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CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

21 June 2017

Report title	Completion of 2016 Actuarial Valuation	
Originating service	Pension Services	
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Recommendation for action or decision:

The Committee is asked to approve:

1. Delegation of responsibility to the Director of Pensions, in consultation with the Chair or Vice Chair of Pensions Committee, to finalise arrangements to enable the Fund to mitigate exposure to employer covenant risk through guarantee and security agreements (as in section 4.2.1 of this report).

Recommendations for noting:

The Committee is asked to note:

1. The finalisation of the 2016 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed 31 March 2017.

2. The ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2016 actuarial valuation.

1.0 Purpose

1.1 To provide Committee with confirmation of the finalised 2016 actuarial valuation and a summary of the national position and associated reviews.

2.0 Background

2.1 The Fund is required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. As part of the 31 March 2016 valuation, the Fund Actuary has certified the employer contribution rates due for the three years 2017/18-2020/21.

2.2 The report to Committee in March outlined the steps required to finalise the 2016 valuation, in particular concluding the consultation process and finalising the Funding Strategy Statement (FSS) and the valuation report along with the associated Rates and Adjustment Certificate.

3.0 2016 valuation report

3.1 The finalised FSS was presented to Committee at the meeting on 22 March 2017 and, following conclusion of discussions with employers, the 2016 valuation report and Rates and Adjustment Certificate was signed by the Fund actuary on 31 March 2017. Links to the Scheme Actuary's reports for the West Midlands Pension Fund (Main Fund) and the West Midlands Integrated Transport Authority Fund (WMITA Fund) are included in the schedule of background papers at the end of this report.

3.2 Main Fund – key headlines

3.2.1 As per the valuation report, as at 31 March 2016 the Main Fund was 81% funded representing an increase of 11% when compared to the funding level as at 31 March 2013. The market asset valuation as at 31 March 2016 was £11,569m, with liabilities valued at £14,219m and a funding deficit of £2,650m (compared to a deficit of £4,205 million as at 31 March 2013).

3.2.2 The primary contribution rate (average future service contribution rate) for the Main Fund was 18.3% of total pensionable payroll, with a secondary rate (average past service deficit contribution rate) of 9.9% for 2017/18. Note that past service deficit contributions are paid as monetary amounts and a total of c£165m is expected to be paid in 2017/18.

3.2.3 The table below sets out a comparison of the total contributions expected for the Main Fund in line with the 2016 actuarial valuation (April 2017-2020) compared to those received over the three years following the 2013 valuation (April 2014-2017).

Contributions	2013 valuation	2016 valuation
Total future service contributions over 3 years	£647,440,000	£906,664,000
Total past service deficit contributions over 3 years	£523,108,000	£502,105,000
Total	**£1,170,548,000**	**£1,408,769,000**

The increase in contributions to cover future service costs is largely driven by an increase in the primary contribution rate which has been uplifted to more closely align contributions with the expected cost of providing the current level of benefit to members over the long term. Past service deficit contributions were set in 2014, taking into account post-valuation funding development (and targeted a lower funding deficit of £3,275m). Taking into account the position in 2016, the deficit is now expected to be eliminated over a shorter period, with employer payments targeting recovery over a period up to 20 years depending on their covenant assessment.

3.3 WMITA Fund – key headlines

3.3.1 As per the valuation report, as at 31 March 2016 the WMITA Fund was 82% funded representing an increase of 6% when compared to the funding level as at 31 March 2013. The market asset valuation as at 31 March 2016 was c£464m (including the buy-in of c£256m), with liabilities valued at c£569m and a funding deficit of £105m.

3.3.2 The primary contribution rate (future service contribution rate for West Midlands Travel Limited as the only employer with active members) for the WMITA Fund was 25.1% of total pensionable payroll, with a secondary rate (total past service deficit contribution) of £7.625m for 2017/18.

3.3.3 The table below sets out a comparison of the total contributions expected for the WMITA Fund in line with the 2016 actuarial valuation (April 2017-2020) compared to those received over the three years following the 2013 valuation (April 2014-2017).

Contributions	2013 valuation	2016 valuation
Total future service contributions over 3 years	£11,141,100	£9,603,800
Total past service deficit contributions over 3 years	£17,550,000	£23,056,700
Total	**£28,691,100**	**£32,660,500**

The reduction in future service contributions is largely driven by a fall in the active membership in the Fund (reducing by over 40% over the three years). Deficit contributions have increased to target recovery within 15 years.

3.3.4 Updated guarantee arrangements have now been put in place between the Administering Authority (WMCA) and Preston City Council (in relation to Preston Bus Limited's liabilities) and National Express Group (in relation to West Midlands Travel Limited's liabilities). The funding strategy applied reflects the added strength of these guarantees.

4.0 Implementing change to employer funding arrangements

4.1 The Fund is monitoring closely the payments received for April 2017 (due by 19 May 2017) to ensure they comply with those set out in the 2016 valuation report. This will check advance payments and changes to payment rates are implemented when due. Any discrepancies or late payments will be raised with the relevant employers and reported back to Committee in September.

4.2 Following the extensive consultation process undertaken by the Fund, there are arrangements agreed with some individual employers which will be finalised over the forthcoming months.

4.2.1 Committee is asked to delegate responsibility to the Director of Pensions, in consultation with the Chair or Vice Chair of Pensions Committee, to finalise such arrangements to enable the Fund to mitigate exposure to employer covenant risk through guarantee and security agreements.

