	Local Pension Board **10 February 2020**
Title	**Funding Strategy Statement**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Significant Amendments to Funding Strategy Statement Appendix 2 – Funding Strategy Statement
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Summary

The Pension Fund is required to prepare and maintain a Funding Strategy Statement (FSS), the purpose of which is to set out how the Council will balance the aims of ensuring sufficient assets are held to secure the promised benefits, make the fund affordable to employers and ensure fairness between participating employers. The Council is required to consult on changes to the FSS.

Officers Recommendations

1. **That the Local Pension Board review the draft Funding Strategy Statement and identify any issues that it wishes the Pension Fund Committee to consider.**

1. WHY THIS REPORT IS NEEDED

1.1 The Scheme Actuary is currently in the process of finalising the 2019 triennial valuation of the pension fund and will propose a revised schedule of contributions effective from 1st April 2020. The Actuary undertakes the triennial valuation based on the principles set out in the funding strategy statement ("FSS") approved by the Council's Pension Fund Committee. A revised FSS has been prepared by the Fund Actuary and is attached. The purpose of the FSS to set out how the Council will balance the aims of ensuring sufficient assets are held to secure the promised benefits, make the Fund affordable to employers and ensure fairness between participating employers.

1.2 The Council is required to consult with "such persons as is considered appropriate" prior to adopting the revised FSS (appendix 2). The draft has been circulated to all employers with active members and the Local Pension Board is invited to comment. A summary of significant changes in the FSS are also attached (appendix 1).

1.3 It is intended that the Pension Fund Committee will consider representations on the FSS on 13th February and comments from the Local Pension Board will be reported verbally.

1.4 The timetable for the triennial valuation has been delayed due to the need to ensure that the Actuary is using complete and accurate data. It is intended that draft valuation results will be circulated to employers during February, and officers and the Fund Actuary will be available to discuss these (including how the FSS has been applied to individual employers) prior to the new schedule of contributions being approved and implemented from 1st April 2020.

1.5 It is appreciated that the revised triennial valuation timetable involves short notice to employers of changes in contribution rates. We will therefore work with the Fund Actuary to phase any increases in contributions where possible across the three-year period for which rates are set.

2. REASONS FOR RECOMMENDATIONS

2.1 There is a regulatory requirement to consult when revising the FSS.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The significant changes to the FSS and reasons for changes are explained in both appendix 1 and the draft FSS.

4. POST DECISION IMPLEMENTATION

4.1 Comments from the Local Pension Board will be reported to the Pension Fund Committee.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2018/19. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary during the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Board's Terms of Reference include "ensuring the effective and efficient governance and administration of the LGPS for the LBB Pension Fund". The actuarial process is central to ensuring that the pension fund has sufficient assets to pay pensioners.

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 58) requires the administering authority after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its funding strategy. The Regulations require consultation (with such persons as is considered appropriate), the statement to be regularly reviewed and in preparing the statement to have regards to both CIPFA guidance and the Fund's own Investment Strategy Statement.

5.5 Risk Management

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. BACKGROUND PAPERS

6.1 See agenda item 7, Local Pension Board meeting 19th November 2019.

https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=753&MId=9913&Ver=4

Appendix 1

Significant Amendments to the Funding Strategy Statement

Page 7 (section 2.6) – Risk assessments will be used to determine the level of prudence incorporated into contribution calculations i.e. is it safe to permit a deficit to be recovered over an extended period?

Page 7 & 8 (section 2.7) – to allow for the expected (but as yet unquantified cost of) any changes to LGPS benefits following the court ruling ("McCloud judgement") that the transitional aspects of the benefit changes in 2014 (protections to those closest to retirement) were unlawful, the required probability of achieving full funding has been increased by between 4% and 9%. See table 3.3.

Page 11 (table 3.3) – Except for admitted bodies, the time horizons over which deficits are recovered have been changed to a range from a single period. The earlier point in the range is three years lower than the timeframe set at the last valuation. There is an expectation that the deficit recovery period is finite and not indefinitely extended. However, the interaction between a higher probability of full funding and a shorter deficit recovery period could be unduly onerous on employers and the exact recovery period used will factor in affordability in addition to risk on the fund and other employers.

Page 15 (note g) – the use of a pooled employers' contribution rate for academies will be extended until the March 2022 valuation unless that produces inappropriate results for any academy.

Page 17 (section j) – on gilt based cessation valuations, employer liabilities will be increased by 1% to incorporate an estimate of the impact of the McCloud judgement (see above) until the revised benefit structure is known. No adjustment will be made for cessations calculated on an ongoing basis.

Page 21 (section 3.10) – provision is included to offer a discount to employers who pay annual or multiple year contributions early.