TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

TEESSIDE PENSION BOARD REPORT

19 JULY 2021

DIRECTOR FINANCE – IAN WRIGHT

Funding Strategy Statement Consultation

1. PURPOSE OF THE REPORT

1.1 To advise Members of the Teesside Pension Board (the Board) of a consultation on proposed changes to the Funding Strategy Statement which take into account recently published guidance on flexibilities available to employers in the Fund in relation to contribution rates, including contributions due when an employer exits the Fund.

2. RECOMMENDATION

2.1 That Members note that the enclosed revised Funding Strategy Statement has been approved by the Pension Fund Committee and circulated to Fund employers for comment. Should there be any substantive changes following this consultation, the revised wording will be brought back to the Committee for approval, otherwise the document will be published on the Fund's website after the consultation period.

3. FINANCIAL IMPLICATIONS

3.1 There are no specific financial implications arising from this report, although the implementation of the revised provisions of the Funding Strategy Statement may have financial implications for the Fund employers concerned.

4. BACKGROUND

4.1 The Local Government Pension Scheme Regulations 2013 (as amended) required administering authorities to publish a Funding Strategy Statement by 31 March 2015 and to keep this statement under review, consulting with such persons as it considers appropriate when carrying out this review.

4.2 The purpose of the Funding Strategy Statement as set out in the Statement itself is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- To support the regulatory framework to maintain as nearly constant primary contribution rates as possible;
- To support the fund’s aim to enable overall employer contributions to be kept as constant as possible and (subject to the administering authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies;
- To ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- To take a prudent longer-term view of funding those liabilities.

These objectives, whilst individually desirable, may be mutually conflicting.

4.3 The Funding Strategy Statement sets out how the administering authority attempts to balance the conflicting aims of affordable contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis.

4.4 The Funding Strategy Statement is reviewed at least every three years, as part of the Fund’s actuarial valuation, and is also subject to review when changes to the regulations or guidance governing the Local Government Pension Scheme (LGPS) require this.

5. FLEXIBILITY ON EXIT PAYMENTS AND SETTING EMPLOYER CONTRIBUTION RATES

5.1 Following a consultation exercise, the Ministry for Housing Communities and Local Government (MHCLG) issued the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 which took effect from 23 September 2020. These regulations:

- Provide administering authorities with the power to review employer contributions in between triennial valuations where the administering authority thinks that the employer's liabilities have changed significantly, the ability of the employer to pay contributions has changed, or the employer has requested such a review.
- Require administering authorities to determine whether to allow an employer to spread an exit payment, over what period and the proportion of the exit payment to be paid each year, taking account of the interests of all employers and the funds as a whole.
- Introduce “Deferred Employer” as a new category of employer in the scheme together with the facility for administering authorities to enter into a “Deferred Debt Agreement” (DDA) with such an employer. The purpose of this is to formalise arrangements to allow employers with no active members to continue participating in the fund, with contributions set at triennial valuations and any interim reviews in the same way as other fund employers.

5.2 In order to ensure consistency and transparency, administering authorities that wish to make use of these powers are required to set out within their Funding Strategy Statement their policy on interim contribution reviews, spreading of exit payments and DDAs, and to obtain advice from their actuary.

5.3 On 2 March 2021 MHCLG published statutory guidance to assist administering authorities in implementing and operating these regulations on employer flexibilities. The LGPS Scheme Advisory Board also produced more detailed guidance to be read in conjunction with MHCLG's statutory guidance. These documents can be found at the following links:
Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements - GOV.UK (www.gov.uk)
LGPS Scheme Advisory Board - Employer Flexibilities (lgpsboard.org)

5.4 Both sets of guidance have been taken into account in preparing the update to the Funding Strategy Statement, which has also been prepared with substantial input from and discussion with the Fund actuary.

6. REVISED FUNDING STRATEGY STATEMENT

6.1 The revised Funding Strategy Statement is enclosed at Appendix A, the substantive changes from the previous version are as follows:

- The Statement explains how Deferred Employers and their liabilities will be treated. For example for most Deferred Employers the expectation is the funding target for employers with orphan liabilities will be used, as usually no employer will be supporting their liabilities once their deferred debt agreement ends.
- Any employer exits calculated after 23 June 2021 will include an allowance for the cost management process and the proposed remedy for the 'McCloud' discrimination as set out in MHCLG's consultation on draft regulations, as well as an allowance for payment of increases on Guaranteed Minimum Pensions (GMPs) at the full rate of CPI (price inflation) for members with a State Pension Age after 5 April 2016, consistent with the Government's policy intention. This is currently expected to result in an increase in exit liabilities of approximately 0.7%.
- The factors to be considered when considering allowing payment of exit debt in instalments and/or entering into a deferred debt arrangement are set out - such as employer covenant and whether any security or guarantee are available.
- Details of the how the process for reviewing an employer's contribution rate between valuations will operate, including dealing with an employer-generated request in relation to this. This includes clarification that an employer request based purely on a change in market conditions affecting the value of assets and or liabilities will not be allowed. Detail of an appeals process – separate and in addition to the existing dispute resolution procedure which the Fund operates – is also included.
- The section on risks and control has been updated, adding risks relating to climate change and Covid-19 and updating the regulatory risks wording

6.2 The 23 June 2021 Pension Fund Committee approved the revised Funding Strategy Statement and directed that it should be circulated to Fund employers for comment, and if no substantive changes are required following the comments it will be published on the Fund's website. Should the comments result in substantive changes the revised version will be brought back to the Committee for approval and to the Board for noting.

6.3 The consultation is ongoing - at the time of writing only one employer has come forward with any comments, however the consultation end date is not until 23 July 2021.

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