TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

PENSION FUND COMMITTEE REPORT

12 MARCH 2025

DIRECTOR OF FINANCE AND TRANSFORMATION – ANDREW HUMBLE

CONTRIBUTION RATE REVIEW REQUEST

1. PURPOSE OF THE REPORT

1.1 The purpose of the report is to provide the Members of the Pension Fund Committee (the Committee) with details of a request for a reduction in employer contribution rates received from the four main councils in the Fund.

2. RECOMMENDATION

2.1 That the Committee notes this report, and that the outcome of the review will be reported to a future Committee meeting.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 Employer contribution rates are set every three years following the actuarial valuation of the Fund. These rates are set and certified by the actuary in a 'rates and adjustments certificate' that forms part of the formal valuation report.

4.2 Under normal circumstances the rates are set for the three-year inter-valuation period and are not reviewed until the next valuation. However, the regulations governing the Fund do envisage certain circumstances where an employer's contribution rate can be reviewed between valuations. There is also statutory and non-statutory guidance on when employer rates can be reviewed, and LGPS Funds are expected to take the regulations and guidance into account when setting out how will deal with employer requests for contribution rate reviews within their Funding Strategy Statement.

4.3 Our Fund's Funding Strategy Statement (which can be accessed at the following link: tees-2022-valuation-fss-30-march-2023.pdf) sets out the Fund's approach to employer requests for contribution rate reviews as follows:

“**Reviewing contributions between valuations**

The fund may amend contribution rates between formal valuations for a ‘significant change’ to the liabilities or covenant of an employer, in line with its policy on contribution reviews. A review may be instigated by the fund or at the request of a participating employer.

The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

The fund’s approach reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

The fund would consider one or more of the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (eg a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring.

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.”

5. REQUEST FOR A CONTRIBUTION RATE REVIEW

5.1 The finance directors of the four main councils in the Fund (Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton) have written to request a contribution rate review, further information on the request is included in Appendix A which has been provided by the four councils.

5.2 As the councils do not meet the criteria set out in 4.3 above which would trigger a review of their rate by the Fund, this will be treated as a review requested and funded by the four councils.

5.3 Initial meetings have taken place to understand the rationale and any information that may be relevant in respect of the review. The review will be undertaken by the Fund actuary and in line with the Fund's Funding Strategy Statement.

6. NEXT STEPS

6.1 The outcome of the review will be reported to the next available Pension Fund Committee.

6.2 The four councils, in common with all employers in the Fund, will have their employer contribution rates assessed as part of the 31 March 2025 valuation of the Fund, with new rates applying from 1 April 2026.

AUTHOR: Nick Orton (Head of Pensions Governance and Investments)

TEL NO: 01642 729024

Appendix A – Summary prepared on behalf of the four councils

Teesside Pension Fund ("the Fund"): Request for Interim Contribution Rate Review

The four local authorities within the Fund (Hartlepool, Middlesbrough, Redcar & Cleveland, and Stockton-on-Tees Borough Councils) have formally requested an interim review of their contribution rates in the Fund. Specifically, they are seeking a reduction to their 2025/26 contribution rates i.e. the rates effective from 1 April 2025 to 31 March 2026.

A formal request (under Regulation 64A(1)(b)(iii) of the Local Government Pension Scheme Regulations 2013) was first put to the Fund in a joint letter from the four local authorities dated 9 December 2024.

As the Pension Fund Committee has a specific role relating to Funding Strategy, including ensuring that appropriate funding plans are in place for all employers in the Fund, and overseeing any interim valuations, the local authorities wish to bring this request to your attention.

Rationale for the request

- The local authorities are facing significant financial pressures, impacting their ability to maintain services and manage short-medium term cash flow. In their formal request to the Fund, each local authority highlighted specific examples of budget gaps and measures taken to address them, including transformation programmes, reserve utilisation, and cuts to services. Further information can be provided to the Fund, as necessary.
- The Fund's very strong funding position, with a recent funding update (for the whole Fund as at 30 September 2024) revealing an estimated funding level of 157% and a surplus of over £2bn. This compares to an already healthy funding level of 116% and surplus of £685M at the 2022 valuation. The funding position is expected to have improved further since 30 September 2024.
- The local authorities have already experienced a 0.5% increase in their contribution rates for 2024/25, with a further 1.0% increase scheduled to be applied from 1 April 2025.

The initial request sought a reduction in each local authority's contribution rate to 0.6% in 2025/26 (which would cover the Fund's administration expenses only). This was proposed as a temporary easement, with contribution rates for 2026/27 onwards to be reassessed at the 2025 valuation.

While the cash savings that would be achieved through such a reduction would be substantial for each local authority, they would represent less than 3% of the current funding surplus.
Following discussions, the Fund and its actuaries have confirmed that such a reduction would not be permissible based on the modelling carried out at the 2022 valuation.

Current status

The local authorities acknowledge the Fund's decision to decline their initial request for a 0.6% contribution rate in 2025/26. However, they are keen to explore with the Fund and its actuaries the extent to which a more modest reduction for 2025/26 could be facilitated. Whilst any reduction would be insignificant compared to the current surplus, it would represent a substantial saving for each local authority in the context of their current financial pressures, with every pound of spend open to scrutiny.

The local authorities have requested that the Fund and its actuaries share details of the modelling used at the 2022 valuation, including any secondary parameters used in the Fund's decision-making process, and that the Fund and its actuaries then work with them to identify any flexibility that may facilitate a reduction in contribution rates for the upcoming financial year.