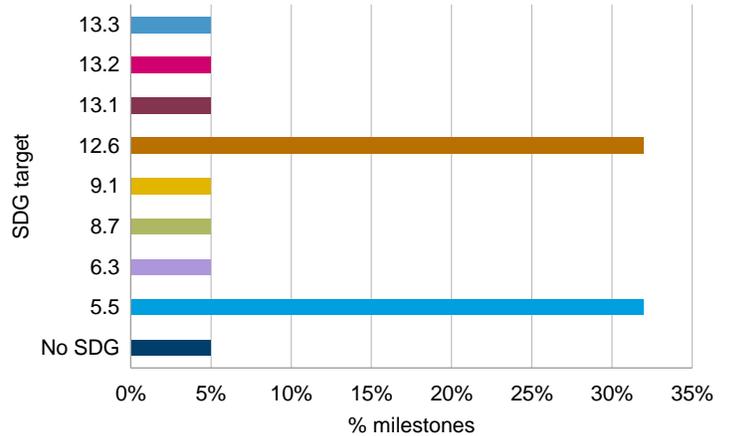
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



Engagement case studies

Company: Amazon.com Inc

Mailing country: United States

Sector: Consumer Discretionary

Priority company: ✓

ESG risk rating: ●

Response to prior engagement: Good

Theme: Human Rights; Labour Standards

Engagement case study name: Amazon's Labour Standards and Community Engagement in their Supply Chain



Background

Amazon's scale makes its labour practices and community impact a focal point for stakeholders. Public concerns around warehouse working conditions, repetitive strain injuries, and the social implications of automation are often raised. AWS's rapid expansion also raises questions about water use, energy demand, and local community engagement. Against this backdrop, engagement is critical to assess alignment with international labour standards and responsible infrastructure development. We aimed to evaluate workforce wellbeing in high-volume fulfilment centres and assess how Amazon manages community relations in areas affected by its data centres.

Action

We visited the Dartford, UK fulfilment centre. It processes c6 million packages weekly with c2,500 staff, all full-time and with corporate-equivalent benefits, flexible shift options, and stretch breaks. Cross-training mitigates repetitive strain injuries, and health & safety incidents are logged. Employee voice mechanisms include HR kiosks, an app, and peer feedback boards. Recognition systems support promotion pathways but are not financially incentivised. Accessibility features for staff and targeted areas to gather staff feedback were noted. Robotics integration has reduced manual strain and are generally well received, though repetitive strain injuries still occur. Regarding its community engagement approach for AWS infrastructure, Amazon conducts hyper-local risk assessments and partners with community leaders to address water and energy challenges. Examples include utility investments in Mississippi, leak detection technology in Mexico, and irrigation efficiency projects in Spain. Engagement focuses on educating communities about electrification impacts, communicating economic benefits, and embedding social license into strategy. Amazon engages across federal, state, and city levels to anticipate regulatory shifts.

Verdict

Amazon demonstrates strong operational transparency and proactive workforce practices, including health & safety protocols, cross-training, and employee voice mechanisms. Robotics adoption appears to enhance job design rather than displace labour, though monitoring repetitive strain injuries remains critical. Community engagement reflects a strategic approach, with tangible investments and upstream solutions to mitigate water and energy impacts. We will continue engagement to track workforce transition programs as automation scales and validate community impact outcomes in high-growth regions.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

● Top quartile ● Second quartile ● Third quartile ● Bottom quartile

For illustrative purposes only. The mention of any stocks or securities is not a recommendation to deal

Engagement case studies

Company: HDFC Bank Ltd

Mailing country: India

Sector: Financials

Priority company: ✓

ESG risk rating: ●

Response to prior engagement: Adequate

Theme: Climate Change; Labour Standards

Engagement case study name: Improving climate risk governance, advancing financial inclusion and diversity

SDG: 13.2



Background

HDFC Bank is India's leading private sector bank actively engaging with the Reserve Bank of India (RBI) regarding draft framework for climate-related financial risk disclosures. They expect final guidelines by the end of 2025 and plan to align disclosures with RBI requirements. The bank has strengthened board oversight through ESG and CSR Committee meeting three to four times annually, with carbon neutrality as a top priority alongside benchmarking against peers. Currently disclosing Scope 1 and 2 emissions, they find Scope 3 disclosure challenging due to the need for absolute certainty. Financed emissions have grown from 5%-7% of book, with improving data availability but accuracy remaining critical. The bank has made significant strides in financial inclusion with half of branch operations in rural areas and 35% of total book dedicated to private sector lending including retail, joint liability, and micro-lending.

Action

We engaged to understand their climate transition plan, biodiversity mapping, and workforce diversity progress. HDFC has started mapping nature dependencies in loans and investments, with updated materiality analysis showing biodiversity most material within shipping and salmon farming portfolios. The bank developed an ESG agent to collect better customer data on ESG issues from corporate clients. On workforce diversity, attrition reduced by 30% with junior attrition following the same trend. Gender diversity improved, reaching 25% representation one year ahead of schedule, remaining on track for 27% by FY27. Artificial intelligence became central to growth strategy, particularly enhancing customer experience and digital onboarding, while maintaining human oversight to mitigate algorithmic bias risks.

Verdict

HDFC demonstrates a systematic approach to climate risk management while preparing for evolving regulatory requirements. Their comprehensive financial inclusion efforts and improved workforce diversity metrics position them well for sustainable growth. The bank's proactive ESG integration and technology adoption support both operational efficiency and social impact objectives.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

● Top quartile ● Second quartile ● Third quartile ● Bottom quartile

For illustrative purposes only. The mention of any stocks or securities is not a recommendation to deal.

Engagement case studies

Company: Mercedes-Benz Group AG

Mailing country: Germany

Sector: Consumer Discretionary

Priority company: ✓

ESG risk rating: ●

Response to prior engagement: Good

Theme: Climate Change; Environmental Stewardship

Engagement case study name: Strategic EV adjustment balancing regional realities with decarbonization goals

SDG: 9.4



Background

Mercedes-Benz Group AG is a German multinational vehicle manufacturer. The company has significantly adjusted its electrification strategy, abandoning the previous 2030 "all-electric" target in favour of a more measured 50% EV share by 2030, with full electrification potentially by 2035. Mercedes acknowledges regional adoption disparities with the US expected at only 40-50% by 2030 compared to Europe and Asia. Management explained their "tactical flexibility" approach for combustion engines while strategically preparing for an all-electric future, with electrified high-tech combustion engines expected to remain in their portfolio until well into the 2030s to align with varying regional infrastructure and consumer demand patterns. Mercedes faces significant challenges with their ACC battery joint venture, recording a EUR350 million impairment in 2024.

Action

We engaged with the sustainability team to understand their revised EV strategy, cost reduction initiatives, and investment plans as they navigate complex transition to electrification across different regional markets. It was good to note Mercedes achieved significant progress in battery cost reduction with 30% per kWh improvement on their MMA platform through chemistry changes, though margin parity between EVs and ICE vehicles isn't expected until 2030. The company also detailed their new all-electric CLA launching in Q2 2025, delivering 790+ km range and 320 km charging capability within 10 minutes.

Verdict

We see that Mercedes continues to progress on its EV strategy, though view the company as behind peers such as BMW. In particular, we continue to have concerns around Mercedes' battery strategy and see that the company is behind peers in moving towards a zonal architecture. We continue to encourage stronger upstream value chain emissions management and raise our concerns around how Mercedes can mitigate ACC's weakness as a strategic battery supplier.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

● Top quartile ● Second quartile ● Third quartile ● Bottom quartile

For illustrative purposes only. The mention of any stocks or securities is not a recommendation to deal

Engagement case studies

Company: PPG Industries Inc

Mailing country: United States

Sector: Materials

Priority company: ✓

ESG risk rating: ●

Response to prior engagement: Good

Theme: Corporate Governance

Engagement case study name: Governance modernization amid board independence and compensation scrutiny

SDG: 16.6



Background

PPG Industries is a leading global supplier of paints, coatings, and specialty materials serving customers in construction, consumer products, industrial, and transportation markets worldwide. The company is implementing governance improvements including granting shareholders owning 25% of outstanding shares the right to call special meetings and providing officer exculpation to the fullest extent permitted under Pennsylvania law. Board independence concerns center on Guillermo Novo, who serves as Chair & CEO of Ashland Inc., with Ashland being a supplier to PPG, with 2022 sales volumes exceeding independence thresholds. Novo serves on the Human Capital Management & Compensation Committee, with the company considering him fully independent when applying NYSE independence standards. The company notes Ashland transactions have declined significantly with procurement decisions being independent, while average board tenure has been reduced from 10 years to 4 years.

Action

We engaged with PPG Industries management to discuss governance modernization efforts, board independence concerns, and strategic positioning amid ongoing scrutiny of their governance practices. A strong Lead Independent Director role is emphasized for agenda-setting and governance balance, with an updated skills matrix used to ensure relevant expertise. Their governance guidelines have been revised to support longer tenure flexibility while maintaining independence. Compensation practices are under review, with governance focus on aligning pay with performance and maintaining independence in compensation decisions. The company remains open to M&A opportunities subject to antitrust considerations, continuing to monitor competitive landscape and governance implications of potential transactions.

