FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 8 MARCH 2023

Report of the Interim Director - Finance and ICT

FUNDING STRATEGY STATEMENT CONSULTATION

1. Purpose

1.1 To advise the Pensions and Investments Committee (the Committee) of the outcome of Derbyshire Pension Fund's consultation exercise in respect of the proposed Funding Strategy Statement (FSS) and to seek approval for the draft Funding Strategy Statement attached as **Appendix 2**.

2. Information and Analysis

2.1 Background

As part of the triennial actuarial valuation process, the Fund reviews the funding strategy to ensure that an appropriate contribution plan and investment strategy is in place. The funding strategy is set out in the Funding Strategy Statement (FSS) which is the Fund's key governance document in relation to the actuarial valuation.

The FSS sets out the funding policies adopted, the actuarial assumptions used and the time horizons considered for each category of employer.

A draft FSS was presented to the Pensions and Investments Committee at its meeting on 7 December 2022 and was approved for consultation with the Fund's stakeholders.

The main changes to the FSS since it was last updated in September 2021 are:

- now presented in a streamlined format to improve engagement with, and the accessibility of the document
- maximum time horizons for local authorities, the police and fire authorities, arm's length management organisations, Peak District National Park and Chesterfield Crematorium, the academies and the town and parish councils, reduced from 19 years to 18 years, in the interests of intergenerational fairness
- stabilisation approach extended to allow contribution rate reductions of up to 1% of pay per year for local authorities, the police and fire authorities, arm's length management organisations, Peak District National Park and Chesterfield Crematorium, in recognition of generally stronger funding positions
- low risk exit basis changed from a gilts exit basis to a risk based approach
- additional detail on the Fund's criteria for considering requests for the prepayment of employer contributions, on the implementation of prepayments and on employer considerations related to prepayments
- section on employer flexibities related to exit payments on cessation (covering debt spreading arrangements and deferrred debt agreements) moved to the Admission, Cessation and Bulk Transfer Policy

Hymans Robertson LLP, the Fund's actuary explained the main changes in the FSS to over 70 attendees, representing approximately 160 scheme employers, who attended the Fund's Employer Valuation Meeting which was held virtually via Microsoft Teams on 15 December 2022.

The meeting was recorded and made available to all Fund stakeholders.

2.2 The Consultation

The consultation, which invited comments on the draft FSS, commenced on 21 December 2022 and closed on 31 January 2023.

Relevant contacts in each of the Fund's 330+ participating employers were notified by email on 21 December 2022 that the consultation period had opened and were provided with a link to the Fund's website where the draft FSS was available to view.

Further notifications were included in the Fund's December 2022 and January 2023 Employer Newsletters and a reminder email was issued directly to relevant contacts on 18 January 2023.

2.3 Response to the Consultation

By the closing date of the consultation period, 6 responses had been received from employer representatives on behalf of 17 Fund employers which included scheduled and admitted bodies and employers from the academy and further/higher education sectors.

A brief summary of the submissions and the Fund's response, where appropriate, is as follows:

- Multi-Academy Trust representing 9 individual employers - response reflected support for the draft FSS.

- Community Admission Body – response reflected support for the draft FSS.

- Scheduled Body – response reflected support for the draft FSS by submitting comments backing several of the changes made to the FSS.

- Transferee Admission Body – response sought clarification on the process for employer strain costs relating to ill-health retirements.

  Fund response: Strain costs relating to ill-health retirement are considered at the following actuarial valuation rather than being incurred as a direct cost to the employer at the time of the retirement.

- Multi-Academy Trust representing 3 individual employers – information requested on how a pooled employer contribution rate could be applied across all the academies which the Trust operates, noting its difficulty in managing individual rates. The Trust also expressed concern about the impact of rising contribution rates on school budgets indicating that it would expect improved funding positions to result in reduced contribution rates.

  Fund response: Details regarding the considerations of applying a pooled rate across all academies operated by the Trust have been provided, including the opportunity to request a detailed paper prepared by the Fund's actuary.

  Funding levels reflect the ratio of assets to liabilities at the valuation date. The accrued liabilities cover the expected cost of members' benefits in respect of scheme membership completed before the valuation date (past service). Contribution rates also reflect future service accrual which has been impacted at this valuation by an increased assumption about future levels of inflation.

- Further/Higher education body – comments and questions submitted on various points in the draft FSS, largely relating to:

    - Eligibility for the Fund's stabilisation approach which limits contribution rate adjustments to 1% per year.

      Fund response: Employers eligible for the Fund's stabilisation approach are required to be 'large, secure, long-term employers who can better absorb the short-term funding level volatility over the longer term'. In practice, these are employers who benefit from national or local taxpayer backing.

    - The level of prudence adopted by the Fund in determining employer liabilities compared to other LGPS funds.

      Fund response: The financial assumptions used to determine liabilities are set out in Appendix D of the FSS. The level of prudence in the assumptions used by the Fund has been agreed with the Fund's actuary and is understood to be within the range adopted by other LGPS funds.

    - The length of phasing arrangements for contribution rate increases for 'established contributors'.

      Fund response: Phasing arrangements are only considered for long-term, stable employers. Phasing timescales need to ensure that liabilities are funded on a prudent basis.

    - Why colleges and universities are viewed differently to academies.

      Fund response: Since 2013, the Government has provided a guarantee that the closure of an academy trust would not lead to any outstanding LGPS liabilities reverting to the relevant fund. The Secretary of State for Education made a Ministerial Statement in July 2022 to confirm that the guarantee would be continuing with an increased annual ceiling of £20m.

      The further and higher education sectors do not currently have a similar pension funding guarantee. Without a guarantee in place, there is a risk of any outstanding LGPS liabilities following the closure of a further or higher education establishment reverting to the relevant LGPS fund and adding to the liabilities of its participating employers. As a result, LGPS funds apply a more prudent approach to such employers.

- Whether the costs of interim contribution rate reviews should be met by the employer or the Fund.

  Fund response: Individual circumstances will be considered, however, where a review of the employer contribution rate is requested by the employer, or undertaken due to a change in the employer's circumstances, the related costs of a review are required to be met by the employer.

The comments from each consultation response have been summarised. The intention has been to represent the comments concisely and as accurately as possible.

The Fund has reviewed all responses and replied to employers who raised questions in their submission.

No changes are considered to be required to the draft FSS in relation to the responses to the consultation.

2.4 Amendment to the FSS – McCloud

An additional paragraph has been added to the draft FSS at the recommendation of the Fund's actuary in relation to the expected regulations in respect of the LGPS remedy following the McCloud ruling.

The paragraph below has been added to section 4.2 of the FSS – 'How are employer liabilities calculated?'

'Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.'

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Papers held by the Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications

5.2 Appendix 2 – Draft Funding Strategy Statement

6. Recommendation(s)

That Committee, in consideration of the responses to the consultation, confirms that, except for an additional paragraph recommended by the Fund's actuary, no further changes to the proposed Funding Strategy Statement are required and approves the draft Funding Strategy Statement attached as **Appendix 2**.

7. Reasons for Recommendation(s)

7.1 One of the roles of Committee is to receive and consider the Funding Strategy Statement.

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Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None