

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	24 SEPTEMBER 2010	AGENDA ITEM NUMBER	10
TITLE:	FUNDING STRATEGY STATEMENT 2010		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 – Funding Strategy Statement Appendix 2 – Comments from Employing Bodies			

1 THE ISSUE

- 1.1 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. A Committee workshop was held on 23 July 2010 to discuss the FSS prior to it being circulated to the employing bodies for comment. The deadline for receipt of comments was 31 August 2010.
- 1.2 The FSS is attached as Appendix 1 and the comments from the employing bodies following the consultation period are summarised in Appendix 2.

2 RECOMMENDATION

- 2.1 That, subject to the insertion of information which can only be included when the actuarial valuation is complete, the Committee approves the Funding Strategy Statement as set out in Appendix 1 for general publication and distribution to the Fund's employing bodies.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2010 actuarial valuation fee and is provided for in the 2009/10 budget.

4 BACKGROUND

4.1 The LGPS regulations require each administering authority to prepare and publish a FSS. The key points of the regulation for the FSS are as follows:-

- After consultation with all employing bodies, the administering authority must prepare and publish their funding strategy
- In preparing the FSS, the administering authority must have regard to:
 - The CIPFA guidance (published in 2004)
 - The Statement of Investment Principles
 - The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

4.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where the Administering Authority has discretion.

4.3 Procedurally, the Fund's actuary cannot finalise the valuation until the FSS has been approved by the Committee.

4.4 It is not anticipated that, unless there is a significant change in the Fund's investment policy or to the structure of the LGPS, the FSS will be revised until the next actuarial valuation in 2013.

4.5 The FSS attached as Appendix 1, estimates certain information that can only be confirmed once the valuation has been completed.

5 COMMITTEE WORKSHOP AND CONSULTATION WITH EMPLOYING BODIES

5.1 At the Committee workshop on the 23 July 2010, the actuary gave a presentation on the actuarial valuation process and the basis for the assumptions to be used in the valuation. Following the presentation, the Committee agreed the draft FSS.

5.2 The draft FSS was circulated to the employing bodies on 3 August 2010, with comments required by 31 August 2010. Those comments which have been received are summarised in Appendix 2.

5.3 The comments received from the employing bodies were not such as to prompt any change to the FSS as agreed at the Committee workshop. However, a number of points were made which are relevant to the way in which the actuary applies the FSS in practice and there is one particular issue which will need to be considered in conjunction with a number of the employing bodies. Details are set out in the next section.

6 RESPONSES FROM EMPLOYING BODIES

6.1 The following action has been taken in respect of the responses received:

- (i) Where there was a request for more information this has been supplied. Where there appeared to be an implied criticism of the approach adopted by the Fund – either in actuarial or investment terms – an explanation has been provided.
- (ii) Bristol City Council's request for an assurance that a 30 year maximum deficit recovery period is consistent with rate stability stems from a presentation given to the unitary councils by the actuary on 21 June. At that time it appeared that a 35 year deficit recovery period might be necessary. However, the Chancellor's announcement on 22 June that public sector pension increases would be index-linked to the CPI rather than the RPI meant that a 30 year limit was judged to be sufficient. In the unlikely event that this did not achieve the objective, the FSS would need to be reviewed. Bristol City Council has been informed accordingly.
- (iii) For those bodies who have indicated that they might struggle with the practical implications of expressing the deficit recovery element as a cash sum, an undertaking has been given that this matter will be investigated further. The expectation is that a solution can be found without compromising the principle of making deficit recovery payments independent of the size of the payroll.

6.2 In the light of the responses, discussions will need to take place with the actuary as to the manner in which the short term pay adjustment should be applied.

6.3 Otherwise there was universal support for the Fund's policy of prioritising rate stability in the short term subject to reverting to a more normal deficit recovery period when the prospective Hutton review savings become available.

6.4 A meeting has already taken place with Somer and agreement reached on the range of deficit recovery periods which will be considered. However, there are two other issues which they raised – firstly, concerning the Fund's investment policy and, secondly, the use of assets to underwrite a deficit – where further discussions between the Fund and Somer might be beneficial.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 This is reporting the outcome of a consultation process.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with actuary Responses to FSS from employing bodies
Please contact the report author if you need to access this report in an alternative format	