Verdict

PPG demonstrates governance improvements while facing legitimate concerns about board independence and compensation alignment that require continued attention. The company's modernization efforts through special meeting rights and officer exculpation show responsiveness to shareholder concerns. However, their board independence issues, and related-party transactions warrant our ongoing monitoring and scrutiny for governance effectiveness.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

● Top quartile ● Second quartile ● Third quartile ● Bottom quartile

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Appendix



SDG	Target	Target Summary
SDG2	2.1	End hunger and ensure access to safe and nutritious food
SDG2	2.4	Implement climate-resilient and sustainable food production
SDG3	3.8	Access to medicines and health-care
SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
SDG6	6.3	Improve water quality by reducing pollution
SDG7	7.2	Substantially increase the global share of renewable energy
SDG8	8.5	Achieve full and productive employment for all
SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
SDG8	8.10	Increase access to finance
SDG9	9.1	Develop resilient and sustainable infrastructure
SDG9	9.4	Upgrade and retrofit industries to increase sustainability
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG13	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.3	Improve education & the capacity for climate change mitigation

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Quarterly
Engagement
Report

October-December
2025



• **Climate**
Transition Plans
• **CAHRAs** • **Steel**
Decarbonisation

ENGAGEMENTS



Cover and left image: Alamy

Coastal sea defences in Suffolk England

CLIMATE

CLIMATE TRANSITION PLANS

Climate change is a systemic and financially material risk to long-term investors. LAPFF considers companies that provide credible transition pathways, and demonstrate strategic adaptability are better positioned to navigate this transition.

In this context, robust climate transition planning has become a core governance priority. While an increasing number of companies now publish their transition strategies, there is still a material segment of issuers which do not have climate commitments underpinned by measurable targets, clear delivery pathways, or transparent reporting on associated financial planning and capital

expenditure. Ensuring effective oversight mechanisms are in place is therefore critical. As such, LAPFF considers it best practice for companies to put their climate transitions plans, commonly referred to as a ‘Say on Climate’, to shareholder vote at least once every three years, and more frequently if significant changes to the climate strategy have occurred. For minority shareholders with limited access to senior management, governance mechanisms of this nature are important as a means of holding boards to account. These votes also provide a valuable opportunity for investors to express support or concern on a core part of a company’s strategy.

Objective: To ensure that issuers are planning for the decarbonisation of their business and effectively managing transition risks, LAPFF engages companies on the development, disclosure and implementation of robust climate transition strategies. LAPFF expects these plans to include

quantifiable, measurable and science-based targets, supported by credible and clearly articulated strategies for delivery, alongside disclosure of material climate-related impacts within the financial statements.

Achieved: LAPFF and CCLA facilitated a letter to the FTSE 100 (minus investment trusts) urging constituents to provide shareholders with a vote on their firms’ climate transition plans and strategies at least once every three years. The letter was supported by investors with a collective AUM of £3.1 trillion.

Of the 95 companies that LAPFF wrote to, 71 provided material responses outlining their approaches to climate change and confirming whether they would put their transition plans to a shareholder vote. Within this, eight companies committed to holding such a vote, five of which noted that this would be on a triennial basis. The companies that committed to doing so were Legal & General Group, Anglo American,

ENGAGEMENTS

Glencore, SSE, National Grid, United Utilities, Centrica, and Shell. A further six are keeping the option of holding a vote under review.

Following receipt of the letter, LAPFF also held meetings with Schroders, Lloyds, SSE, Barclays, Shell and Standard Chartered in Q4 to discuss these plans.

Schroders outlined its approach to climate transition planning, including early publication of a climate transition plan in 2022, Science Based Targets (SBTs) set in 2021, and portfolio-level temperature alignment analysis which it described as being focused on real-economy transition, particularly in hard-to-abate sectors, supported by extensive company engagement and board-level oversight of climate risk.

While Schroders reiterated its strong commitment to climate governance and active ownership, it maintained its position against putting its climate transition plan to a shareholder vote, arguing that its engagement-led model provides greater flexibility and impact; LAPFF reiterated the value of a formal Say on Climate, particularly for minority and less-engaged shareholders, and encouraged continued consideration of this mechanism.

Lloyds outlined how climate and sustainability are embedded within its group strategy and governance, including reporting sustainability objectives alongside financial objectives, linking remuneration to sustainability and diversity metrics, and progressing delivery across key “systems” (built environment, transport, food & farming, and energy), supported by sustainable finance targets and expanded work on nature risk and client engagement.

Lloyds confirmed the board considers the potential of a transition plan vote annually but maintained its current approach of treating climate as integral to overall strategy (rather than a standalone vote), alongside ongoing disclosure enhancements and engagement channels.

Barclays outlined progress on its climate transition strategy, including publication of its latest transition update in July 2025, continued commitment to a 2050 net-zero target, sector-specific emissions reduction targets, and enhanced disclosure on sustainable and transition finance.

Barclays highlighted its client transition framework, portfolio-wide



climate stress testing, and integration of transition and physical climate risks into credit and capital planning, while noting that it continues to keep a ‘Say on Climate’ vote under review.

Shell reaffirmed its commitment to holding a shareholder vote on its climate transition strategy, confirming that its next strategic update will be published in the second half of 2026 and put to a shareholder vote at the 2027 AGM.

LAPFF also discussed key elements of Shell’s transition strategy, including its reliance on carbon capture and storage, treatment of LNG as a transition fuel, and exposure to demand, pricing, and geopolitical risks.

Standard Chartered outlined progress against its 2022 shareholder-approved Net Zero Roadmap, including delivery of its inaugural transition plan in 2025, completion of interim 2030 targets across all 12 Net Zero Banking Alliance (NZBA) high-emitting sectors, reductions in financed and operational emissions, and deeper integration of climate considerations into client engagement, capital allocation, and credit risk management.

LAPFF noted material changes in the

external environment since 2022 to the bank. Standard Chartered maintained that the existing shareholder mandate remains valid and that it continues to report and deliver against it, while acknowledging the role of shareholder votes as a governance mechanism and committing to ongoing dialogue with investors.

LAPFF engaged SSE to secure a clear and durable approach to shareholder oversight of the company’s Net Zero Transition Report as it moves to a three-year “Say on Climate” cycle and navigates leadership changes in both the CEO and Chief Sustainability Officer roles. In LAPFF’s meeting with SSE, the company confirmed the next advisory vote will be at the 2028 AGM, and outlined how it will report progress annually through its reporting suite, including alignment with Transition Plan Taskforce (TPT) guidance and annual assurance of GHG emissions. SSE explained its governance processes for assessing and escalating material changes, confirmed oversight arrangements (including the Safety, Sustainability, Health and Environment Advisory Committee), and set out how climate and sustainability considerations are reflected in executive pay.

In Progress: Looking ahead, LAPFF will continue to treat shareholder oversight of climate transition planning as an evolving governance issue rather than a one-off exercise. The Forum will monitor the use, withdrawal, and framing of climate-related resolutions at company AGMs through 2026, and will maintain structured dialogue with issuers where transition plans are put to a vote or materially updated.

In parallel, LAPFF is increasingly focused on emerging risks to accountability within this mechanism. In particular, the Forum is concerned by instances where companies dilute, defer, or withdraw previously articulated climate commitments, or materially alter transition strategies, without providing shareholders with a corresponding opportunity for approval or re-endorsement. Where companies step back from commitments that were previously supported by a significant majority of shareholders, LAPFF will expect clear justification, enhanced disclosure, and evidence of board-level scrutiny.

ENGAGEMENTS



Image: Alamy

Fossil-free steel is manufactured at the ironworks at SSAB in Oxelosund, Sweden

STEEL

Objective: Building on LAPFF's engagements with leading steelmakers in Q4, LAPFF met with SSAB, thyssenkrupp and Nippon Steel. Within these engagements, the objective was to assess the sector's progress in commercialising and scaling low/no-carbon steel and the credibility of transition delivery plans. LAPFF sought updated detail on the market and expected production volumes, target customers and end-use sectors, and how companies anticipate green price premiums evolving over time.

Engagement explored the scope for independent verification of product claims (including potential third-party ResponsibleSteel verification), and clarify the key milestones, dependencies and risks in shifting major production sites to low-carbon production pathways. A further focus was on how companies are managing constraints around

scrap availability, access to renewable electricity, and hydrogen/alternative fuel supply, and how the transition is being financed (including any public support), with particular attention to implications for balance sheets, capital discipline and overall risk profiles.

Achieved

Nippon Steel: Nippon Steel clarified that the company's low-/no-carbon steel offering remains at an early stage of commercialisation. The company indicated it can meet some spot demand, but is not yet in a position to scale to meet larger, longer-term demand requirements, particularly for the automotive sector. The company also stated it could not provide a robust forecast for volumes and demand at this stage. The discussion further improved understanding of how the company approaches product credibility and customer communication, including its use of mass-balance traceability and customer certificates, as well as

sensitivities around green claims. The engagement further surfaced key constraints shaping the transition pathway, including limited availability of DRI-grade iron ore, uncertainties around hydrogen availability and economics, and the likelihood that CCUS may be required for residual emissions in parts of the pathway. The company also referenced involvement in government-led initiatives/projects, indicating that public-sector support and enabling infrastructure remain relevant considerations.

Achieved

SSAB: The SSAB engagement provided more concrete insight into near-term plans and dependencies for scaling low-/no-carbon steel. SSAB discussed its ambition for SSAB Zero, its no-carbon product, volumes, including a stated 2025 target of 100,000 tonnes (noting the challenge of delivering this), and indicated an intention to disclose medium- and long-term volume

ENGAGEMENTS

targets in due course. The discussion also clarified SSAB's view on "green premiums": SSAB considers premiums to be more defensible for net-zero steel than for "lower-emissions" products, and emphasised that premiums should ultimately reflect quality and performance. It also noted that green premiums may reduce over time as fossil-free routes become cost-competitive. On transition delivery, the engagement clarified revised timelines and the extent to which progress is shaped by external enabling conditions, particularly grid connections and infrastructure, with updated targets including its Luleå plant moving to end-2029 and Oxelösund plant shifting to early-2027. It is worth noting that Sweden's abundant supply of low-carbon electricity is a key advantage underpinning SSAB's leadership position in scaling fossil-free steel. Finally, SSAB outlined an approach to financing that relies primarily on balance sheet and cash flow, stating that the transition is not contingent on government subsidies.

