WIRRAL COUNCIL

PENSIONS BOARD

16 OCTOBER 2018

SUBJECT:	**DRAFT FUNDING STRATEGY STATEMENT**
REPORT OF:	**HEAD OF PENSION ADMINISTRATION**

1.0 EXECUTIVE SUMMARY

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

1.2 The LGPS (Amendment) Regulations 2018 introduced the provision to refund a surplus to an employer, defined as an "Exit Credit" with effect from 14 May 2018. As this is a material change in funding arrangements it is necessary to review the impact on the termination policy and consult with employers on any proposed changes to the FSS.

1.3 The Fund opened a consultation with Scheme employers on 9 July 2018 and shared an explanatory letter detailing the background to the consultation, together with a draft copy of the 2018 FSS. The consultation closed on 6 August 2018.

1.4 The revised draft FSS is attached as an appendix to this report, along with the Fund's response to the questions and issues raised by employers, and the Independent Chair of the Pension Board, during the consultation.

2.0 BACKGROUND AND KEY ISSUES

2.1 The current FSS was approved by Pensions Committee on 21 March 2017, following the Fund's 2016 Triennial Actuarial Valuation.

2.2 The FSS governs how employer liabilities are measured, the pace at which those liabilities are funded and how employers pay for their own distinct liabilities; it also takes account of the employer covenant and specific employer characteristics which determine the appropriate investment bucket for individual employers.

Local Government Pension Scheme (Amendment) Regulations 2018

2.3 The above regulations amended the LGPS 2013 Regulations and provide for the prospect of exit credits being made available to an employer when it leaves the LGPS with a funding surplus.

2.4 This change presents a number of unforeseen implications for historic contractual arrangements in respect of outsourced services, and highlights the requirement that negotiations in relation to future commercial arrangements should cover pension risk and be drafted in accordance with the Funding Strategy Statement.

How has the Funding Strategy Statement changed?

2.5 Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminated participation of the Fund.

2.6 The current treatment for employers with a guarantee from a Council is to transfer any surplus back into the Council's section of the Fund, and hence improve the general funding position (all things being equal). Given that under the Regulations the default is now for any surplus to be refunded, it is paramount that Fund policies are aligned with the intention of the contract in relation to pensions.

Revised Policy for Employers who have a guarantor participating in the Fund

2.7 The general policy for employers that exit the Fund with a guarantee from a guarantor organisation is for the guarantor to subsume the residual assets, liabilities and deficit.

The Fund therefore does not request an upfront payment of the deficit from the guarantor or the outgoing employer. The impact on the guarantor would therefore emerge as part of the following actuarial valuation within the contribution requirements.

2.8 The Fund does not intend to change the policy position. The FSS has therefore been updated to include cases where the exiting employer is in surplus. In this case, the residual assets and liabilities, and hence the surplus will transfer back to the guarantor.

2.9 This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).

2.10 This policy ensures consistent treatment of a deficit or surplus at termination when there is a separate guarantor.

Revised Policy for Employers who do not have a guarantor participating in the Fund

2.11 The current policy for these employers is that any deficit on termination is collected from the exiting employer but a surplus could not be returned under the Regulations.

The revised policy will be**:**

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion)

Consultation with Employers

2.12 The Fund arranged a meeting with the main outsourcing authorities on 3 May 2018 and 12 June 2018, to discuss the implications of "Exit Credits" on historic and new contractual arrangements and the proposed revisions to the FSS.

2.13 A formal consultation was opened with all employers for a four week period commencing 9th July and closed on 6th August, with the aim to achieve consistency between the various commercial arrangements, the termination policy and the new Regulations.

2.14 A number of responses were received to the consultation which generally supported the equitable treatment of the deficit or surplus, but it was highlighted that the FSS should be amended to document the approach in circumstances where all parties do not agree to the surplus being subsumed by the guarantor. The draft FSS has been updated to clarify the position.

3.0 RESOURCE IMPLICATIONS; FINANCIAL; IT; STAFFING; AND ASSETS

3.1 The payment of exit credits out of the Fund presents potential challenges for cash-flow and the treasury management activity.

4.0 RECOMMENDATION

4.1 The Pension Board is requested to note the consultation document and the draft Funding Statement prior to presentation at Pension Committee on 29 October 2018, where it will be recommended for ratification.

5.0 REASON/S FOR RECOMMENDATION/S

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

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