



Derbyshire
Pension
Fund

Tel. 01629 538900
derbyshirepensionfund.org.uk

Funding Strategy Statement (Draft)

April 2026

Approved by Derbyshire County Council's
Pensions and Investments Committee on
3 December 2025 to proceed to a period of
consultation

Consultation closing date: 1 February 2026

Contents

1 Purpose of the Derbyshire Pension Fund and the Funding Strategy Statement.....3

Part A - Key Fund Principles

2 How does the Fund calculate employer contributions?7

3 What additional contributions may be payable?..... 17

4 How does the Fund calculate assets and liabilities? 18

Part B - Employer events

5 What happens when an employer joins the Fund? 19

6 What happens if an employer has a bulk transfer of staff?21

7 What happens when an employer leaves the Fund?22

8 What are the statutory reporting requirements?.....25

Appendices

Appendix A – The regulatory framework.....27

Appendix B – Roles and responsibilities29

Appendix C – Glossary32

Appendix D – Risks and controls34

Appendix E – Actuarial assumptions.....36

1 Purpose of the Derbyshire Pension Fund and the Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Derbyshire Pension Fund (the Fund).

Derbyshire Pension Fund is administered by Derbyshire County Council, known as the Administering Authority. Derbyshire County Council worked with the Fund's actuary, Hymans Robertson LLP, to prepare this FSS which is effective from 1 April 2026.

This FSS has been prepared in accordance with Regulation 58 of The Local Government Pension Scheme Regulations 2013 and with regard to the updated '*Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)*' which was published in January 2025 and jointly produced by the LGPS Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government (MHCLG).

This FSS should be read in conjunction with the [Investment Strategy Statement \(ISS\)](#) which is available on the Fund's website.

A glossary of key terminology used in this FSS is included at Appendix C.

There is a regulatory requirement for Derbyshire County Council to prepare a FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact Derbyshire Pension Fund at pensions.regs@derbyshire.gov.uk

1.1 What is Derbyshire Pension Fund?

Derbyshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at lgpsmember.org or at derbyshirepensionfund.org.uk. The Administering Authority runs the Fund on behalf of participating employers, their employees, and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

The Fund will engage with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

1.3 Who is the FSS for?

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

The following different types of employers participate in the Fund:

- **Scheduled bodies**

Employers who are specified in a schedule to the LGPS regulations, including councils and employers such as academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they are not eligible to accrue benefits in another public service pension scheme, such as the Teachers' Pension Scheme or NHS Pension Scheme.

- **Designating employers (otherwise known as Resolution bodies)**

Employers such as Town and Parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund cannot refuse entry. The employer then decides which employees can join the scheme.

- **Admission bodies**

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements are not met. This type of employer includes contractors providing outsourced services such as the provision of cleaning or catering functions for a scheduled body.

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

Scheme Advisory Board Employer Tiers

The Scheme Advisory Board refer to three different tiers of employers which may participate in the LGPS, specifically:

- Tier 1 – Local Authorities (including contractors participating in the LGPS with Local Authority backing)
- Tier 2 – Academy Trusts and Further Education Institutions (Colleges).
- Tier 3 – Standalone employers with no local or national taxpayer backing. Includes universities, housing associations and charities.

1.4 How is the funding strategy specific to Derbyshire Pension Fund?

The funding strategy reflects the specific characteristics of the Fund's employers and its own investment strategy.

1.5 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and an annual check is carried out in the intervening years.

Amendments to the FSS may be made in the following circumstances:

- material changes to the LGPS benefit structure or regulations
- on the advice of the Fund's actuary
- significant changes to the Fund's investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- 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 of the Fund's employers to such an extent that they impact on the funding strategy (for example 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 the Ministry of Housing, Communities and Local Government (MHCLG) or the Government Actuary's Department (GAD).

In undertaking such reviews, the Administering Authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (for example pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the Investment Strategy Statement (ISS)
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review will not necessarily lead to contribution rate changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, reviewed and approved by Derbyshire County Council's Pensions and Investments Committee (the Committee) and included in the Committee's meeting minutes.

This Funding Strategy Statement is effective from **1 April 2026** and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out before then.