Achieved

thyssenkrupp: Engagement with thyssenkrupp helped deepen understanding of the company's staged product strategy (including *Bluemint* steel and its longer-term hydrogen-based steel ambitions) and the commercial and policy conditions affecting scale. The company highlighted that demand and competitiveness are being shaped by high energy costs, competition (including from imports), and the wider restructuring context, and it noted that *Bluemint* output has been lower than planned, without providing a clear split between *Bluemint* volumes and total shipments.

The discussion also clarified where demand is emerging including packaging steel and engagement with European automotive Original Equipment Manufacturers (OEMs). thyssenkrupp noted that new steel production routes remain more expensive than optimised blast furnace production. On milestones, the engagement confirmed that the company's timelines for operationalising its flagship direct reduction (DR) project has shifted closer to 2028 and higher output closer to 2029, and that decisions on further EAF expansion remain subject to optionality. The company's position on CCS and offsets remains the same as previous engagement where CCS is

not widely available domestically, and offsets are described as being used only where customers request "zero carbon" steel that cannot otherwise be supplied. Financing and enabling policy support were discussed in the context of subsidies and market incentives, with the company indicating that the lack of materialised support remains a challenge for investment and customer demand.

In progress: Overall, across the 2025 engagements, LAPFF has advanced its understanding of how steelmakers are approaching the commercialisation and scale-up of low-/no-carbon products, the near-term reality of constrained volumes, and the evolving nature of customer demand and price premiums. Engagements also took place against a challenging year for the sector, with demand for scaled "green" products often slower than companies had expected, and heightened uncertainty linked to market policy and tariff environment, including how overseas import volumes and pricing will evolve (eg: imports from Asia into Europe), and what that means for domestic producers' ability to compete on price and margins in core regional markets.

Several objectives remain in progress and will benefit from continued engagement in 2026. In particular, LAPFF will continue pressing for clearer forward-looking visibility on expected volumes and customer pipelines, and for stronger, more decision-ready approaches to assurance and verification. LAPFF will also maintain close scrutiny of plant transition milestones and delivery risk, especially where project timelines have shifted, and deepen assessment of practical constraints around renewable electricity, hydrogen/alternative fuels, and scrap/ore availability. Finally, LAPFF's work remains ongoing in testing how transition plans are being financed (including any role for public support) and what these strategies imply for balance sheets, capital discipline, and overall risk profiles.

ASIA RESEARCH AND ENGAGEMENT – ENERGY TRANSITION PLATFORM

Objective: LAPFF continues to support engagement with companies through Asia Research and Engagement's Energy Transition Platform, which focuses on accelerating the transition to sustainable energy in the continent. It engages across Asia's leading financial markets, with a focus on carbon risk and coal at financial institutions and coal-exposed power companies. LAPFF's two engagements with ARE in Q4 were with financial institutions, where there is a focus on enhanced disclosure, strengthened transition finance frameworks, and the adoption of clearer policies relating to the financing of more emissions intensive energy sources such as coal and oil sands.

Achieved: During the quarter, LAPFF joined a call with BDO Unibank for the first time, and Kasikornbank PCL (KBank) for the third time as part of this collaboration.

The engagement with BDO focused on the bank's progress in integrating climate and sustainability across its operations. Discussion covered the development of sectoral decarbonisation targets, coal phaseout, and alignment with national energy transition policies. LAPFF and other investors sought further detail on how BDO is assessing physical and transition risks under TCFD, embedding climate metrics into credit risk processes, and engaging clients on transition planning. The meeting also explored board oversight and ESG-linked remuneration, clarification of Scope 3 financed emissions, and BDO's expansion of its sustainable finance framework to include women-led enterprises, affordable housing, and new thematic bond initiatives.

In a meeting with KBank, the company discussed Thailand's potential shift to a 2050 national net-zero target and said it is closely monitoring this development. KBank also highlighted the uplift of its

ENGAGEMENTS

sustainable-finance commitment to THB 500bn (USD\$15bn) from THB 200bn, its tighter guardrails on gas financing, and the development of sectoral transition glidepaths, alongside a shift from a broad ESG approach to a transition-focused approach that includes just transition considerations. On sustainable finance execution, KBank noted its use of an internal framework and green taxonomy to classify activities, and reports that the total value of KBank's sustainable finance continues to grow. The bank monitors high-emitting clients against sector glidepaths and where alignment is lacking, KBank prioritises early engagement over punitive escalation. The bank notes SME uptake of green-loans remains limited due to awareness and policy constraints, so is focusing first on advisory-led support.

In Progress: Companies face regulatory bottlenecks and policy uncertainty in domestic markets, limiting their ambitions or implementation speed. The Forum will continue building on this foundation and collaboration with ARE to ensure companies decarbonisation strategies are credible.

ENVIRONMENT

Objective: LAPFF seeks to strengthen company preparedness for the physical impacts of climate change, recognising the need to build resilience throughout the value chain. The Forum expects investee companies to identify, disclose, and manage financially material physical climate and nature-related risks. This work is informed by emerging best practice, including IFRS sustainability standards and the objectives of Nature Action 100 (NA100), particularly where climate impacts intersect with nature-related dependencies such as water, land use, and ecosystem resilience.

Achieved: Continuing engagement under the NA100 framework, LAPFF joined a call with Zoetis, who demonstrated increased openness to deepening its approach to addressing nature-related risks and impacts. The company confirmed continued alignment with TCFD and SASB standards, strong voluntary disclosure on water, waste, climate and pharmaceuticals in the environment

(PiE), and active participation in NA100 benchmarking. Investors pushed the company on improving water efficiency, exploring on-site water reuse projects, and strengthening PiE disclosure, including the potential for expanded, standalone reporting.

In Progress: LAPFF continues to push companies to integrate nature-related risks into their governance and disclosure frameworks, particularly in line with TNFD recommendations. LAPFF also continues to monitor whether companies already engaged, are beginning to translate commitments into tangible actions on biodiversity, water stewardship, and supply chain risks.

SOCIAL FACTORS & HUMAN RIGHTS

MINING

Vale

Objective: LAPFF continues to act as lead investor on the Vale engagement under the PRI Advance Initiative, alongside EOS at Federated Hermes, PIMCO, Schroders, Erste Asset Management and Pensioenfonds Detailhandel. The group's objective is to strengthen how Vale governs and manages human rights risks, particularly grievance mechanism effectiveness, remediation delivery, and the credibility of employee and community feedback linked to the Brumadinho and Mariana dam collapses. During the quarter, investors met Vale to discuss findings from the second iteration of its Community Perception Survey and how these insights are being translated into risk management and site-level action. The engagement also took place against the backdrop of the 10-year anniversary of the Mariana disaster (5 November 2015), reinforcing investor expectations for demonstrable, outcomes-based progress for affected communities.

Achieved: The Q4 PRI Advance meeting focused on community and employee engagement and results from Vale's 2024 Community Perception Survey. The survey, conducted in 2024, was the second iteration of the community survey which was expanded to include traditional

communities. The first was in 2022. Vale acknowledged key signals in the findings, notably a decline in perceived quality of life versus 2022 and a reduction in general trust, alongside some positive movement such as improved perceptions of average income, and said it is analysing local drivers and translating feedback into operational actions.

The investor group also sought updates on Mariana and Brumadinho reparations, including how community satisfaction is being measured. Vale said the Renova Foundation - established in 2016 under the TTAC (Termo de Transação e Ajustamento de Condut) by Samarco Mineração S.A together with its shareholders Vale and BHP to deliver remediation and compensation following the Fundão dam collapse - is being liquidated, with remaining reparation programmes transitioning to Samarco Mineração itself (and, where relevant, public authorities) under settlement agreements.

Investors raised media reporting from August 2025 (Financial Times/Reuters) that BHP and Vale had offered \$1.4bn in relation to the UK litigation over Mariana. Neither Vale nor BHP have publicly commented on this report.

In Progress: The engagement with Vale will continue into 2026, as LAPFF will continue to press Vale for clearer, outcome-based evidence that insights from the 2024 Community Perception Survey are being translated into concrete, site-level changes, including how priorities are set, what actions are implemented, and how improvements (particularly on trust, quality of life and grievance effectiveness) are measured and disclosed over time. The engagement will be informed by external perspectives from communities, including Earthworks' April 2025 The Truth About Vale report, which highlights the need to reconcile company and community accounts and demonstrate verified outcomes.

GLENCORE

Objective: LAPFF progressed engagement with Glencore in 2025, by meeting with the Chair, Mr Kalidas Madhavpeddi. This engagement built on an earlier meeting with the Company Secretary and Head of Sustainability in

ENGAGEMENTS

May which focused on water stewardship and broader E&S governance.

The objective for the engagement with the Chair was to strengthen board-level governance and accountability for key environmental and social risks, while also testing the Board’s approach to ethics and compliance post-monitorship, and oversight of climate strategy and human rights.

Achieved: LAPFF met Glencore’s Chair, Kalidas Madhavpeddi in-person in London for a wide-ranging discussion that picked up from earlier dialogue on water stewardship. The company described ongoing investment in desalination and site-level water monitoring, and the meeting explored the governance of environmental and social issues, including just transition considerations. The discussion also covered the early conclusion of the US Department of Justice compliance monitorships (which were imposed on the company in 2022 after it was convicted of paying bribes and manipulating commodities markets) and the implications for embedding a durable ethics and compliance culture, alongside topics including cyber security and the company’s approach to managing current tariff changes.

