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CITY OF WOLVERHAMPTON COUNCIL	**Pensions Board** 27 April 2021

Report Title	Funding Strategy Statement Review 2021	
Originating service	Pension Services	
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Recommendation for noting:

The Pensions Board is asked to note:

1. Proposed changes to the Funding Strategy Statement, incorporating revised Termination Policy and Policy on Contribution Reviews Inter-Valuation as new addendums following enabling change to the LGPS regulations.

1.0 Purpose

1.1 To provide Board with an overview of the proposed changes to the Funding Strategy Statement (FSS) following the publication of amendments to LGPS Regulation which enable employer funding flexibility.

2.0 Background

2.1 As required under regulation 58(3) of the Local Government Pension Scheme 2013 Regulations, the administering authority must keep its FSS under review between triennial actuarial valuations. This ensures it remains appropriate in the event of material changes to the employer-base, the Investment Strategy Statement (ISS) or overarching legislation.

2.2 As reported to Board on 26 January 2021, as part of the Regulatory Update paper, new enabling legislation ('Employer Flexibilities') came into effect on 23 September 2020, which introduced the power for Administering Authorities to review employer contributions in between statutory actuarial valuations in the event of a significant change in the level of liabilities and/or covenant of an employer and allowing an employer to request a review for the same reasons.

2.3 The Employer Flexibilities legislation also introduced mechanisms to facilitate the spreading of exit debt payments upon cessation of an employer within the LGPS. To align to this legislation, the Fund proposes to include policies on spreading employer debt payments (DSA) and deferred debt agreements (DDA) within the FSS.

2.4 To assist with drafting the policies and applying the Regulations, the LGPS Scheme Advisory Board (SAB) and the Ministry for Housing, Communities and Local Government (MHCLG) have both issued guidance on the amendments to the FSS, published on 2 March 2021. A consultation took place on the practical guide from the SAB which ran until 9 January 2021, the Fund having supported on the development of this guidance.

2.5 The revised draft FSS is attached as an appendix (A) to this report (incorporating the updated Termination and Contribution Review policies as an addendum).

2.6 Due to the scope of the proposed changes to the FSS, the Fund is required to consult with appropriate stakeholders. More detail is provided on the consultation process below, but with the final version proposed to be effective from 1 June 2021.

2.7 The policies have been drafted based on the Amended Regulations and guidance. It is proposed that any changes required following consultation, which we do not expect to be substantive, will be made by officers in conjunction with advisers prior to publication of the final FSS.

3.0 Arrangements prior to 23 September 2020

3.1 Prior to change in September 2020, the LGPS Regulations did not allow a review of employer contributions in between statutory actuarial valuations (currently every three years), unless in the exceptional circumstances where there was a material change in membership for that employer (note, this did not afford a participating Scheme employer the opportunity to request such a review, or for the review to be carried out based on a significant change in covenant).

3.2 The Fund's policy for exit debts was for all payments to be made immediately following the date of exit, unless there were evidenced exceptional circumstances to be considered at the sole discretion of the Fund. However, where the exit debt is required to be paid in full on exit, this may in certain circumstances, inhibit the ability of employers to leave the Fund in an ordered and affordable manner and put the Fund at higher risk of unrecoverable debts. This is especially the case for those employers in a distressed financial situation. As a consequence, in this situation employers might seek to remain in the Fund accruing further, often unaffordable, liabilities.

4.0 Policy for review of contributions in between statutory actuarial valuations

4.1 The Regulations enable an Administering Authority to set out its policy for the review of employer contributions and the Fund's FSS has been amended accordingly to confirm a revision is only permitted if one of the following apply:

a) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation.

b) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer to meet their obligations in the Scheme (employer covenant).

c) a Scheme employer requests a review of employer contributions if they believe point (a) or (b) applies and the required contributions, data and information are up to date, as well as there being an undertaking from the employer to meet the costs of that review.

4.2 Appendix A sets out the draft FSS for the Board to note, with the policy for a review of contributions inter-valuation set out in addendum 3.