1.6 Links to Administration Strategy

The Fund maintains a Pension Administration Strategy which outlines the responsibilities, standards and procedures for employers and the Fund. A copy of the **Strategy** can be found on the Pension Fund's website.

Adherence with the requirements of the Pension Administration Strategy is crucial to ensure the well-running of the Fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

1.7 Actuarial valuation report

LGPS Regulations (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation exercise. The actuarial valuation report sets out:

- 1) the actuary's assessment of the past service funding position, and
- 2) the contributions required to ensure full funding by the end of the time horizon.

The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

Part A – Key Funding Principles

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contribution rates are determined by a mandatory actuarial valuation exercise and are made up of the following elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses.

The Fund's actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the fund's actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The Fund has set funding strategy criteria for each employer in the Fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding level** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the target funding level
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities
- **the likelihood of success** – the proportion of modelled scenarios where the target funding level is met.

For example, an employer's funding strategy criteria may be set as follows:

*The employer must have at least an **80% likelihood** of being **100% funded** on the **ongoing participation basis** at the end of an **18 year** funding time horizon.*

The funding strategy criteria used by the Fund are set out in Table 1. Further detail on the ESS and on the funding bases used by the Fund are set out in Appendix E.

The target funding level may be set greater than 100% as a buffer against future adverse experience. This may be appropriate for long term open employers, where adverse future funding experience may lead to future contribution rises.

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

The approach taken by the Fund's actuary helps the Fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

The Fund permits the prepayment of employer contributions in specific circumstances. This is covered in Section 2.10 below.

2.2 The contribution rate calculation

Table 1: Contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	Local authorities, police, fire	Arm’s Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies and Colleges	Universities	Town and Parish Councils (pooled)	Open to new entrants	Closed to new entrants	(all)
SAB Tier	Tier 1	Tier 1 or Tier 3	Tier 2	Tier 3	Tier 1	Tier 3	Tier 3	Tier 1 or Tier 3
Funding basis*	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing where guarantor in place Low-risk exit basis where no guarantor		Ongoing
Target funding level	100%	100%	100%	100%	100%	100%		100%
Minimum likelihood of success	80%	80%	80%	90%	80%	In line with guarantor if Ongoing basis 60% if low-risk exit basis		In line with awarding authority
Maximum time horizon	18 years	18 years	18 years	15 years	18 years	In line with guarantor if Ongoing Future working lifetime if low-risk exit basis		In line with awarding authority
Primary rate approach**	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay.							

Type of employer	Scheduled bodies				Designating employers	CABs		TABs
Sub-type	Local authorities, police, fire	Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies and Colleges	Universities	Town and Parish Councils (pooled)	Open to new entrants	Closed to new entrants	(all)
SAB Tier	Tier 1	Tier 1 or Tier 3	Tier 2	Tier 3	Tier 1	Tier 3	Tier 3	Tier 1 or Tier 3
Secondary rate	The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts (for mature closed employers).							
Stabilised contribution rate?	Yes	Yes	Yes	No	Yes	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over the time horizon	Covered by stabilisation arrangement	Reduce contributions by spreading the surplus over the time horizon		Reduce contributions by spreading the surplus over the time horizon
Recognising covenant	Stabilisation parameters	Stabilisation parameters	Stabilisation parameters	Adjust likelihood of success	Stabilisation parameters	Adjust likelihood of success. Undertake annual checks***		
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	Covered by stabilisation arrangement	None	None	None

Where the Administering Authority recognises a fixed contribution rate agreement between an Awarding Authority and a contractor as part of a 'pass-through' arrangement, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer ordinarily with no crystallisation of any deficit or surplus.

The Fund reserves the right to use a different approach than stated in the table above in particular individual circumstances.

**See Appendix E for further information on funding bases.*

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

**** Where nil rates are certified, this may be subject to an annual check which may result in the Fund carrying out a contribution rate review for the employer ahead of the next formal valuation.*

The Fund manages funding risks as part of the wider risk management framework, as documented in the Fund's risk register. The funding-specific risks identified and managed by the Fund are set out in Appendix D – Risks and Controls

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund adopts a stabilised approach to setting contributions for the employers noted in Table 2, which keeps contribution variations within a pre-determined range from year-to-year. These employers are open secure, long-term employers who can better absorb the short-term funding level volatility over the longer term.

