

<b>Report Title</b>	Funding Strategy Statement Review	
<b>Originating service</b>	Pension Services	
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<b>Report to be/has been considered by</b>	Rachel Brothwood Email	Executive Director of Pensions <a href="mailto:Rachel.brothwood@wolverhampton.gov.uk">Rachel.brothwood@wolverhampton.gov.uk</a>

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**Recommendations for decision:**

**The Pensions Committee is asked to approve:**

1. The Funding Strategy Statement
2. The Fund's Asset Share Policy.

**Recommendations for action:**

The Pensions Committee is asked to note:

1. The consultation undertaken in relation to the 2022 actuarial valuation and the associated Funding Strategy Statement.
2. Progress made towards finalising the valuation, including employer engagement, and planned delivery of the Fund actuary's valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2023.
3. The updated Employer Risk Management Framework.

## **1.0 Purpose**

- 1.1 To provide Committee with an update on the 2022 actuarial valuation and outline of proposed changes to the Funding Strategy Statement (FSS), incorporating consultation with Fund employers.

## **2.0 Background**

- 2.1 The Fund is currently 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 valuation, effective 31 March 2022, the Fund Actuary will certify the employer contribution rates due for the three years 2023/24 – 2025/26. The Actuary's report and certificate must be obtained by the Fund by the statutory deadline of 31 March 2023.
- 2.2 The Fund Actuary prepares the valuation based on the Fund's own Funding Strategy Statement (FSS), which has been updated since it was last reviewed in 2021, to reflect the changing regulations and updated actuarial advice received as part of the 2022 actuarial valuation. The FSS forms an integral part of the valuation, as it sets out the Administering Authorities strategy and policy on funding Scheme benefits.
- 2.3 The FSS incorporates individual appendices covering funding strategy for the Admitted Body Separate Funds (ABSFs), which are subject to extended dialogue and consultation until 10 March 2023, and therefore not included within Appendix A due to the timing on drafting of this report.
- 2.4 The draft FSS was issued to employers for consultation in February, following a series of employer presentations during November 2022 to January 2023.
- 2.5 Consultation on the FSS formally closed on 28 February 2023, with follow-up discussions with a handful of employers continuing into March 2023.

## **3.0 Engagement and Consultation**

- 3.1 The Fund issued preliminary valuation results to employers during the course of November and December 2022. A complete suite of supporting documents was issued to employers alongside the results, together with an online survey link, to enable queries to be submitted to the Fund and where appropriate a meeting could be requested during the period of consultation (due to run until 31<sup>st</sup> January 2023).
- 3.2 The Fund ran a series of multi-employer briefing sessions during December 2022 and January 2023 which were attended by 254 individuals representing approximately 36% of Fund employers responsible for 95% of total Fund liabilities. The sessions were delivered virtually and face to face and covered the following areas:
  - An overview of the provisional results of the 2022 valuation and changes since the 2019 valuation.
  - An explanation of the new schedules which have been issued containing funding outcomes of the valuation.

## This report is PUBLIC

- Details of the changes to the actuarial assumptions and funding approach
- Discussion surrounding how inter-valuation experience has impacted the Fund and employers.

