# Report to Pension Fund Committee

**Date:** 22 April 2021

**Reference number:** N/A

**Title:** Funding Strategy Statement

**Relevant councillor(s):** None specific

**Author and/or contact officer:** Julie Edwards, Head of Pensions

**Ward(s) affected:** None specific

**Recommendations: The Committee is asked to approve the revised Funding Strategy Statement (FSS).**

**Reason for decision:** The Local Government Pension Scheme (LGPS) Regulations require all LGPS Administering Authorities to prepare a FSS.

## Executive summary

1.1 The FSS seeks to set out how the administering authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis. It is reviewed every three years following the triennial valuation. Following completion of the 2019 Actuarial Valuation, a revised FSS was agreed by the Pension Fund Committee in July 2020. On 2 March 2021 the Ministry of Housing, Communities and Local Government (MHCLG) issued "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements". The FSS, Appendix 1, has been updated to reflect the requirements of the guidance and the valuation assumptions for future price inflation, future pension increases and demographic assumptions. Given the level of detail required by the MHCLG guidance a separate contribution review policy, attached as Appendix 2, and separate Deferred Debt and Debt Spreading Agreement policies, attached as Appendix 3, have been drafted. These are referenced in the FSS.

## Content of report

1.2 Following completion of the 2019 Actuarial Valuation, a revised FSS was agreed by the Pension Fund Committee in July 2020. On 2 March 2021 the Ministry of Housing, Communities and Local Government (MHCLG) issued “Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements”. The FSS, Appendix 1, sets out the approach to meeting employers’ pension liabilities, has been updated to reflect the requirements of the guidance and the valuation assumptions for future price inflation, future pension increases and demographic assumptions. These changes are summarised below.

### Valuation assumptions

1.3 The future price assumption was reviewed following the Chancellor’s November 2020 announcement on the reform of Retail Price Index (RPI) and is now assumed to be 0.4% p.a. lower than the 20 year point on the Bank of England implied RPI inflation curve. This change will be fully reflected in the ongoing funding assumptions from 31 March 2021.

1.4 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. At the March 2019 actuarial valuation, a deduction of 1.0% p.a. was made to the RPI inflation assumption to derive the CPI inflation assumption. The CPI assumption adopted at March 2019 was 2.6% p.a.

1.5 The future pension increases assumption was also reviewed in light of the Chancellor’s announcement on the reform of RPI and CPI inflation is now assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This change will be fully reflected in the ongoing funding assumptions from 31 March 2021.

### Contribution reviews between actuarial valuations

1.6 It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

1.7 A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

1.8 Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy, Appendix 2 of this report. This includes details of the process that should be followed where an employer would like to request a review.

1.9 Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

1.10 Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

1.11 With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

## Managing exit payments

1.12 Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

1.13 Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

1.14 Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

1.15 Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

1.16 Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document, Appendix 3 of this report. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

## Legal and financial implications

1.17 The Local Government Pension Scheme (LGPS) Regulations 2013 require all Pension Administering Authorities to prepare a FSS.

## Next steps and review

The FSS is reviewed every three years following the triennial actuarial valuation.

## Background papers

[Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements - GOV.UK (www.gov.uk)]