After taking advice from the Fund's actuary, the Administering Authority believes a stabilised approach can still be viewed as a prudent longer-term strategy for these employers. For other employers, contribution increases, or decreases may be phased.

Table 2: current stabilisation approach

Type of employer	Local authorities, Police and Fire, Town and Parish Councils	Arm's Length Management Organisations, Peak District National Park and Chesterfield Crematorium	Academies	Colleges
Maximum contribution increase per year	+1% of pay	+1% of pay	+2% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-1% of pay	-2% of pay	-1% of pay

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

At their absolute discretion the Administering Authority may permit acceleration or extension of contribution rises and reductions within the contribution stability mechanism.

Where appropriate, based on funding level improvements, contribution rates may be rebased to a lower level in order to realign employer contribution rates.

The stabilisation range for Academies has widened from +/-1% of pay to +/-2% of pay. This change provides more flexibility and reflects the relative immaturity of their membership profile compared to the Fund's other long-term employers, which results in greater volatility in funding levels.

2.4 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the Administering Authority.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short, the Fund's ability to pay benefits may be affected, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the aim of achieving the funding objective for each employer group of the specific time horizon.

The Fund's strategic investment strategy as at 31 March 2025 is summarised in the following table, with full details available at [the Fund's website](#).

Table 3: strategic investment strategy

Asset class	Allocation
UK Equities	8.0%
Global Equities	36.0%
Private Equity	6.0%
Property	10.0%
Infrastructure equity	13.0%
BBB rated Credit (14 yr)	6.0%
Fixed interest gilt	6.0%
Index linked gilt	6.0%
Multi Asset Credit	3.5%
Private Lending	3.5%
Cash	2.0%

2.5 Does the funding strategy reflect the investment strategy?

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

2.6 Reviewing contributions between valuations

The Fund may review and subsequently amend contribution rates between formal valuations where there has been 'significant change' to the liabilities or covenant of an employer. The purpose of any review is to establish the most appropriate contributions. A review may be instigated by the Fund or at the request of a participating employer and may lead to an increase or decrease in contributions.

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

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation

- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations, such as a material change in employer covenant
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority

The costs of any review of an employer's funding position and contribution rate will be met by the employer.

Requests for an interim review of an employer's contribution rate will normally be limited to one per employer over a rolling twelve-month period and the proximity to the next formal valuation will be considered, except in circumstances such as an employer nearing cessation, market volatility or changes to asset values and future expectations which will not be considered as a basis for an interim review of contributions.

The Administering Authority will require additional information to support a contribution rate review, which is likely to include:

- a copy of the employer's latest accounts and financial forecasting information
- sources of funding/details of any additional security being offered

The decision on whether to amend an employer's contribution rate rests with the Administering Authority following consultation with the Fund's actuary. The Administering Authority may need to consult with other fund employers as part of any review.

2.7 What is pooling?

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

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

Pooled employers are identified in the Rates and Adjustments Certificate and only have their pooled contributions certified. Individual contribution rates are not disclosed to pooled employers, unless agreed by the Administering Authority.

CABs that are closed to new entrants are not usually allowed to enter a pool.

If an employer leaves the Fund, except in the case of an employer in a full funding pool (such as the Town and Parish Council pool), the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.8 What are the current contribution pools?

- **Town and Parish Councils** – sharing experience and smoothing the effects of costly but rare events such as ill-health retirement or deaths in service. The Town and Parish Council pool operates a full funding pool, for example, there is one pool of assets covering all of the Town and Parish Councils, with experience shared across the entire pool. Funding levels of each individual Town or Parish Council are adjusted to the overall pool funding level at each triennial valuation (by a notional reallocation of asset shares).
- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools or academies (for example, the academies within a Multi Academy Trust may operate as a contribution pool or a full funding pool).
- **Smaller TABs** – may be pooled with the letting employer.

2.9 Administering Authority discretion

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

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Examples of how flexibility may be applied include a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.10 Prepayment of employer contributions

The Fund will consider requests from large, secure employers, with stable active memberships, to pre-pay certified primary and secondary contributions for a discounted sum calculated by the Fund's actuary. The discount will reflect the investment return that is assumed to be generated by the Fund over the period of the prepayment.