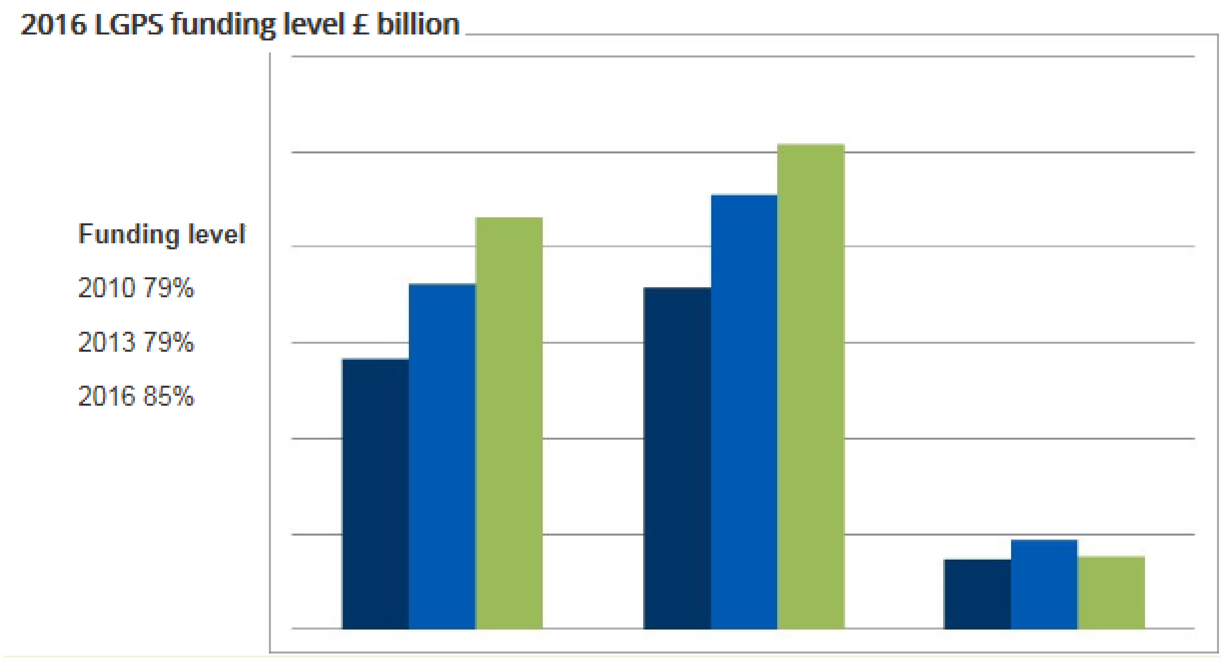
4.2.2 Certain employers have agreed to provision of additional security (e.g. charge over property or parent company guarantee) which will require the appropriate due diligence and legal documentation to complete implementation.

4.2.3 The Fund is in the process of updating the "employer watchlist" to reflect the 2016 valuation results and the Fund will maintain ongoing dialogue with these employers around affordability and strengthening of covenant as their financial position continues to evolve.

5.0 Wider review of outcomes

5.1 Under Section 13 of the Public Service Pensions Act 2013, the Government Actuary Department (GAD) will undertake their review of LGPS valuation outcomes and issue a public report (expected early 2018). GAD have committed to engaging with Funds and Administering Authorities over any issues or concerns their review raises in advance of the report publication.

5.2 The Scheme Advisory Board (SAB) has set out the overall result of the 2016 valuation using LGPS fund data at 31st March 2016 with a comparison for 2013 and this is set out in the graph below. The 2016 valuation results were used to set contribution rates from 1st April 2017 to 31st March 2020. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides a prudent estimate for the scheme at the triennial valuation dates.



£ billion	Assets	Liabilities	Deficit
2010	141.6	178.5	36.9
2013	180.5	227.3	46.8
2016	216.4	253.6	37.2

This indicates that, overall, the LGPS funding level has increased from 79% in 2013 to 85% in 2016.

5.3 Purely for comparison purposes, the SAB has posted on its website anonymised local fund valuation results submitted to GAD on a “standardised” valuation basis at as 31 March 2016. This notional assessment does not reflect local funding and investment strategy and differs from the assessment used to determine employer contribution rates (shown in the chart above). The average funding level on the standardised basis across all 89 funds was 96%.

5.4 Following the 2016 valuation, the on-going cost of the LGPS as a whole will be reviewed against the cost caps established by HM Treasury and the Scheme Advisory Board, following the introduction of scheme changes in 2014. If the notional costs of the scheme (as measured by GAD) have increased above a threshold this could trigger either a requirement for benefit or member contribution review (HMT process) or requirement to review and make recommendations around future benefit review (SAB process, DCLG review).

6.0 Financial implications

6.1 The results of the 31 March 2016 actuarial valuation may have financial implications for participating employers in setting employer contribution rates for the three years from April 2017.

6.2 The outcomes of the SAB/HMT reviews may result in an amendment to benefits (accrual rate change or switch to defined contribution) and/or member contribution levels.

7.0 Legal implications

7.1 The report has potential legal implications in that the outcomes of the GAD Section 13 could (based on the draft investment regulations) trigger Secretary of State intervention in the funding and investment strategy.

8.0 Equalities implications

8.1 This report contains no equal opportunities implications.

9.0 Environmental implications

9.1 This report contains no environmental implications.

10.0 Human resources implications

10.1 This report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 This report contains no direct corporate landlord implications.

12.0 Schedule of background papers

12.1 Pensions Committee reports 14 September 2016, 7 December 2016 and 22 March 2017 – 2016 actuarial valuation

12.2 West Midlands Pension Fund (Main Fund) 2016 actuarial valuation report: http://www.wmpfonline.com/CHttpHandler.ashx?id=12601&p=0

12.3 West Midlands Integrated Transport Authority Fund (WMITA Fund) 2016 actuarial valuation report: http://www.wmpfonline.com/CHttpHandler.ashx?id=12602&p=0