

WIRRAL COUNCIL
PENSION COMMITTEE

15 NOVEMBER 2016

SUBJECT:	DRAFT FUNDING STRATEGY STATEMENT
WARD/S AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report raises awareness that the Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Administering Authority. The FSS must be updated in detail triennially as part of the actuarial valuation. The Administering Authority must consult with employers on the FSS as part of the valuation process.
- 1.2 Some initial discussions on funding and the presentation of preliminary results have already taken place with the major councils.
- 1.3 The draft Funding Strategy Statement in the Appendix has been produced for consultation with employers. It incorporates the proposals on the funding strategy which have been discussed by the Fund officers with the Actuary.
- 1.4 The consultation period will open at the beginning of November and Fund Officers have arranged a number of employer forums to encourage engagement and feedback to the process; before closing the consultation following the annual employers' conference on 29 November 2016.

2 BACKGROUND AND KEY ISSUES

Key Changes to the 2016 Funding Strategy

- 2.1 As part of the review of the funding strategy the key changes to the strategy statement from 2013 are:
- a) A change in the discount rate methodology to explicitly link the discount rate to expected real investment returns above inflation as measured by the Consumer Price Index (CPI) (“CPI plus” approach)
 - b) Update the future service rate to take out the assumption that 10% of future employees will choose the 50/50 benefit scale, this will result in an increase for employers in the cost of future benefits
 - c) Update the demographic assumptions (such as life expectancy, ill health, proportion of members with a dependant) to allow for updated trends and Fund specific analysis
 - d) Subject to reasonable affordability an aim to reduce the average recovery periods by 3 years and to also maintain the current level of deficit contributions from the preceding valuation
 - e) Update of the FSS to allow for the updated regulations and to also incorporate all Fund policies in one place
 - f) The potential availability of different investment choices or “buckets”
 - g) Possible flexibilities within the termination basis, subject to review as part of the consultation

2.2 Preliminary Whole Fund Results

The final actuarial outcome will be reported to Committee at the March 2017 meeting however preliminary whole Fund results based on the proposed assumptions to assess solvency and future service plus updated demographic assumptions as documented in the draft FSS are set out below:

31 March 2016	£Ms
Assets	6,850
Liabilities	8,005
Deficit	1,155
Funding Level	86%
Employer future service contribution rate*	15.1% p.a.

** no allowance for 50/50 take-up.*

- 2.3 Individual employer results will be disseminated during the employer consultation meetings which will take place in the first week of November to present the whole Fund results and to discuss individual employer results and outcomes.
- 2.4 In discussions with the major councils it has become apparent of the need to consider budgetary constraints faced by employers as a result of reduced public sector funding and the direct impact of increases to employer contributions on front line services.
- 2.5 Consequently it is the intent to provide mechanisms to stabilise contributions which balance the administering authority's statutory responsibilities with regard to solvency and long term cost efficiency against employer affordability.

3.0 RELEVANT RISKS

- 3.1 If stabilising mechanisms are not introduced to acknowledge upward pressures on employer budgets then the Actuary would be required to set unaffordable employer contribution rates resulting in the risk of employers becoming insolvent and exiting the Fund with irrecoverable debt.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Not relevant for this report

5.0 CONSULTATION

- 5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 There are none arising from this report

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 8.1 The revised financial and demographic assumptions within the Funding Strategy Statement will have a direct impact on funding levels and the employer contributions certified for the financial period 1 April 2017 to 31 March 2020.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory policies governing the triennial valuation.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 The Committee notes the draft Funding Strategy Statement as set out in Appendix 1 that has been distributed to employers.

13.2 The Committee delegates the refinement and finalisation of the draft FSS to the officers before a final review from Committee in March 2017

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with changes to the policies underpinning the governance framework for the triennial valuation process.

**REPORT
AUTHOR**

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APPENDIX 1

Draft Funding Strategy Statement

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
Funding Strategy Statement	19 November 2013