Employers considering making a prepayment should be aware that future investment returns are not guaranteed, and it is possible that the investment returns generated on prepayment amounts may be lower than the return that could be generated by the employer.

Where contributions expressed as a percentage of pay have been prepaid, the Fund will carry out an annual check to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the Rates & Adjustments Certificate. If the actual experienced payroll is higher than estimated when calculating the prepayment amount, additional contributions may be required from the employer.

If the actual experienced payroll is lower than estimated when calculating the prepayment amount, no refund would be payable to the employer, the 'excess' would instead remain allocated to the employer's assets within the Fund.

The accounting treatment of any prepayment agreement should be agreed in advance between the employer and its auditor.

2.11 Non cash funding

The Fund will not accept any form of non-cash assets in lieu of contributions.

2.12 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by:

- 1) including sufficient prudence to manage the effect of this over the time horizon, and
- 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergence of deficits and surplus from time to time, and lead to changes in employer contribution rates.

Table 1 sets out the Fund's approach to setting contribution rates for each employer group.

3 What additional contributions may be payable?

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

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

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

Employers typically make strain payments as a single lump sum in the year in which the strain is incurred.

3.2 Pension costs – early retirement on ill-health grounds

Where an employee or former employee is permitted by their employer to retire early on the grounds of ill health, the employer is responsible for a funding strain, which may be a large sum. The Fund's default approach is for the funding strain related to the ill health retirement to be included in the consideration of the employer's contribution rate determined by the Fund's actuary at the following actuarial valuation, or in the determination of an exit valuation if the employer exits the Fund before the following valuation.

To mitigate this, employers may choose to use external insurance made available by the Fund.

3.3 Pension costs – payment of death grants

Where an employee or former employee dies resulting in a death grant becoming payable, the employer is responsible for any associated strain costs. The Fund's default approach is for any funding strain related to an employee's or former employee's death to be included in the consideration of the employer's contribution rate determined by the Fund's actuary at the following actuarial valuation, or in the determination of an exit valuation if the employer exits the Fund before the following valuation.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

Each Fund employer has a notional share of the Fund's assets, which is assessed annually by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund's actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

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

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

4.2 How are employer liabilities calculated?

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

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

4.3 What is a funding level?

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

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

Part B – Employer events

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

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

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

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.3.

5.2 New academies

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

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

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy will pay contributions which are initially linked to the contribution rates of the councils in the Fund which operate local authority-maintained schools.. If they are part of a MAT, the new academy may be combined with the other MAT academies to set contribution rates at the subsequent triennial valuation. Alternatively, they may be fully pooled with the other MAT academies to share risks and costs.

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

The Fund's policies on academies may change based on updates to guidance from MHCLG or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body such as a council or academy) outsources a service to another organisation (a contractor).

This involves transfers of staff via TUPE (Transfer of Undertakings (Protection of Employment)) from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

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

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

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the [Fund's website](#) or in the contract admission agreement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, for example, the establishment of a wholly owned subsidiary company by a Local Authority. Calculations of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

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

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund's actuary undertakes this assessment to ensure that it is carried out to the Administering Authority's satisfaction.

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

This must cover some or all of the following:

- 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

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, which also guarantees their liabilities.

The Fund's Admission, Cessation and Bulk Transfer policy which sets out the Fund's approach to risks involved in admissions to the Funds, bulk transfers and employers ceasing their participation is available on its [website](#).

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

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

- the Fund will not pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund will not grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- a bulk transfer-in may result in a shortfall when assessed using the Fund's ongoing funding basis. This may require the receiving employer's Fund contributions to increase between valuations.

Where members transfer between employers within Derbyshire Pension Fund, the assets that will be transferred from the transferring employer's asset share to the receiving employer's asset share will depend on the circumstances of the member(s)' transfer. In particular:

- Section 5.2 explains how assets will be allocated to new academy schools when members transfer from the ceding employer at the academy conversion date.
- Section 5.3 explains how assets will be allocated to new transferee admission bodies when services are outsourced from a scheduled body.
- If an individual member changes his/her employment from one employer in the Fund to another employer in the Fund, assets equal to the individual's cash equivalent transfer value (using standard Club factors) will be transferred from the transferring employer to the receiving employer.
- For all other cases, the Fund's default approach will be to transfer assets equal to the transferring liabilities (assessed on the Fund's ongoing funding basis) from the transferring employer's asset share to the receiving employer's asset share, unless there are specific circumstances which would merit an alternative approach.

