

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Tuesday, 11 <sup>th</sup> February 2020
<b>Report Subject</b>	Valuation Update and Funding Strategy Statement
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

The Committee were provided with an updated draft FSS in September 2019, since then:

- The formal FSS consultation with all interested parties was completed during November 2019 (although the Fund welcomed comments after that point at the request of employers).
- Employers also had the opportunity to attend the AJCM on the 12 November 2019 to discuss their individual valuation results and feedback comments, and these are incorporated into the final FSS.
- A number of Regulation changes were expected to be introduced but haven't been implemented, these have been removed from the FSS. The FSS should be updated in the future to reflect any Regulation changes.
- In January 2020 it was confirmed that a consultation on whether RPI inflation should be reformed will start on 11 March 2020 with the likely outcome being RPI would be more closely aligned with the CPI inflation index. This caused the market to reconsider its view on future RPI inflation. As a consequence, our assumption for the difference between RPI and CPI will need to allow for this. We have therefore included wording in the final proposed FSS to recognise this assumption needs to be reviewed in light of the proposed change in the RPI inflation measure (or other factors).

The proposed final Funding Strategy Statement in relation to the 2019 valuation is attached as Appendix 1 and has been produced for ratification by the Committee. The Actuary will then produce the final valuation report and implement the new contribution requirements from 1 April 2020.

### RECOMMENDATIONS

1	The Committee notes the activity since the September 2019 meeting and the consultation carried out.
2	The Committee approve the final Funding Strategy Statement.

## REPORT DETAILS

1.00	2019 Actuarial Valuation and Funding Strategy Statement
1.01	<p>The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.</p> <p>The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement.</p> <p>The training held at the Committee meeting on 4 September 2019 discussed the purpose and aims of the FSS and highlighted the key points that are set out within it.</p> <p>The draft FSS that was brought to Committee in September 2019 has since been updated to reflect the following:</p> <ul style="list-style-type: none"><li>• the completion of the formal FSS consultation with all interested parties during November 2019 (although the Fund welcomed comments after that point at the request of employers).</li><li>• employers were provided with their individual results during late October / early November and the Annual Joint Consultative Meeting (AJCM) took place on 12 November to allow employers the opportunity to have further discussions with the Fund and the Actuary, and feedback on the Consultation process. Comments have been received from employers and incorporated into the FSS where necessary.</li><li>• A number of Regulation changes were expected to be introduced in 2019/20. These will no longer be implemented by 31 March 2020 (if at all) so these Regulation updates have been removed from the FSS. The Regulation updates that have been removed covered the following:<ul style="list-style-type: none"><li>○ The move to a 4 yearly valuation cycle and the introduction of interim valuations / employer contribution reviews</li><li>○ the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers</li><li>○ the introduction of the deemed employer route which was an alternative to the admitted body route for achieving pension protection</li></ul></li></ul> <p>We will consider whether the FSS should be updated in the future to reflect these Regulation changes once the details are available. The Committee will be updated in due course.</p> <ul style="list-style-type: none"><li>• The chair of the UK Statistics Authority wrote a letter to the Chancellor suggesting that RPI is moved to CPIH by 2030. Following this, a consultation will commence on 11 March 2020 for</li></ul>

	<p>6 weeks on whether/when these changes should be made to RPI. A response is expected by July 2020. This does not affect the assumptions at the valuation date but we need to consider how it affects our assumptions in the inter-valuation period. We believe that the market has already priced in some of this expected change in RPI so when deriving our CPI assumption, we need to ensure any future assessment of funding or termination calculations allow for this.</p> <p>At the valuation, the overall reduction to RPI inflation to arrive at the CPI inflation assumption is 1.0% per annum which was consistent with the market position at that time. For example, at the current time we recommend that the reduction is reduced to 0.7% per annum, to reflect a better estimate of future CPI inflation. This adjustment will be kept under review as the consultation progresses and we better know the outcome. We have therefore included wording to enable this within the FSS.</p> <p>Furthermore, we would recommend that the FSS and in particular the termination policy is reviewed at least annually up to the next valuation. In conjunction with this we recommend the mortality assumption used for the termination policy is reviewed at the same time to reflect the latest trends.</p> <ul style="list-style-type: none"> <li>• Updates to the numbers within the FSS now that the valuation process is close to completion</li> </ul> <p>Once the final FSS has been ratified by the Committee, the Fund Actuary will produce the final valuation report and contribution certificate no later than 31 March 2020 and the new contribution rates will be implemented from 1 April 2020 for the 3 years to 31 March 2023.</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The Fund officers will confirm the final rates to the employers. The Actuary will produce the valuation report which will be signed off by 31 March 2020.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	The Administering Authority consulted with employing bodies over the development of the Funding Strategy Statement during November 2019.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.02	<p>The actuarial valuation is a vital Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements which have a material impact on budgets and local services. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Funding Strategy Statement

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ol style="list-style-type: none"> <li>1. Current FSS and 2016 Actuarial Valuation report.</li> <li>2. Committee reports on the actuarial valuation and funding strategy statements from June 2019.</li> <li>3. Separate presentation from the Fund Actuary in September 2019.</li> </ol> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p>

- (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.
- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (h) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.
- (i) **GAD – Government Actuary's Department** - The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.
- (j) **CPI – Acronym standing for “Consumer Prices Index”**. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.