In progress: LAPFF values it’s strong engagement with Glencore and will continue to press the company for measurable governance improvements, including: a clear commitment to independent water risk assessments across operations, stronger disclosure of named board-level accountability for climate strategy and human rights (remit, skills and KPIs), more granular grievance mechanism performance data, and a more robust approach to lobbying/trade association alignment supported by transparent criteria and time-bound actions. LAPFF will also continue to test the Board’s oversight of just transition delivery and the embedding of post-monitorship compliance culture, including how progress is reported to investors.

Sora Molino area, in the vicinity of Porco. This area is deserted because of the lack of water and the environmental contamination linked to the mining activities of the region.

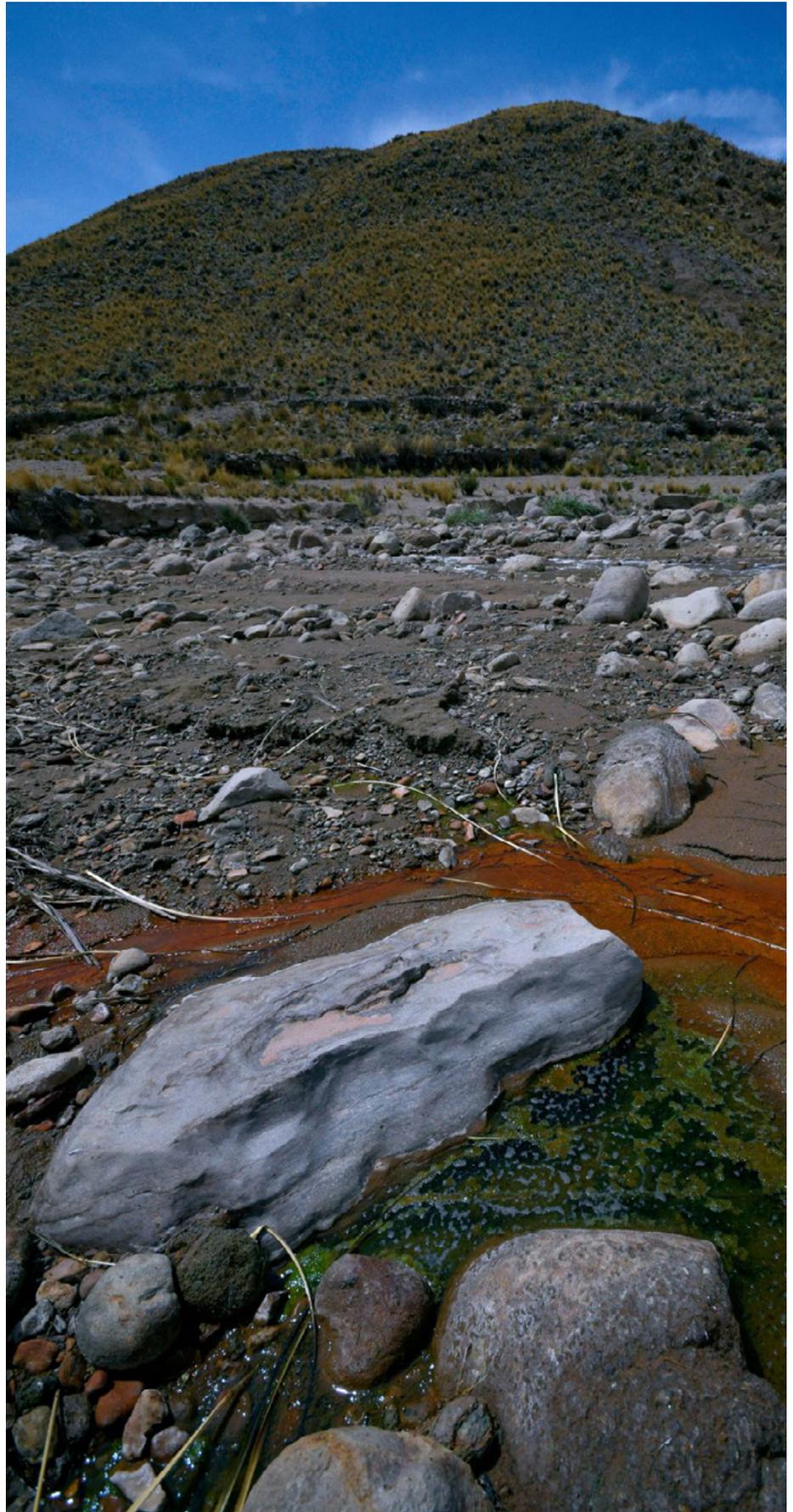


Image: Alamy

Employment Rights Act 2025

The Employment Rights Act (ERA) 2025 (formerly the Employment Rights Bill) is the most significant shake-up of UK employment law in a generation. The Act is a highly anticipated element of Labour's 2024 election manifesto. Officially introduced by the Labour Government in October 2024, the Bill has now completed its passage through Parliament and is set to come into force in phases from April 2026.

The Bill promises to deliver sweeping reforms: day-one rights for workers, stronger protections on sick pay and parental leave, restrictions on "fire and rehire" practices and enhanced union rights. At the heart of the public debate, and the material focus of LAPFF's recent company engagements on the Act, are the changes to the use and management of zero hours contracts.

Overview of the ERA:

The Act's central aim is to "make work fairer". Key measures include:

Day-one rights: parental leave, and flexible working request available from the first day of employment.

Stronger sick-pay: removal of waiting days and extension to lower-paid workers.

Predictability at work: new protections against one-sided flexibility in working arrangements.

Limits on "fire and rehire": curbing the practice of dismissing staff only to re-engage them on worse terms.

Union and collective rights: simplifying recognitions rules and repealing "minimum service levels" legislation.

Zero Hour Contracts (ZHCs)

Around 1 million UK workers are on ZHCs, disproportionately impacting women and ethnic minorities. Prior to the Act, workers on ZHCs had no guaranteed hours, even if they regularly worked the same pattern. Employers could cancel or reschedule shifts at very short notice. The only new right before Labour's reforms was the right to request predictable hours under the 2023 Workers (Predictable Terms and Conditions) Act, but this had not yet come into force and could be refused on business grounds.

With the introduction of the ERA, casual contracts are essentially moving from flexibility to stability and predictability.

During scrutiny at the House of Lords (September 2025), Peers pressed for amendments to reduce the practical burden on employers – particularly those in sectors with seasonal/variable-hours workers, namely retail, hospitality and social care. Amendments sought for included longer reference periods, exemptions for small businesses and weaker enforcement measures.

Whilst engaging issuers across different sectors, two themes have been consistently been raised. First, companies are already phasing out ZHCs, often ahead of legislative requirements. Second, they are weighing the tension between providing contractual certainty and retaining operational flexibility.

During LAPFF's follow-up engagement on the subject of the ER Act with Hollywood Bowl, the leisure operator's senior executives confirmed that ZHCs had been fully phased out over the summer of 2024. These were replaced with fixed-hour

and seasonal contracts. While supportive of the wider policy direction, the company remained consistent and raised concerns about how such changes might affect opportunities for younger or student workers who value flexibility, this concern was also noted by LAPFF during the engagement with the company in 2024. LAPFF also noted the company's sentiment concerning enhanced reporting on contract types and demographics, stating this would be burdensome for the company to complete unless required by law.

In the hospitality sector, Intercontinental hotels Group (IHG) the global hotel group, told LAPFF that it too had removed ZHCs from its directly managed hotels, though it could not confirm how prevalent such contracts remain in franchised or outsourced operations. The shift, in this case, was not only in anticipation of legislative reform but also a pragmatic response to post-pandemic hiring and retention pressures. The group acknowledge that agency work and outsourced cleaning services still involve ZHC arrangements, and that reputational risk remains if franchisees are slow to adapt. LAPFF will meet with IHG and facilities management and outsourcing services company, Mitie, in Q1 of 2026 to further engage on the impacts of the ERA.

Key Reflections

LAPFF engagements on the ERA underline three important points for investors and stakeholders:

- 1. Momentum is already shifting** – many companies are moving ahead of regulation, but their approaches vary. Some see ZHC reform as aligning with workforce strategy, others as a compliance exercise.
- 2. Flexibility vs. fairness** – Businesses continue to voice concerns about potential unintended consequences, particularly where variable hours suit parts of the workforce. Balancing this with fair and secure contracts remains a live discussion.
- 3. Transparency and reporting** – There is little appetite for voluntary disclosure on contract types and demographics. Unless mandated, companies are unlikely to provide additional data to investors or the public.

Looking Ahead

As the ERA moves towards implementation in 2026, companies will be expected not only to comply with the letter of the law but also to demonstrate that they are managing workforce risk responsibly. The strategic phasing-out of ZHCs is just one visible example of this shift.

LAPFF's position on the provision and use of ZHCs remains that there is no clear evidence that companies using zero-hour contracts and precarious work practices outperform companies with different and more inclusive human capital strategies. If used, companies should justify their use to shareholders. Therefore, the Forum's role will be to continue engaging with businesses, encouraging them to anticipate the operational and reputational implications of the ERA reforms, particularly in respect to ZHCs, rather than waiting for regulation to compel change. The message to businesses is clear: the ground is already moving, and those who adapt early will be better placed to navigate the new landscape.

ENGAGEMENT

ELECTRIC VEHICLES

Objective: LAPFF has continued engagement with electric vehicle manufacturers, seeking enhanced due diligence in their supply chains, which often are subject to heightened human rights risks. LAPFF supports the principles of a fair and just transition and companies must demonstrate that they are effectively preventing, addressing, and remedying any potential or actual human rights abuses in their supply chains. Commitments from companies should translate into demonstrated action with qualitative and quantitative datasets to support their claims.