The Fund's Admission, Cessation and Bulk Transfer policy is available on its [website](#) .

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

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

If no DDA exists, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding basis adopted for the cessation calculation are:

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk exit basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix E.
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation.
 - Where the guarantor is a guarantor of last resort (i.e. where the guarantee will cease to have effect after the cessation event and final settlement), this will have no effect on the cessation valuation.
 - If this is not the case (i.e. if the guarantee continues to apply in respect of the former employer's obligations post cessation), the cessation valuation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms, or the employer is participating under a pass-through arrangement. This is known as 'submission' of the assets and liabilities.

These are defined in Appendix E.

However, when carrying out the cessation valuation on the low-risk exit basis, the Administering Authority recognises the balance between protecting the Fund and the potential for being overly

prudent. In addition, the Fund acknowledges the long-term and uncertain nature of pension funding. Therefore, if appropriate, when considering the amount of assets a ceasing employer must leave behind in the Fund to pay for its members' benefits, the Fund will consider an upper and lower amount (or "corridor"). In other words, an employer will be deemed to have a deficit if the assets are below the lower amount and a surplus if the assets are above the higher amount (for example, there will be no deficit or surplus if a ceasing employer's assets fall within the "corridor").

If the Fund cannot recover the required payment in full, unpaid amounts will be paid by the related letting employer (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the Rates and Adjustments Certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund's actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are recharged to employers via an invoice by the Fund. In exceptional cases, depending on an employer's circumstances, the Fund reserves the right to collect these costs using alternative means, for example, via adjustment to an employer's cessation surplus or cessation deficit, as appropriate.

The Fund's cessation policy is contained within the Admission, Cessation and Bulk Transfer policy which is available on its [website](#).

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities (after allowing for the 'corridor' approach in Section 7.2 if appropriate) – an exit credit – the Administering Authority can decide how much will be paid back to the employer based on:

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

The Fund's exit credit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available on its [website](#)

7.4 How do employers repay cessation debts?

If there is a deficit, after allowing for the 'corridor' approach in Section 7.2 if appropriate, full payment will usually be expected in a single lump sum or:

- spread over an agreed period if the employer enters into a Debt Spreading Agreement (DSA)
- if an exiting employer enters into a deferred debt agreement, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is contained within the Admission, Cessation and Bulk Transfer policy which is available at [the Fund's website](#).

7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit, or enter a DDA or DSA at the discretion of the Fund. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. In the event that an employer is not absorbed into another Fund employer's funding pool, the other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will apportion the liabilities as set out in the Fund's Admission, cessation and bulk transfer policy.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers.

7.6 Partial cessations

A partial cessation is where an employer exits the Fund for deferred and pensioner members but seeks to continue participation in the Fund in respect of active members.

Subject to the clarification of the legal basis for a partial cessation, the Fund will consider requests for a partial cessation on an individual basis, only where exceptional circumstances apply. Consideration of a request does not guarantee that a request will be approved.

In the event that actuarial and/or legal advice is required to be obtained by the Fund, the related costs will be charged to the employer.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

Section 13 of The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every triennial actuarial valuation, typically referred to as a Section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

8.2 Solvency

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

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level
- or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

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

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

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

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy

4. the extent to which contributions paid are in line with expected contributions, based on the Rates and Adjustment Certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Funds' actuarial bases do not offer straightforward comparisons.

Standard information about the Fund's approach to solvency of the pension fund and the long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between funds.

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the Administering Authority uses to:

- establish a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met going forward
- support the desirability of maintaining as constant and stable primary contribution rate as possible as defined in Regulation 62(5) of the LGPS Regulations 2013
- ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Fund are met
- explain how the Fund balances the interests of different employers
- explain how the Fund deals with conflicts of interest and references other policies/strategies

To prepare this FSS, the Administering Authority has considered the updated '*Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)*' which was jointly prepared by SAB, MHCLG, and CIPFA and published in January 2025.

The Fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. This Funding Strategy Statement sets out how the Fund meets these responsibilities.

A2 Consultation

Both the LGPS regulations and most recent guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include *preparation of an engagement plan setting out "how the Fund plans to engage in "meaningful dialogue... with employers and other parties as appropriate, such as their guarantors"*.

In practice, for the Fund, the consultation process for this FSS will be as follows:

- a) An engagement plan, prepared by the Fund, was reviewed by Derbyshire Pension Board on 9 September 2025
- b) Following approval by the Pensions and Investments Committee at its meeting on 3 December 2025 to proceed to a consultation, a draft version of the FSS has been published on Derbyshire Pension Fund's website, with comments invited from all of the Fund's stakeholders; a link to the website will be issued to all participating employers and to members of Derbyshire Pension Board. Further notifications will be included in the Fund's December 2025 and January 2026 Employer Newsletters and a reminder email will be issued to employers two weeks before the closing date of the consultation.

The consultation period will close at 11:59pm on 1 February 2026.

c) Following the end of the consultation period, the FSS will be updated where required with a final version to be reviewed by the Committee at its meeting on 4 March 2026 and subsequently published on the Derbyshire Pension Fund website.

The Fund will also share the draft FSS with the Department for Education.

A3 How is the FSS published?

The FSS will be made available via the following routes:

- It will be published on the Fund's website.
- It will be signposted to each participating employer in the Fund.
- A copy will be sent by email to the members of Derbyshire Pension Board.
- The FSS will be included in the Fund's Annual Report.
- A copy will be sent by email to the Fund's independent investment adviser.
- Copies will be available on request.

A4 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities to be read in conjunction with the Fund's other statements and policies including the following .–

- Investment Strategy Statement
- Admission, Cessation and Bulk Transfer Policy
- Governance Policy and Compliance Statement
- Communications Policy

The Fund's Annual Report also includes up-to-date Fund information.

Fund documentation is available at derbyshirepensionfund.org.uk.

Appendix B – Roles and responsibilities

B1 The Administering Authority is required to:

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

B2 Individual employers are required to:

- 1 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 LGPS Regulations),
- 2 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
- 3 pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date

- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the Administering Authority promptly of all changes to active membership that affect future funding
- 7 pay any exit payments on ceasing participation in the Fund
- 8 Timely provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

B3 The Fund's actuary should:

- 1 prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency based on the assumptions set by the Administering Authority and having regard to the FSS and the LGPS Regulations
- 2 provide advice so the Fund can set the necessary assumptions for the valuation
- 3 prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- 4 provide advice and valuations to the Fund so that it can make decisions on the exit of employers from the Fund
- 5 provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
- 6 assist the Fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- 7 ensure that the Fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund.
- 8 Identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

B4 Local Pension Boards (LPB):

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

- Assist with the development and review the FSS
- Review the Fund's engagement plan on how it will engage with key stakeholders during the review and publication of the FSS

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

B5 Employer guarantors

Some Fund employers are direct guarantors to other employers who participate in the Fund.

Fund employers who outsource services to a contractor maintain responsibility as the 'guarantor of last resort' and are ultimately responsible for unpaid liabilities where its contractor fails to fulfil its payments to the Fund

The Department for Education provides guarantees to meet unpaid liabilities to the Fund in the cases of the closure of

- Academies (where the obligations are not being transferred to a different Multi Academy Trust) and
- Further Education bodies (colleges) .

B6 Other parties:

- 1 Internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement
- 2 Investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS
- 3 Auditors comply with standards, ensure Fund compliance with requirements, monitor, and advise on fraud detection, and sign-off annual reports and financial statements
- 4 Governance advisers may be asked to advise the Administering Authority on processes and working methods
- 5 Internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures
- 6 MHCLG, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to comply with requirements set out in Section 13 of the Public Services Pensions Act 2013.

Appendix C – Glossary

Actuarial certificates

A statement of the contributions payable by the employer (see also Rates and Adjustments Certificate). The effective date is 12 months after the completion of the valuation.

