Committee and Date	Item
Pensions Committee 15 March 2019 10 am	Public

FUNDING STRATEGY STATEMENT

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1. Summary

1.1 The report informs Members of the requirement to publish and update as appropriate its Funding Strategy Statement. It sets out the Funding Strategy Statement which has been updated to reflect 2018 legislative change.

2. Recommendations

2.1 Members are asked to approve the Funding Strategy Statement at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Regular monitoring against published Funding Strategy Statement will give early warning of areas of difficulty.

4. Financial Implications

4.1 There are no financial implications to consider in this report as the value of the fund does not affect the resources of the Council.

5. Background

5.1 The requirement for LGPS administering authorities to prepare a Funding Strategy Statement was brought in under the Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004.

5.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2017 following the 2016 actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted.

5.3 The Administering Authority is required to monitor the progress of the funding strategy between full actuarial valuations and review the strategy if it is considered appropriate. The overarching regulations of the LGPS were updated on 19th April 2018 through an amending Statutory Instrument; Local Government Pension Scheme (Amendment) Regulations 2018. The Fund has therefore taken the view to update the FSS to reflect this legislative change.

5.4 The Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

6. Purpose of the Funding Strategy Statement

6.1 The Funding Strategy Statement (FSS) aims to; -

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

6.2 The FSS applies to the Fund whilst at the same time recognising that there will be conflicting objectives which need to be reconciled. The FSS is written and implemented by the administering authority. The position of individual employers is reflected in the FSS but it is a single strategy for the Fund. In recognising the position of individual employers in a single strategy statement the FSS supports the long-term sustainability of the pension fund.

7 Consultation and Publication

7.1 The Statement has been updated in consultation with Mercer. A copy of the Funding Strategy Statement (FSS) is attached at **Appendix A**.

7.2 Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminates (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer. The Fund therefore now needs to consider how this change of position interacts with the current policies in place (the termination policy in the FSS and employer events framework).

7.3 Currently, the general policy for employers that exit the Fund with a guarantee from a guarantor (usually the original employer or letting authority) is for a termination assessment to be done and for the guarantor to subsume the residual assets, liabilities and deficit. The Fund therefore does not request an upfront payment of the deficit from the guarantor or the outgoing employer. The impact on the guarantor would therefore emerge as part of the following actuarial valuation within the contribution requirements. The Fund does not intend to change this policy. The FSS has therefore been updated to include cases where the exiting employer is in surplus. In this case, the residual assets and liabilities and hence the surplus will transfer back to the guarantor taking into account any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

7.4 This policy ensures consistent treatment with a deficit or surplus at termination when there is a separate guarantor. The policy for these employers is currently that any deficit on termination is collected from the exiting employer but a surplus could not be returned under the Regulations. The updated Policy will be;

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation, subject to the exiting employer providing sufficient notice to the Fund of their intent to exit).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

7.5 The policy for employers who do not have a guarantor participating in the Fund will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation, subject to the exiting employer providing sufficient notice to the Fund of their intent to exit).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

7.5 In preparing the FSS the Administering Authority is required to consult with participating employers. All employers were sent a draft of the updated FSS and asked for comments back by the 14 March 2019. No comments were received back at the date of preparing this report.

7.6 Members are asked to approve the updated FSS. Following approval copies will be distributed electronically to employers, investment managers and independent advisors. It will also be available on the website.

8. Monitoring and Review

8.1 The FSS must be reviewed formally at least every three years at the time of the triennial valuation. The FSS is monitored in the inter-valuation period. It will be revised and published to reflect any material change in policy or to the Investment Strategy Statement. Scheme employers will be consulted regarding any changes.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 17 March 2017, Funding Strategy Statement.
Cabinet Member N/A
Local Member N/A
Appendices A – Funding Strategy Statement