- 3.3 The Fund has subsequently engaged in dialogue with employers to discuss their contribution outcomes, employer risk categorisation and funding strategy (including actuarial assumptions) as a whole, alongside formal consultation and update to the FSS.
- 3.4 Feedback from the dialogue and consultation process has focussed on five main areas:
- Employers' affordability and cashflow management concerns
  - Advance payment options
  - Contribution pooling arrangements
  - Treatment of surplus and associated funding strategy
  - Covenant rating and classification of employers into risk groups
- 3.5 For many employers, outcomes align to the outcomes at Fund-level, specifically the increase in funding level, and increased primary (future service) rate contributions, with a decrease in secondary (past service deficit) contributions. The range of funding outcomes reflects the diversity and legacy of employers within the Fund. The consultation process has benefitted from improved employer understanding and awareness of the valuation process and individual outcomes, largely as a result of the extensive engagement undertaken as part of prior actuarial valuations.
- 3.6 In a handful of cases affordability concerns have been raised by employers, primarily as a result of budgetary and/or cashflow pressures. In such cases, the Fund has requested evidence, to include updated financial information and short-term forecasts, to take into account in review of individual employer contribution plans.
- 3.7 In response to feedback from employers, the Fund (following advice of the Fund Actuary) has provided some easement to employers through phasing increases in contributions and offering alternative payment profiles with a reduction in contributions for advance payment.
- 3.8 Where initiated by the participating employer, the Fund has also engaged with scheme employers (guarantors) who provide a guarantee to another participating employer. This engagement has, in some cases, resulted in the guarantor extending comfort to afford the individual employer a more relaxed pace of funding, therefore minimising the cashflow pressure over the next three years, but with a further review at the next actuarial valuation.
- 3.9 Looking further ahead, and in particular at employers with increasingly mature membership profiles (those on a path to exit from the scheme), the Fund has engaged with certain employers around funding strategy to mitigate the effects of a significant exit debt on cessation. This is an initial step in a wider review of employers on a path to exit, which may include a subsequent change of funding and investment strategy.

- 3.10 Final contribution outcomes are being confirmed with the Fund Actuary for inclusion in the 2022 actuarial valuation report and rates and adjustments certificate. All employers will receive a copy of their final results and individual contribution schedules for 2023/24-2025/26 during March 2023.

#### **4.0 Funding Strategy Statement**

- 4.1 The Fund's Funding Strategy Statement (FSS) has been prepared based on prevailing Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and reviewed by the Fund Actuary.
- 4.2 The proposed key changes to the FSS considered as part of the 2022 actuarial valuation were outlined to Committee in December 2022.
- 4.3 The Fund consulted with all participating employers on the proposed amendments to the FSS and the associated Asset Share Policy. This consultation period closed on 28 February and the Fund received responses from 2 employers, specific to these documents. Having considered the responses, the Fund does not intend to make any material changes to the FSS, however minor wording amendments or points of clarification have been made.
- 4.4 In conjunction with the review of the FSS, the Fund has also updated the Employer Risk Management Framework (last reviewed in February 2021), which sets out the Fund's process and key principles surrounding the monitoring and mitigation of employer covenant risk. Whilst changes are relatively minimal, this document aligns to current funding strategy and with additional information added in the context of climate-related covenant risk, with further changes anticipated later in 2023/early 2024.
- 4.5 Committee is asked to review and approve the FSS and Asset Share Policy, as attached in Appendices A and B. A link to the updated Employer Risk Management Framework is provided in Appendix C.

#### **5.0 Financial Implications**

- 5.1 This report has financial implications for employers and guarantors in that the outcomes will drive contribution requirements as part of the 2022 actuarial valuation, effective from 1 April 2023.

#### **6.0 Legal Implications**

- 6.1 The report contains no direct legal implications.

#### **7.0 Other potential implications**

- 7.1 There are no other potential implications.

## **8.0 Schedule of Background Papers**

8.1 [Valuation Planning and Overview – 15 December 2021 Committee paper.](#)

8.2 [2022 Actuarial Valuation Update – 30 March 2022 Committee paper.](#)

8.3 [2022 Actuarial Valuation Update – 29 June 2022 Committee paper.](#)

8.4 [2022 Actuarial Valuation Update – 21 September 2022 Committee paper.](#)

8.5 [2022 Actuarial Valuation Update – 14 December 2022 Committee paper.](#)

## **9.0 Schedule of Appendices**

9.1 Appendix A: Funding Strategy Statement

9.2 Appendix B: Asset Share Policy

9.3 Appendix C: Employer Risk Management Framework: [Employers - Risk Management Framework \(wmpfonline.com\)](#)