Actuarial valuation

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

Administering Authority (referred to as ‘the Fund’)

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

Admission agreement

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

Assumptions

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

Code of Practice

The Pensions Regulator’s General Code of Practice.

Debt spreading arrangement

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

Deferred debt agreement

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

Employer covenant

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

Funding level

The funding level is the value of assets compares with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

Fund valuation date

The effective date of the triennial fund valuation.

Guarantee / guarantor

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

Local Pension Board

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

Non-statutory guidance

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

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pension committee

A committee or sub-committee to which an Administering Authority has delegated its pension function

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

Primary and secondary employer contributions

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

Rates and Adjustments Certificate

A statement of the contributions payable by each scheme employer (see actuarial certificates)

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.

Appendix D – Risks and controls

D1 Managing risks

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

Details of the key fund-specific risks and controls are set out in the Fund's Risk Register which is available from pensions.regs@derbyshire.gov.uk.

The role of the Local Pension Board is set out in the Board's Terms of Reference which is available on the [Fund's website](#).

D2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund has put in place an Employer Risk Management Framework to identify, manage and monitor the risks associated with employers with the aim of reducing the exposure of all Fund employers to risk of the failure, wind-up, or cessation of a scheme employer with an unpaid funding deficit.

D3 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing narratives around potential policy and market responses, noting these may be sub-optimal. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, the interdependencies that arise and potential immediate actions. Coupling this approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to assess a range of outcomes that may arise, and assess the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be significantly less resilient in the face of severe downside risk events (in comparison to the base case).

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see Figure 1), helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Climate scenario analysis outputs can support the delivery of the following actions:



Figure 1.

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

The Fund has a **Responsible Investment Framework** and a separate **Climate Strategy**, both of which were agreed by the Pensions and Investments Committee in March 2024.

D4 Gender Pension Gap reporting

Information on gender pension gap reporting will be added to the FSS when reporting requirements are clarified.

Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the Fund's actuary requires actuarial assumptions.

The Fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The Fund has reviewed the actuarial assumptions used for funding purposes as part of the 2025 valuation. These are set out below.

E1 What are actuarial assumptions?

Actuarial assumptions are required to value the fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore, to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the fund are uncertain. An assumption is needed about what those future investment returns will be

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: **financial assumptions** determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst **demographic assumptions** relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the Fund will pay in future.

E2 What funding bases are operated by the Fund?

A funding basis is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The Fund operates two funding bases for funding valuations: the ongoing participation basis and the low-risk exit basis. All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

E3 What financial assumptions are used by the Fund?

Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The Fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the prudence level. Specifically, the discount rate is calculated to be:

The average annual level of future investment return that can be achieved on the Fund's assets over a 20-year period with a x% likelihood.

The prudence level is the likelihood. The prudence levels used by the Fund are as follows:

Funding basis	Prudence level
Ongoing participation	80%
Low-risk exit	90% (mid-point of the cessation corridor)

When the 'corridor' approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The actuary will calculate these amounts by changing the discount rate to reflect the Fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. These two values will be based on the likelihood of the Fund's assets achieving certain future investment returns over the 20 years. The likelihoods used for the lower and upper bounds of the 'corridor' are 85% and 95% respectively.

CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The Fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

The average annual level of future CPI inflation that will be observed over a 20-year period with a 50% likelihood

Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 1.0% above the CPI inflation assumption plus a promotional salary scale.

E4 Further detail on the calculation of financial assumptions

The discount rate and CPI inflation assumptions are calculated using a risk-based method. To assess the likelihood associated with a given level of investment return or a given level of future inflation, the fund actuary uses Hymans Robertson's propriety economic scenario generator; the *Economic Scenario Service* (or *ESS*). The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2025 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