Achieved: LAPFF met with Renault during the quarter to discuss governance, risk management, supplier transparency and audit practices in relation to human rights. Renault outlined recent updates to its Supplier Code of Conduct, now aligned with OECD Guidelines and strengthened with enhanced human rights provisions, including a new chapter on Indigenous rights and expectations for suppliers to implement and cascade due diligence.

The company has refreshed its supplier ranking system, tightened sourcing processes, and expanded use of EcoVadis. Renault described its risk-mapping exercise covering 18 minerals and 81 countries, informing heat maps, supplier engagement and mitigation plans. The company is developing digital traceability tools to meet emerging regulatory requirements, including CSDDD, EUDR, and FLR.

LAPFF pushed the company for enhanced transparency on its audit results and risk mapping exercises, explaining that responsible and resilient companies demonstrate this by taking ownership of issues at all levels of their supply chain.

In Progress: LAPFF is continuing to seek engagements with electric vehicle manufacturers, impressing upon them the benefits of transparent reporting and enhanced due diligence, whilst seeking to better understand what work companies are doing and how they are managing a just transition.

CONFLICT AFFECTED AND HIGH-RISK AREAS (CAHRAS)

Objective: LAPFF aims to drive improved corporate practices in conflict-affected and high-risk areas (CAHRAs), recognising these contexts pose acute human rights, legal, and reputational risks for companies and investors alike. Against a backdrop of increased global conflict, LAPFF seeks to engage companies to encourage heightened human rights due diligence (hHRDD), informed by the UN Guiding Principles on Business and Human Rights, and additional pieces of guidance related to best practice in CAHRAs. The Forum also seeks greater transparency on how companies make decisions about operating in these areas, how they provide or contribute to remedy when harm occurs, and whether the company is undertaking conflict analyses where relevant.

Achieved: Volvo and Microsoft were two companies that LAPFF reached out to in the second half of 2025 in relation to their business activities being noted as contributing to conflict dynamics in the occupied Palestinian territories (OPT).¹

Volvo

In a meeting with Volvo during Q4, LAPFF sought additional information on the company's human rights due diligence and responsible sales practices in CAHRAs. The company outlined its global dealer due diligence process, contractual human rights requirements, and updated risk assessments completed in 2024. Volvo confirmed it has no direct operations in Israel but does have an independent dealer. LAPFF discussed the company's approach around legal and operational complexities of managing product use in CAHRAs,

Volvo noted legal and operational complexities of managing product use in conflict-affected areas but explained its undertaking of engagement with legal experts and UN representatives to develop its approach. LAPFF encouraged the company to consider a more formal

conflict analysis framework that considers its entire portfolio.

Microsoft

Two shareholder proposals were filed at Microsoft ahead of its December AGM relating to human rights. Resolution 8, 'Report on Data Operations in Human Rights Hotspots', requested that the company assess the human rights implications of locating cloud datacentres in countries of significant concern and outlining strategies to mitigate related risks. Resolution 9 'Report on Human Rights Due Diligence', requested that the company assess the effectiveness of its human rights due diligence processes in preventing, identifying, and addressing customer misuse of its AI and cloud services that could contribute to human rights violations or breaches of international humanitarian law.

LAPFF issued a voting alert to its members, recommending a vote in favour of both resolutions 8 & 9, with a view that companies operating in CAHRAs should demonstrate clear, transparent, and robust approaches to heightened human rights due diligence. As Microsoft continues to expand its cloud and AI infrastructure globally, including in jurisdictions with restrictive civic environments and heightened risks of state surveillance, shareholders should have the confidence that the company is actively assessing and mitigating potential adverse human rights impacts linked both to its operations and to end-use of its technologies. Within its arguments, Microsoft articulated commitments and processes aligned with international standards but LAPFF did not view these as providing sufficient clarity on how risks assessments were undertaken, how decisions were made, or how oversight mechanisms function in CAHRAs. Investor sentiment on concerns around Microsoft's practices related to these resolutions was echoed at the AGM, with the resolutions receiving significant support of 27.48% and 26.34% respectively.

LAPFF also raised concerns at Microsoft's AGM, asking the company to commit to heightened human rights due diligence, and to conduct an in-depth assessment of its exposure to CAHRAs.

¹ <https://www.ohchr.org/en/documents/country-reports/ahrc5923-economic-occupation-resonomy-genocide-report-special-rapporteur>

ENGAGEMENT

Tunneling for water pipeline known as West East Link Main for United Utilities



Image: Alamy

Chevron

The oil & gas sector is inherently exposed to conflict affected and high-risk areas (CAHRAs), in part due to the geographies in which operations are situated. In December, LAPFF met with Chevron to discuss its approach to managing human rights and security risks in CAHRAs. Chevron outlined its use of Verisk Maplecroft as one input into its broader Operational Excellence Management System (OEMS), which integrates environmental, social, and security risk assessments at the business unit level and is reviewed annually, with findings escalated to senior management and the board. Chevron described a layered risk management approach involving local leadership, corporate subject-matter experts, and third-party assurance, with board-level oversight through regular briefings and deep dives on higher-risk jurisdictions.

LAPFF focused the discussion on whether Chevron’s framework constitutes heightened human rights due diligence appropriate to CAHRAs, including the extent to which the company undertakes conflict-sensitive analysis. While Chevron stated that it takes a “360-degree view” of how its operations may affect surrounding communities, it did not provide clarity on whether it conducts formal conflict analysis or systematically assesses how its activities may interact with or exacerbate conflict dynamics beyond operational safety considerations. LAPFF encouraged Chevron to strengthen

its hHRDD approach in CAHRAs through clearer conflict analysis and improved public disclosure on grievance outcomes and community impacts. LAPFF was also invited to attend an investor workshop, coordinated by the Heartland Initiative and TrustWorks Global, to consider that investor best practice looks like in the analysis of risks associated with investments in CAHRAs, and how to lead engagements on the issue. During the three days, LAPFF also attended a range of sessions covering human rights impacts and due diligence. A consistent theme across discussions was the need to place affected stakeholders at the centre of business decision-making when human rights risks are present. Speakers emphasised that grievance mechanisms and access to remedy must be designed to anticipate harm rather than simply respond to it, and that meaningful stakeholder engagement is essential at every stage of due diligence. Ensuring that affected communities and workers can shape these processes not only reduces future risk but also strengthens the resilience and legitimacy of companies’ business models. LAPFF attended sessions covering topics on stakeholder engagement, artificial intelligence, CAHRAs, labour migration, and human rights defenders.

In Progress: LAPFF continues to focus on CAHRAs and intends to write to more companies in the first half of 2026 requesting further detail on approach

to managing human rights risks in the context of CAHRAs. LAPFF will also be following up, seeking an engagement meeting with Microsoft, alongside providing tailored recommendations to Volvo and Chevron regarding LAPFF’s expectations on CAHRAs.

GOVERNANCE

United Utilities

Objective: LAPFF continued its engagement with UK water utilities, meeting with United Utilities in Q4. These water sector engagements remain highly material as the sector faces heightened scrutiny over environmental performance and public trust. Engagement prioritises understanding the company’s plans, governance and investment delivery to reduce storm overflow and sewage discharges, in the context of persistently high spill activity reported in 2024. Additionally, through 2025 the Forum was also exploring how water utilities companies are preparing for the UK’s evolving regulatory landscape, including the Government’s announcement that Ofwat will be abolished and replaced by a single, more powerful regulator combining key functions currently split across multiple bodies.

Furthermore, LAPFF’s long-standing engagement in the sector has begun incorporating emerging

ENGAGEMENT

concerns, particularly how companies are responding to PFAS (per- and polyfluoroalkyl substances), including trifluoroacetic acid (TFA), and other “forever chemicals” in Britain’s rivers. Research led by the University of York tested samples from 32 rivers across all four UK nations and detected TFA in 98% of locations, underscoring the scale of the issue and raising concerns about potential long-term health effects, including possible reproductive impacts. As additional investment flows into the sector, funded in part through higher customer bills, robust engagement on water quality, accountability, and risk management in this vital public service remains highly material.

Achieved

United Utilities: The meeting with the Chair of United Utilities (UU), Sir David Higgins, strengthened LAPFF’s understanding of how the company is approaching the sector’s core environmental and trust challenges. UU set out the operational and investment programme it is pursuing to reduce storm overflows, including a trajectory for its higher-priority sites (moving from a baseline of around 40 to 26 currently, with a further reduction target to 18 by 2030 and 10 by 2050). The engagement also provided useful detail on how

monitoring and public reporting shape perceptions of performance: UU noted it already has per-second monitoring capability, while some peers have historically reported at much lower resolution, and the sector’s move to a common two-minute standard will materially change comparability.

A further key insight was UU’s focus on resilience and enabling infrastructure, particularly power reliability, with UU stating that around one-third of spill events are linked to power failures and highlighted mitigations such as deploying backup generators at vulnerable sites.

On the regulatory landscape, UU described an ongoing debate about the respective roles of Ofwat and the Environment Agency and expressed concern about the risks of “two regulators not talking” and fragmented accountability. The discussion referenced the Cunliffe recommendations and the prospect of a single-regulator model, with UU suggesting that some benefits of reform could be delivered even before formal legislative change if there is alignment and closer coordination across leadership and institutions. Overall, UU expects tighter coordination between economic and environmental regulation and is preparing for the implications of reform through the current price control period.

In progress: LAPFF will monitor United Utilities’ delivery of its storm overflow programme by seeking clearer interim milestones and outcome-based reporting. This should enable like-for-like comparisons as a sector-wide two-minute overflow monitoring standard is embedded and help communicate impacts in plain language.