5.0 Policy in relation to Flexibility for Exit Debt Payments and Deferred Debt

5.1 As outlined above, the default position for exit debt payments is that they are paid in full at the point of exit and this will remain under the new policy.

5.2 The new Regulations permit LGPS funds to develop policies that provide alternative options to employers when the last active member leaves the employer (subject to a covenant assessment and consideration of security):

a) **Debt Spreading Arrangement (DSA)** - Allows the Fund and the employer to enter into agreement which instead spreads the payment of the final exit debt calculated by the Fund actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms).

b) **Deferred Debt Arrangement (DDA)** - The Fund may enter into a DDA with a Scheme employer. This allows the employer to defer its obligation to make an exit payment and continue to make past service deficit (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members.

5.3 In agreeing a DSA or a DDA, the Fund may choose to consult relevant advisers and will engage with the employer on the terms and formal documentation of the arrangement. A time limit has been applied within the FSS to agree the required terms within 12 months from the date of exit, beyond which Fund policy would default to immediate payment of the exit debt, in line with standard LGPS regulations, to ensure timely agreement of any alternative arrangements.

5.4 Appendix A sets out the draft FSS for the Board to note, with the policy in relation to flexibility for exit debt payments and deferred debt set out in section 2.6 of the Termination Policy in addendum 2.

6.0 Changes to Ill Health Insurance arrangements

6.1 The wording within section 6.4 of the FSS will be expanded to allow for an automatic review of any ill health retirements where an employer exits the Fund and has been part of the captive insurance arrangement. This is to ensure that the employers within the captive arrangement have the correct governance in place.

6.2 In addition, and not directly as a result of the Employer Flexibility legislation, the wording relating to ill health insurance arrangements has also been amended to allow for cases where the tier for ill health benefits has been amended following a review.

7.0 Consultation process

7.1 As outlined above, as the proposed amendments represent a material change in funding policy, it is necessary to consult with appropriate stakeholders on these changes.

7.2 The Fund opened consultation with all participating employers on 12 April 2021 for a period of 6 weeks, closing on 21 May 2021.

7.3 The consultation proposal is for the revised FSS to be effective from 1 June 2021, subject to review of consultation responses.

7.4 The Fund consulted with our Employer Peer Group informally on the 10 March 2021 to obtain initial feedback prior to the intended formal consultation. Wider feedback is anticipated once Peer Group have had the opportunity to consider the proposals in more detail, however initial comments included a preference for interactive briefing sessions

for employers, to explain the changes and afford them an opportunity to raise questions, and also around timing of consultation, noting that Finance contacts would be the key reference points.

7.5 As part of the consultation, the Fund is hosting briefing sessions late April/early May to further explain the proposed changes and provide employers the opportunities to discuss and raise any queries, noting this is a new element of LGPS Regulation and Fund policy, with scope to refine as practice evolves.

7.6 The Board are invited to provide comment in response to the proposed changes as part of the consultation. All responses will be reviewed, and any amendments considered by the Director of Pensions in consultation with the Chair and/or Vice Chair of Pensions Committee, ahead of issued of the final FSS effective from 1 June 2021.

8.0 Financial implications

8.1 The FSS sets out the funding basis and related policies through which the Fund manages the scheme liabilities and payment of contributions by scheme employers (including on exit from the Fund).

8.2 This report has financial implications in that is proposes changes to policies which could result in alternative contribution requirements for employers and/or arrangements to spread the payment of exit debt.

9.0 Legal implications

9.1 The proposals included within this report will require robust legal documentation to facilitate funding flexibilities, to include amendments, in particular to confirm arrangements for spreading the payment of exit debt.

10.0 Equalities implications

10.1 The report contains no direct equalities implications.

11.0 Environmental implications

11.1 The report contains no direct environmental implications.

12.0 Human resources implications

12.1 The report contains no direct human resources implications.

13.0 Corporate landlord implications

13.1 The report contains no direct corporate landlord implications.

14.0 Schedule of background papers

14.1 None.

15.0 Schedule of appendices

15.1 Appendix A: Draft 2021 Funding Strategy Statement