



PENSIONS COMMITTEE

8 November 2022

Subject Heading:

**FUNDING STRATEGY STATEMENT
2022**

CLT Lead:

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Policy context:

Administration Authority must prepare, maintain & publish a statement setting out their Funding Strategy Statement in accordance with regulations

Financial summary:

None directly

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Funding Strategy Statement (FSS) is a Statement of the Havering Pension Fund's ("the Fund") approach to funding its liabilities, focusing on how employer liabilities are measured, the pace at which these liabilities are funded and how employers pay for their own liabilities.

It also incorporates the Fund's approach to cessation and contribution reviews as set out in associated policy documents.

The FSS applies to **all** employers participating in the Fund

Appendix A to this report are exempt from publication by virtue of paragraph 3 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended, as it commercially sensitive until such time the committee approves the draft for consultation.

RECOMMENDATIONS

That the Committee:

1. Agree the draft Funding Strategy Statement 2022 attached as **Appendix A (PART EXEMPT)**.
2. Agree the associated draft Cessation Policy, attached as **Appendix B**
3. Agree the associated draft Contributions Review Policy, attached as **Appendix C**.
4. Agree the draft versions as stated above be issued for consultation.
5. If as a result of the consultation, material changes are required, the Committee is asked to delegate to the Statutory Section 151 officer in consultation with the Chair to approve the final version of the FSS.

REPORT DETAIL

1. Background

- a. The Local Government Pension Scheme (LGPS) regulations 2013 section 58 require Pension Funds to maintain and publish a Funding Strategy Statement (FSS). The Authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate.
- b. The FSS should be completed and approved by the Pensions Committee prior to the completion of each valuation.
- c. The FSS is a high-level statement of an administering authority's approach to its funding strategy and has been prepared in conjunction with the Pension Fund's ("The Fund's") Actuary, having regard to guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) "*Preparing and Maintaining a Funding Strategy Statement (2016)*" and statutory guidance from the Department for Levelling Up, Housing and Communities (DLUHC) on preparing and maintaining policies relating to employer exit.
- d. Its purpose is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
 - *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
 - *ensure the fund meets its **solvency and long-term cost efficiency objectives***
 - *take a **prudent longer-term view** of funding those liabilities.*
- e. The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.
- f. The draft FSS can be found attached as **Appendix A**.
- g. The government amended the LGPS Regulations 2013 in September 2020 (**LGPS (Amendment) (No.2) Regulations 2020**), which introduced new powers for administering authorities to review employer contributions between valuations, spread exit payments and set up Deferred Debt Agreements (DDAs).
- h. The introduction of the new powers is intended to help administering authorities manage their liabilities, ensuring that employer contribution rates are set at an appropriate level and that exit payments are managed, with steps taken to mitigate risks, where appropriate.
- i. There is no requirement on administering authorities to use any of the new powers. The amendments to the LGPS Regulations 2013 made by the 2020 Regulations require that an authority may do so only where it has set out its policy in its FSS. This is to ensure consistency and transparency.
- j. The FSS was reviewed in December 2020 and agreed at the 12 January 2021 pensions committee meeting, which incorporated the adoption of the new powers made by the 2020 regulations. As part of the FSS review these changes are now set out as separated policies to enable greater transparency and usability.
- k. The Cessation Policy, attached as **Appendix B**, sets out the authority's approach to dealing with circumstances when a scheme employer leaves the Fund and becomes an exiting employer (cessation event). Also sets out how the authority will deal with its discretion over the repayment of any deficits and surplus on cessation and the circumstances that permit Deferred Debt Agreements (defers the final cessation payment and the employer does not exit but has to continue to pay secondary contributions and at the end of DDA period will carry out a full cessation).
- l. The Contributions Review Policy, attached as **Appendix C** sets out the administering authority's approach to reviewing contributing rates between triennial valuations.

2. Consultation and publication

- a. Regulation 58(3) of the LGPS Regulations 2013 states that following a material change in its policy the authority should consult with such persons it considers appropriate.
- b. The DRAFT version of the FSS will be distributed to all participating employers in the Fund following agreement of the draft at this meeting. The consultation will be open for six weeks and the final version agreed no later than 31 March 2022.
- c. All responses will be considered but ultimately, responsibility for finalisation and publication of the FSS lies with the administering authority. If after consideration of responses and no changes are made, then the draft as submitted with this report will be accepted as the final version and published accordingly.
- d. If as a result of the consultation changes are required, the Committee is asked to delegate the Statutory Section 151 officer in consultation with the Chair to approve the final version of the FSS.
- e. Once the updated FSS has been approved it will be published on the administering authority websites and employers will be notified of where to access the FSS online. It will also be included in the Fund's Annual report.

IMPLICATIONS AND RISKS

Financial implications and risks:

Any representations made by the employer and its letting authority/guarantor, under these regulations may lead to higher actuarial, legal and internal management costs.

There will be no additional costs to the Fund as these costs will be met by the employer.

Allowing exiting employers to have the flexibility to have contributions reviewed, spread costs or enter into DDAs may provide a greater likelihood of the administering authority receiving full payment of the exit costs.

The Fund also commissions Hymans, the Fund's actuary, to undertake employer risk profiling on an annual basis to set out the employer risks within the Fund. They estimate the funding level of each employer or pool of employers which can then be

used to assist the Fund in determining the risk to the Fund should the employer leave.

The employer risk profiling report covered the funding position as at 31 March 2022, most employers in the Fund are fully funded and/or have a clear guarantee provided by another employer in the Fund or the Department for Education and have therefore been rated as being a **low risk** in terms of the remaining employers being impacted should the employer leave.

The Fund currently has thirteen admitted bodies of which seven have a contract expiry date before March 2023 and will require cessation calculations in the near future. These fall within the low risk category.

No employers have been flagged as medium risk with only one employer being flagged a high risk employer.

High risk employers are defined as having funding levels below 100% on the Fund's ongoing basis with no guarantor or security in place to protect the Fund should they exit the Fund and be unable to meet a cessation debt.

Officers will be guided by the recommendation in the report to seek whether it can improve its position of the high risk employer through accelerating the employer's pace of funding, putting in place a guarantor and/or gaining security through either a bond or a charge on assets (if available).

The cost of producing the FSS and associated policies are met by the Pension Fund.

Legal implications and risks:

The substantive legislative framework is set out in within the FSS and its associated policies on Cessation and Contributions Review Policy and will not be repeated here.

The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020 (***Local Government Pension Scheme (Amendment) (No.2) Regulations 2020***), which introduced new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA). The use of these new powers are clearly set out in the FSS and associated policies and guided by professional actuarial advice.

The requirements of a fair consultation include that the consultation proceeds at a formative stage before final decisions have been taken, that consultees are given sufficient time and information in order to comment meaningfully, and that any responses are conscientiously taken into consideration before a final decision is made.

These principles appear to have been applied so long as the final decision makers take the consultation responses into account before finalising the Funding Strategy Statement.

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List
None