Further work is also needed to understand how UU is translating enabling-infrastructure risks (particularly power reliability) into a mapped, prioritised resilience plan (including engagement with energy regulators and network operators where relevant).

On PFAS and microplastics, LAPFF will continue to seek clearer disclosure on UU’s strategy, including how trade-waste controls, sludge disposition capacity, and public reporting will evolve, and how the company benchmarks its readiness against peers.

As sector investment rises and is funded in part through customer bills, ongoing engagement should test how UU, and the water utilities sector within the UK more broadly, is assuring value for money, transparency, and long-term environmental outcomes, including how regulatory changes may affect governance, accountability and incentives.

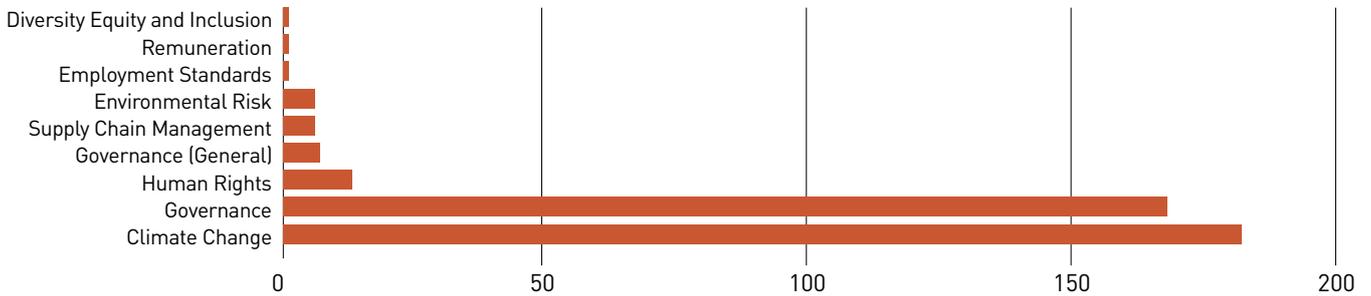
COMPANY PROGRESS REPORT

LAPFF engaged 116 companies over the quarter. The dataset below represents data taken from ‘Meetings’ only

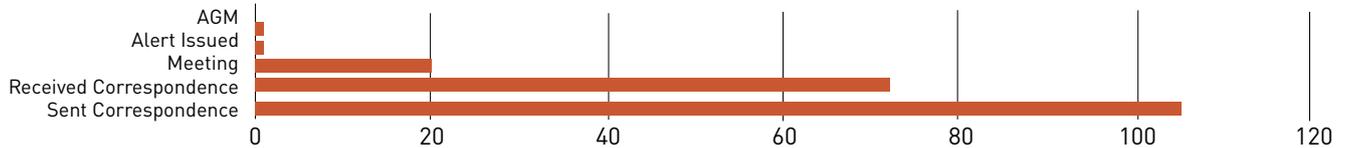
Company/Index	Activity	Topic	Outcome
BARCLAYS PLC	Meeting	Climate Change	Dialogue
BDO UNIBANK INC	Meeting	Climate Change	Change in Process
CHEVRON CORPORATION	Meeting	Human Rights	Dialogue
GLENCORE PLC	Meeting	Environmental Risk	Small Improvement
JD SPORTS FASHION PLC	Meeting	Employment Standards	No Improvement
KASIKORNBANK PCL	Meeting	Environmental Risk	Small Improvement
LLOYDS BANKING GROUP PLC	Meeting	Climate Change	Dialogue
MOLINA HEALTHCARE INC	Meeting	Remuneration	Change in Process
NIPPON STEEL CORP	Meeting	Climate Change	No Improvement
RENAULT SA	Meeting	Human Rights	Change in Process
SCHRODERS PLC	Meeting	Climate Change	Dialogue
SHELL PLC	Meeting	Climate Change	Dialogue
SSAB (SVENSKT STAL AB)	Meeting	Climate Change	Dialogue
SSE PLC	Meeting	Climate Change	Satisfactory Response
STANDARD CHARTERED PLC	Meeting	Climate Change	Dialogue
THYSSENKRUPP AG	Meeting	Climate Change	Dialogue
UNITED UTILITIES GROUP PLC	Meeting	Environmental Risk	Small Improvement
VALE SA	Meeting	Human Rights	Dialogue
VOLVO AB	Meeting	Human Rights	Dialogue
ZOETIS INC.	Meeting	Environmental Risk	Change in Process

ENGAGEMENT DATA

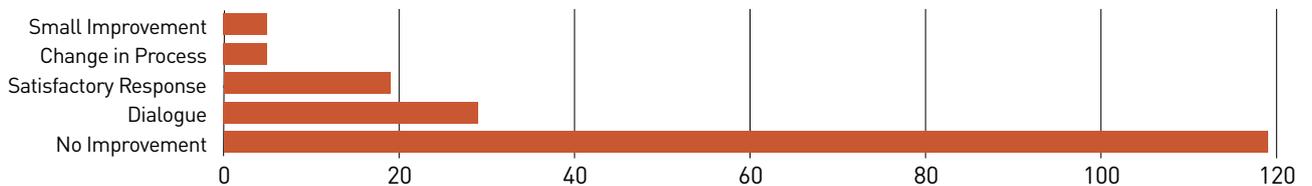
ENGAGEMENT TOPICS



ACTIVITY

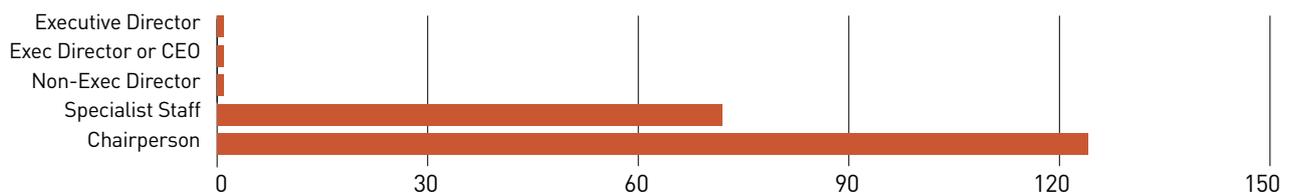


MEETING ENGAGEMENT OUTCOMES*



*Outcomes data is taken from 'Meetings', 'AGMs' and 'Received Correspondence' only

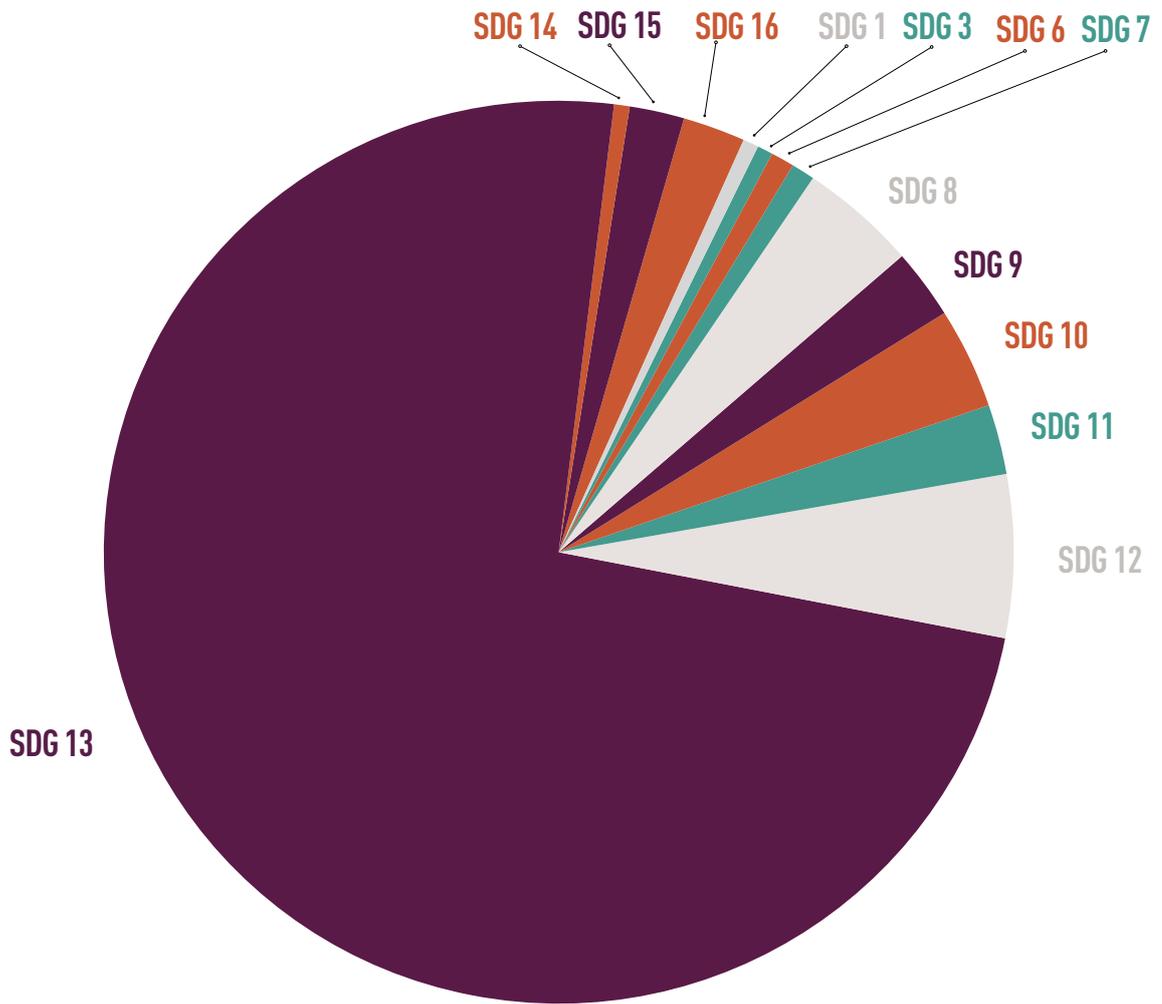
POSITION ENGAGED



COMPANY DOMICILES



ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS

SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	1
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	10
SDG 9: Industry, Innovation, and Infrastructure	6
SDG 10: Reduced Inequalities	9
SDG 11: Sustainable Cities and Communities	6
SDG 12: Responsible Production and Consumption	14
SDG 13: Climate Action	179
SDG 14: Life Below Water	1
SDG 15: Life on Land	5
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

