

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4 th September 2019
Report Subject	Funding Strategy Statement
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The LGPS Regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The draft Funding Strategy Statement attached as Appendix 1, has been produced for consultation with employers. It incorporates the initial proposals on the funding strategy.

The principal decision areas for the Committee in consultation with employers are:

- The actuarial assumptions, deficit recovery plans and updated policies;
- Allowance in the FSS for Regulation changes that will impact on the management of the Fund:
 - the McCloud judgment impact plus Cost Management
 - the introduction of a 'deferred employer' status and
 - The change to a 4-year valuation cycle and the triggers for when an interim valuation or employer contribution assessment should be undertaken between valuations.

These are still at the consultation stage and therefore the wording in the FSS will need to evolve when the Regulations/guidance is finalised.

The draft FSS is based on preliminary information so will need to be finalised once the valuation analysis is complete. The consultation with employers will take place over the coming weeks and the final FSS will be brought back to the February 2020 Committee for final approval assuming the final amended Regulations and guidance are available.

The Actuary will present the main issues and decisions needed for approval of the FSS at the meeting.

RECOMMENDATIONS

1	The Committee approve the draft Funding Strategy Statement.
2	The Committee delegates the refinement and finalisation of the draft FSS to the officers before formal consultation with employers.

REPORT DETAILS

1.00	2019 Actuarial Valuation and Funding Strategy Statement
	<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>A draft FSS has been prepared and has incorporated the following updates:</p> <ul style="list-style-type: none"> • Update to allow for the latest Regulations • Review of the discount rate - Expected return analysis has been performed to determine the appropriate discount rate that should apply to the 2019 valuation. The discount rate is expressed as the “real” expected asset return above CPI. Due to the strong investment returns in recent years, the outlook is lower for returns in the future. Therefore, we are proposing to reduce the expected level of real return above CPI for past service from CPI +2% p.a. at the 2016 valuation to CPI+1.75% p.a., to maintain an appropriate level of prudence in the discount rate. The discount rate for future service has also been reduced from CPI +2.75% p.a. at the 2016 valuation to CPI+2.25% p.a. • Updates to the life expectancy assumptions following analysis performed on the Fund’s membership. The analysis indicates that whilst life expectancy is still increasing, the improvement in longevity is beginning to slow down and this has been incorporated into the assumptions. • There is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2016 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations, and has been incorporated into the assumptions. • Updates to the FSS and the Fund policies included within it (admission, termination and covenant assessment/monitoring) to allow for the potential Regulation and guidance changes. Whilst these are still at the consultation stage, it is important that they are built into the FSS as they are likely to be implemented before the valuation report is signed off. The key changes which have been incorporated are as follows: <ul style="list-style-type: none"> ○ The Cost Management Process - The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the

cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below and if, as expected, it is not implemented the wording will fall away.

- **McCloud judgment** - These are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud/the cost management process will need to be quantified as reasonably as possible based on the information available. This is in line with the guidance from the Scheme Advisory Board. This will be communicated to employers to ensure that they are aware of the budget risk and are able to make provisions accordingly.
- **4 yearly valuation cycle and interim valuations/employer contribution reviews** – MHCLG have proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. It is proposed to phase this in by requiring a valuation in 2022, 2024 and 4 years thereafter. It is also proposed to introduce a power for LGPS funds to undertake interim valuations (in full or in part) and allow LGPS administering authorities to amend an employer's contribution rate in between valuations. The situations when this would be applied have therefore been incorporated into the FSS. The Fund have responded to the consultation as per the last committee meeting.
- **Deferred employers** - the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- **Deemed employers** - This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the deemed employer for the purposes of the Regulations. An update to Fund policies is therefore required.

The Committee will be updated on the progress of these issues throughout the valuation process.

Once the draft FSS has been approved by the Committee, the draft will be refined and finalised by the Fund Officers in conjunction with the Fund Actuary. The consultation with the Fund employers will then commence. Subject to the finalisation of the Regulations/guidance, the outcome of the consultation and the final FSS incorporating the final assumptions and

	policies (including any changes post consultation) will be presented to the February 2020 Committee for approval.
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3.00	RESOURCE IMPLICATIONS
3.01	Officers will need to spend a significant amount of time as part of the consultation with employers. This will involve meetings with employers as well as written correspondence.

4.00	CONSULTATIONS REQUIRED / CARRIED OUT
4.01	The Administering Authority is required to consult with employing bodies over the development of the Funding Strategy Statement. The consultation will commence once the Committee has agreed the draft FSS and also delegated the responsibility of the refinement and finalisation of the draft FSS to Fund officers.

5.00	RISK MANAGEMENT
5.01	<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"> • Governance risk: G2 • Funding and Investment risks: F1 - F6
5.02	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.

6.00	APPENDICES
6.01	Appendix 1 – Draft Funding Strategy Statement

7.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
7.01	<ol style="list-style-type: none"> 1. Current FSS and 2016 Actuarial Valuation report. 2. Committee report on the actuarial valuation from June 2019 3. Separate presentation from the Fund Actuary

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8.00	GLOSSARY OF TERMS
8.01	<p>(a) CPF – Clwyd Pension Fund – 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) Administering authority or scheme manager – 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) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <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.</p> <p>(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) FSS – Funding Strategy Statement – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>