

Pensions Board

25 April 2023

Report Title	Funding Strategy Statement	
Originating service	Pension Services	
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Report to be/has been considered by	Rachel Brothwood Email	Executive Director of Pensions Rachel.brothwood@wolverhampton.gov.uk

Recommendations for action:

The Pensions Board is asked to note:

1. The Funding Strategy Statement (FSS) and Asset Share Policy which were approved by the Pensions Committee in March 2023.
2. The consultation undertaken in relation to the 2022 actuarial valuation and the associated Funding Strategy Statement.
3. The delivery of the Fund actuary's valuation report and rate and adjustments certificate in accordance with the statutory deadline of 31 March 2023.
4. The updated Employer Risk Management Framework.

1.0 Purpose

- 1.1 To provide the Board with an overview of the 2022 actuarial valuation and finalisation of associated key policy documents and reporting,

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 has certified 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).
- 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 during 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 (which ran until 31st 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.
 - 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 have been confirmed with the Fund Actuary and are included in the 2022 actuarial valuation report and rates and adjustments certificate. All employers

received 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 key changes to the FSS considered as part of the 2022 actuarial valuation were outlined to Governing Body's at meetings during December 2022 and January 2023.
- 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 did not 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, as the Fund continues to consider further integration into its Funding Strategy and Risk monitoring.
- 4.5 Board is asked to note the FSS and Asset Share Policy, as attached in Appendices A and B which were approved by the Pensions Committee in March 2023. 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 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 [2022 Actuarial Valuation Update – 24 January 2023 Pensions Board Paper](#)

This report is PUBLIC

8.2 [2022 Actuarial Valuation Update – 31 October 2022 Pensions Board Paper](#)

8.3 [2022 Actuarial Valuation Update – 26 April 2022 Pensions Board 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 \(wmpfonline.com\)](#)