Avon Pension Fund
 Barking and Dagenham Pension Fund
 Barnet Pension Fund
 Bedfordshire Pension Fund
 Berkshire Pension Fund
 Bexley (London Borough of)
 Brent (London Borough of)
 Cambridgeshire Pension Fund
 Camden Pension Fund
 Cardiff & Glamorgan Pension Fund
 Cheshire Pension Fund
 City of London Corporation Pension Fund
 Clwyd Pension Fund (Flintshire CC)
 Cornwall Pension Fund
 Croydon Pension Fund
 Cumbria Pension Fund
 Derbyshire Pension Fund
 Devon Pension Fund
 Dorset Pension Fund
 Durham Pension Fund
 Dyfed Pension Fund
 Ealing Pension Fund
 East Riding Pension Fund
 East Sussex Pension Fund
 Enfield Pension Fund
 Environment Agency Pension Fund
 Essex Pension Fund
 Falkirk Pension Fund
 Gloucestershire Pension Fund
 Greater Gwent Pension Fund
 Greater Manchester Pension Fund
 Greenwich Pension Fund
 Gwynedd Pension Fund

Hackney Pension Fund
 Hammersmith and Fulham Pension Fund
 Haringey Pension Fund
 Harrow Pension Fund
 Havering Pension Fund
 Hertfordshire Pension Fund
 Hillingdon Pension Fund
 Hounslow Pension Fund
 Isle of Wight Pension Fund
 Islington Pension Fund
 Kensington and Chelsea (Royal Borough of)
 Kent Pension Fund
 Kingston upon Thames Pension Fund
 Lambeth Pension Fund
 Lancashire County Pension Fund
 Leicestershire Pension Fund
 Lewisham Pension Fund
 Lincolnshire Pension Fund
 London Pension Fund Authority
 Lothian Pension Fund
 Merseyside Pension Fund
 Merton Pension Fund
 Newham Pension Fund
 Norfolk Pension Fund
 North East Scotland Pension Fund
 North Yorkshire Pension Fund
 Northamptonshire Pension Fund
 Nottinghamshire Pension Fund
 Oxfordshire Pension Fund
 Powys Pension Fund
 Redbridge Pension Fund
 Rhondda Cynon Taf Pension Fund
 Scottish Borders Pension Fund

Shropshire Pension Fund
 Somerset Pension Fund
 South Yorkshire Pension Authority
 Southwark Pension Fund
 Staffordshire Pension Fund
 Strathclyde Pension Fund
 Suffolk Pension Fund
 Surrey Pension Fund
 Sutton Pension Fund
 Swansea Pension Fund
 Teesside Pension Fund
 Tower Hamlets Pension Fund
 Tyne and Wear Pension Fund
 Waltham Forest Pension Fund
 Wandsworth Borough Council Pension Fund
 Warwickshire Pension Fund
 West Midlands Pension Fund
 West Yorkshire Pension Fund
 Westminster Pension Fund
 Wiltshire Pension Fund
 Worcestershire Pension Fund

Pool Company Members

ACCESS Pool
 Border to Coast Pensions Partnership
 LGPS Central
 Local Pensions Partnership
 London CIV
 Northern LGPS
 Wales Pension Partnership

<p>Question 1</p> <p>Do you have any comments on the drafting of regulations 1 and 2?</p>	<p>No comments</p>
<p>Question 2</p> <p>Are there any further types of investment that should be included in Regulation 3, or any that are no longer considered relevant?</p>	<p>We are happy regulation 3 covers applicable investments</p>
<p>Question 3</p> <p>Is there any scenario where an authority would still need to borrow to meet the type of commitment outlined in Regulation 5(2)(b) once all assets are pooled?</p>	<p>The Fund do not consider that it will be necessary to borrow and Funding/cashflow decisions will be reviewed with the Pooling company</p>
<p>Question 4</p> <p>Do you have any other comments on Regulations 3-6?</p>	<p>No further comments</p>
<p>Question 5</p> <p>Are the activities listed in the schedule ones that all LGPS asset pools would reasonably be expected to need in order to carry out the activities expected of them?</p>	<p>The scheduled activities appear appropriate, but Pools will be better placed to respond directly</p>
<p>Question 6</p> <p>Do you have any other comments on Regulations 7-9?</p>	<p>Regulation 9(1)(c) has potential to impact the Funds fiduciary duty. The pools shareholders agreement will set out the terms for admittance of new parties we believe that existing shareholders should agree to any new party in consultation with the Secretary of State.</p>
<p>Question 7</p>	<p>We agree that it is relevant that the ISS should be consistent with the Funding strategy statement in order to try and</p>

<p>Do you agree that the requirements in Regulation 11(2), for the financial objectives in the investment strategy statement to be consistent with the funding strategy statement and to have regard to the requirement to maintain consistent primary employer contribution rates, are helpful?</p>	<p>maintain consistent primary employer contributions. This is in line with the FSS guidance.</p>
<p>Question 8</p> <p>In relation to regulation 12, does a deadline of 30th September 2026 allow sufficient time to allow AAs to publish an investment strategy in line with the new requirements?</p>	<p>We are comfortable that an ISS can be published in line with the deadline of 30th September 2026.</p>
<p>Question 9</p> <p>Are there any other persons (including organisations) in addition to those currently listed in Regulation 12(3) that all AAs should always be required to consult on the contents of their investment strategy?</p>	<p>We intend to share the ISS with the local Pensions Board as well as part of the planned consultation.</p>
<p>Question 10</p> <p>Is the wording of Regulation 13(1) sufficiently clear that the responsibility for implementing the investment strategy is fully on the asset pool company, while giving sufficient scope for flexibility where market conditions or other factors make it impracticable to fully realise all the aims of the investment strategy?</p>	<p>From an administering Authority perspective, the regulation is clear.</p> <p>The regulation allows sufficient flexibility for the long term nature of private market commitments.</p>
<p>Question 11</p> <p>In relation to Regulation 14, do you agree it is appropriate to link the three-yearly review of the investment strategy to the triennial valuation?</p>	<p>We agree that it is sound governance to review the ISS following the triannual valuation results and are happy that the regulation has sufficient flexibility for interim review if required.</p>

<p>Question 12</p> <p>Is 18 months from the valuation date an appropriate timescale for AAs to review, revise, and publish their investment strategy?</p>	<p>Based on our current timescales this is an appropriate timescale</p>
<p>Question 13</p> <p>Do you have any other comments on Regulations 10-15?</p>	<p>Regulation 10 We believe the Fund should be able to take advice if and when it feels it will add value, rather than just in exceptional circumstances. We believe that independent advice taken for reassurance purposes is valid.</p> <p>Regulation 11 We are concerned that the move away from the language in the 2016 Regulations in respect of ESG considerations may impact the legal advice obtained on behalf of Funds by SAB and directly impacts Funds Fiduciary duties</p> <p>Regulation 15 We would like to see safeguards in place limiting when the direction power can be used including the option for any Fund to explain any alleged breach.</p>
<p>Question 14</p> <p>Is 21 days an appropriate time period for an asset pool company to be managing AA assets?</p>	<p>We consider the 21 day period to be too short to allow both parties in the necessary circumstances to undertake appropriate legal advice and due diligence</p>
<p>Question 15</p> <p>Do you have any other comments on Regulation 16?</p>	<p>We are happy that 16(3) recognises that it will not be practical or cost effective for the Pool to transfer all assets on day 1 and that appropriate transitional arrangements need to be agreed by the company. We would like this to have been strengthened so that arrangements had to be consulted on with the partner fund. Whilst we believe this will happen in practice it is not part of the regulations.</p>
<p>Question 16</p>	<p>Local investment will be considered as part of the New ISS and we are working with the Pooling company on the most</p>

<p>Do you have any comments on Regulation 17?</p>	<p>appropriate model for implementation and criteria</p>
<p>Question 17</p> <p>Do you agree with the list of issues that the Secretary of State can issue guidance about in Regulation 18?</p>	<p>Yes</p>
<p>Question 18</p> <p>Do you have any other comments about Regulations 18 or 19?</p>	<p>No Further Comments</p>
<p>Question 19</p> <p>Is there anything in the 2016 regulations that needs to be replicated here in some form to allow the scheme to operate as intended?</p>	<p>We agree with the Scheme Advisory Board that the procedural points at sub paragraphs 4-6 of regulation 8 in the 2016 guidance should be included in the new regulations.</p>
<p>Question 20</p> <p>Is 28 days an appropriate length of time to allow an AA to participate in both its 'old' and 'new' pool to allow transitional processes to take place?</p>	<p>Whilst this does not apply to this Fund 28 days appears to be a relatively short time frame depending upon circumstances of any transition given the complexities in transferring certain asset classes.</p>
<p>Question 21</p> <p>Do you have any other comments about Regulations 20-22?</p>	<p>No further comments</p>
<p>Question 22</p> <p>Is there anything else that should be included in these Regulations to allow them to deliver their intended impact? Are there any additional provisions in the 2016 Regulations that need to be replicated here in some way?</p>	<p>Nothing further to add</p>