Table 4: Summary of assumptions underlying the ESS, 31 March 2025

Annualised total returns																Inflation/Yields		
Time period	Percentile	UK Equities	Global Equities (unhedged)	Private Equity	Property	Infra-structure equity (listed)	Infra-structure equity (unlisted)	BBB Credit (14 yr maturity)	BBB Credit (4 yr maturity)	Fixed interest gilt (14 yr maturity)	Fixed interest gilt (4 yr maturity)	Index linked gilt (14 yr maturity)	Multi Asset Credit (sub investment grade)	Private Lending	Cash	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16 th	0.1%	-0.5%	-2.5%	0.2%	-1.3%	1.1%	2.5%	3.8%	2.2%	3.7%	1.7%	4.1%	4.5%	3.5%	1.2%	1.5%	4.8%
	50 th	8.2%	8.2%	10.0%	6.8%	7.3%	8.1%	5.2%	5.5%	4.3%	4.3%	4.5%	6.7%	8.2%	4.3%	2.8%	2.4%	5.8%
	84 th	16.4%	16.9%	22.8%	14.1%	15.5%	15.5%	7.5%	6.6%	6.2%	4.8%	7.5%	8.8%	11.4%	5.1%	4.3%	3.3%	7.1%
10 years	16 th	2.5%	2.1%	1.2%	2.3%	1.3%	3.1%	4.7%	4.9%	4.2%	4.3%	2.7%	5.8%	6.4%	3.6%	0.8%	0.8%	3.9%
	50 th	8.6%	8.5%	10.2%	7.3%	7.4%	8.4%	6.3%	6.1%	5.4%	4.9%	4.7%	7.4%	8.8%	4.6%	2.5%	2.1%	5.3%
	84 th	14.6%	14.8%	19.6%	12.7%	13.6%	13.8%	7.7%	7.1%	6.5%	5.5%	6.9%	8.9%	10.9%	5.8%	4.1%	3.3%	7.1%
20 years	16 th	3.8%	3.7%	3.4%	3.5%	2.9%	4.2%	5.7%	4.8%	5.0%	3.9%	2.9%	6.1%	7.0%	3.1%	0.7%	-0.5%	1.6%
	50 th	8.4%	8.3%	9.9%	7.3%	7.4%	8.3%	6.8%	6.1%	5.8%	4.9%	4.6%	7.6%	8.8%	4.5%	2.3%	1.3%	3.6%
	84 th	12.9%	13.1%	17.0%	11.3%	12.0%	12.4%	7.8%	7.6%	6.5%	6.1%	6.4%	9.1%	10.7%	6.3%	3.9%	3.0%	6.2%
	Volatility (1 yr)	16%	19%	27%	15%	18%	15%	7%	4%	6%	2%	7%	6%	9%	0%	1%	-	-

E5 What demographic assumptions were used?

The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in the assumptions that apply to them.

Life expectancy

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

Allowance has been made for future improvements to mortality, in line with the 2024 version of the continuous mortality investigation (CMI) published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	<p>A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. At age 65 this is assumed to be 55% for males and 54% for females).</p> <p>Dependant of a male is 3.5 years younger than him Dependant of a female is 0.6 years older than her</p>
Commutation	65% of maximum tax-free cash
50:50 option	0% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.17		291.10	487.81	0.00	0.00	0.00
25	117	0.17		192.28	322.22	0.00	0.00	0.00
30	131	0.20		136.43	228.58	0.00	0.00	0.00
35	144	0.24		106.59	178.58	0.10	0.07	0.02
40	151	0.41		85.82	143.73	0.16	0.12	0.03
45	159	0.68		80.61	134.98	0.35	0.27	0.07
50	167	1.09		66.45	111.14	0.90	0.68	0.23
55	173	1.70		52.33	87.56	3.54	2.65	0.51
60	174	3.06		46.64	78.01	6.23	4.67	0.44
65	174	5.10		28.63	47.88	11.83	8.87	0.00

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.10		225.55	299.12	0.00	0.00	0.00
25	117	0.10		151.77	201.24	0.10	0.07	0.02
30	131	0.14		127.22	168.67	0.13	0.10	0.03
35	144	0.24		109.80	145.52	0.26	0.19	0.05
40	151	0.38		91.39	121.07	0.39	0.29	0.08
45	159	0.62		85.28	112.97	0.52	0.39	0.10
50	167	0.90		71.90	95.14	0.97	0.73	0.24
55	173	1.19		53.65	71.06	3.59	2.69	0.52
60	174	1.52		43.24	57.20	5.71	4.28	0.54
65	174	1.95		20.61	27.25	10.26	7.69	0.00