<p>Question 23</p> <p>The government collected views on whether the reforms would benefit or disadvantage protected groups when consulting on the Fit for the Future policy proposals in autumn 2024. Is there anything in these regulations that you think will disproportionately impact groups with protected characteristics relative to other groups?</p>	<p>There is nothing in the regulations that would appear to disproportionately impact protected groups</p>
<p>Question 24</p> <p>Do you agree that new Regulation 55A delivers the government’s intent for the governance strategy, training strategy and conflict of interest policy, in line with the Fit for the Future consultation and response?</p>	<p>Yes, however, guidance on conflicts of interest policy and governance strategy will be needed to ensure consistency. Many AAs already record delegation and representation details in their governance compliance statements, so adapting to the new requirements should be manageable, especially since the governance compliance statement is no longer needed.</p>
<p>Question 25</p> <p>Do you agree that new Regulation 53A delivers the government’s intent for the senior LGPS officer in line with the Fit for the Future consultation and response?</p>	<p>Yes, the guidance states that the Pension Fund’s budget should be fully separate from the Local Authority’s budget and exempt from its resource or budget restrictions. We would like to request for this to explicitly cover pay and recruitment of pension fund staff, ensuring local authority hiring freezes do not affect pension fund resources.</p>
<p>Question 26</p> <p>Do you agree that new Regulation 53A delivers the government’s intent for the independent person in line with the Fit for the Future consultation and response?</p>	<p>Yes, however it is noted that the draft Regulations do not mention any statutory guidance for this role, and the only stipulations are that the independent person must “advise on investment strategy, governance and administration.”</p> <p>The intention appears to be to transition existing independent advisor roles into this new Independent Person (IP) position. However, many current advisors serve specifically as investment advisors, while the guidance indicates that the IP is intended to have a broader role, making these investment specialists potentially unsuitable. Since</p>

	<p>it seems implied that the IP role must be fulfilled by a single individual—without the option of splitting or sharing responsibilities—it may be very challenging to find someone with sufficient expertise across all required subjects within the necessary timeframe.</p>
<p>Question 27</p> <p>Do you agree that new Regulation 55B delivers the government’s intent for the knowledge and understanding requirements in line with the Fit for the Future consultation and response?</p>	<p>Yes. The draft guidance raises expectations for Committee members' knowledge, making it an individual legal requirement rather than a collective one. The new training strategy must outline how AAs will need to be updated as related guidance develops. Key challenges include demonstrating how knowledge requirements are met during decision-making, ensuring new members receive induction within three months, and addressing two new competency areas—risk management and key skills and behaviours—which may require additional training and different skills for Chairs.</p>
<p>Question 28</p> <p>Do you agree that Regulation 59 delivers the government’s intent for the administration strategy in line with the Fit for the Future consultation and response?</p>	<p>Yes, most AAs will already have an Administration strategy, a check will need to be made that it is in line with the new guidance when this is available.</p>
<p>Question 29</p> <p>Do you agree that new Regulation 117 delivers the government’s intent for the independent governance reviews in line with the Fit for the Future consultation and response?</p>	<p>Yes, however there are some concerns over, who can be used to deliver these reviews, A ‘suitable person’ to conduct the review must be independent of both the Secretary of State (SoS) and the AA, with appropriate qualifications or experience. Independence means not being engaged with the AA during the review. However, requiring a separate reviewer—rather than an existing governance advisor familiar with the fund—may be inefficient. Excluding specialists who regularly advise on governance seems counterproductive, especially since the scope and requirement to publish the report should</p>

	<p>address concerns over impartiality. Clarification is needed on whether a new IGR contract is necessary in these cases. While draft guidance suggests using National LGPS Frameworks for appointments, this is optional. The guidance sets minimum standards for IGR, but each Fund may include additional criteria.</p>
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Shropshire County Pension Fund Climate Stewardship Plan



1. Introduction

In August 2020 Shropshire County Pension Fund (“The Fund”) received an in-depth Climate Risk Report from its pooling company, LGPS Central Limited. One of the key recommendations from this report was for the Fund to develop a Climate Stewardship Plan. The Climate Stewardship Plan identifies specific investee companies and portfolio managers in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan aligns with and is supportive of the Task Force on Climate-related Financial Disclosures (TCFD) and relates to the third pillar – Risk Management.

The Climate Stewardship Plan focuses specifically on climate change and complements ongoing stewardship activities on other environmental, social and governance factors.

The Climate Stewardship Plan operates alongside the wider context, that for investments outside of LGPS Central, corporate engagements are also carried out through the appointed asset managers. In addition to LGPS Central the Fund also invest in equities through Legal and General Investment Management (LGIM). The Fund also engages Columbia Threadneedle Investments to carry out further engagement work with invested companies globally and is a member of the Local Authority Pension Fund Forum (LAPFF). The Fund has regular oversight of and discussions with LGIM and Columbia Threadneedle Investments on their stewardship activity.

2. Scope

The Fund’s Climate Risk Report included a bottom-up Carbon Risk Metrics analysis of its equity portfolios. The Carbon Risk Metrics utilised included: portfolio carbon footprint (weighted average carbon intensity), exposure to fossil fuel reserves, weight in clean technology, carbon risk management (via the Transition Pathway Initiative) and financed emissions. The companies recommended for engagement were identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics
- Weight of the company in the Fund
- Ability to leverage investor partnerships

The fund managers recommended for engagement were identified based on the following factors:

- Perceived level of climate risk, considering carbon risk metrics and climate scenario analysis
- Size (by AUM) of the portfolio
- Whether the mandate is expected to be long-term

3. Climate Stewardship Plan

The Fund will monitor engagements with a focus list of investee companies that face a high level of climate risk and are of particular significance to the Fund’s portfolio. Six companies¹ are captured by the Climate Action 100+ (CA100+) engagement project², in which our pooling company LGPS Central is an active participant.

Whilst the pooling company, LGPS Central will report to the Fund on engagement activity, the Fund itself plays an active role in monitoring engagements and engaging with LGPS Central for further information if needed.

Officers meet with Investment Managers on a quarterly basis to challenge and hold them to account on the companies they hold within their portfolios which have been identified within the stewardship plan. Updates on engagement and voting activities are provided on a quarterly basis to Pension Committee as part of the Corporate Governance report.

In leveraging this investor initiative, the Fund is able to engage and monitor progress for the focus list companies against a newly established CA100+ Net Zero benchmark Framework. All companies have been asked to set a 2050 net zero emissions ambition and to provide verifiable evidence of how that will be achieved in the short, medium and long-term. The first company assessments have been released by the Institutional Investors Group on Climate Change (IIGCC) and the results are publicly available.

Company response and engagement progress will feed into voting decisions undertaken by the Fund. The Fund will engage these investee companies on all elements of the CA100+ framework but with particular emphasis on:

Company	Sector	Portfolio	Issue/ Objective
Lafargeholcim	Materials	<ul style="list-style-type: none"> LGPS Central Global Equity Active Multi Manager Fund 	<ul style="list-style-type: none"> Paris-aligned accounts in line with IIGCC’s Investor Expectations Continued improvement in achievement of CA100+ high level objectives Concerns over Scope 3 emissions
Royal Dutch Shell	Energy	<ul style="list-style-type: none"> LGIM Solactive Portfolio LGPS Central Global Equity Active Multi Manager Fund 	<ul style="list-style-type: none"> To set and publish targets that are aligned with the goal of the Paris Agreement To fully reflect net zero ambition in its operational plans and budgets To set a transparent strategy on achieving net zero emissions by 2050

¹ TSMC and Linde PLC are not part of the Climate Action 100+ engagement project.

² Climate Action 100+ (CA100+) was initiated in December 2017 and is supported by more than 500 investors with 47 trillion USD in AUM. The project builds on a relatively simple but powerful logic: Engage and influence the highest emitters (80% of global industrial emissions) and you influence whole sectors, markets and the global economy with a view to assisting an orderly transition to a low-carbon economy.

BP	Energy	<ul style="list-style-type: none"> • LGIM Solactive Portfolio 	<ul style="list-style-type: none"> • New addition as per the 2024 Climate Risk report • Capital Expenditure aligned with net zero • Revision of Climate Targets
Glencore	Mining	<ul style="list-style-type: none"> • LGPS Central Global Equity Active Multi Manager Fund 	<ul style="list-style-type: none"> • New addition as per the 2024 Climate Risk report • Coal production pathways and emissions targets • Capitalisation plans re materials required for energy transition
RWE	Energy	<ul style="list-style-type: none"> • LGPS Central Investment Grade Corporate Bond Fund 	<ul style="list-style-type: none"> • New addition as per the 2025 Climate Risk report • Capital Expenditure aligned with net zero
ArcelorMittal	Industrials	<ul style="list-style-type: none"> • LGPS Central Global Equity Active Multi Manager Fund 	<ul style="list-style-type: none"> • New addition as per the 2025 Climate Risk report • Capital Expenditure aligned with net zero

The Fund will monitor identified investment managers to ensure climate-related risk is fully integrated into their investment processes. The Fund will engage its managers on the following issues:

Asset Class	Topic
Equities	<ul style="list-style-type: none"> • Stewardship activities with companies identified in the Climate Risk Report • The influence of climate factors on sector positioning
Fixed Income	<ul style="list-style-type: none"> • Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	<ul style="list-style-type: none"> • Physical risk resilience • GRESB participation

4. Timeline

The Climate Stewardship Plan sets stewardship objectives over several years, and the Fund will report on progress annually through its public facing Climate Risk Report. The next progress update is expected in Q4 2026. During the annual refresh of the Carbon Risk Metrics analysis, the focus list of investee companies and Fund Managers will be reviewed and amended if required.

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