

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 SEPTEMBER 2013	AGENDA ITEM NUMBER
TITLE:	FUNDING STRATEGY STATEMENT 2013	
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 21 June 2013 to discuss the broad principles in the FSS prior to it being drafted and circulated to the employing bodies for comment. The deadline for receipt of comments was 10 September 2013.
- 1.2 The draft FSS is attached as Appendix 1 and the comments from the employing bodies following the consultation period are summarised in Appendix 2.
- 1.3 The actuarial outcome will be reported to Committee at December 2013 meeting
- 1.4 Individual employer results will be disseminated in October and November. An Investment Forum has been arranged for 22 November 2013.

2 RECOMMENDATION

The Committee approves the:

- 2.1 Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, 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 2013 actuarial valuation fee and is provided for in the 2013/14 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:
 - (i) The CIPFA guidance (published in 2004)
 - (ii) 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, the management of employing bodies, to the structure of the LGPS or regulations, the FSS will be revised until the next actuarial valuation in 2016.

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 21 June 2013, 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 broad principles to be included in the draft FSS.

5.2 The draft FSS was circulated to the employing bodies with comments required by 10 September 2013. 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 in the FSS as agreed at the Committee workshop. Details are set out in the next section.

6 COMMENTS ON RESPONSES FROM EMPLOYING BODIES

6.1 There were no responses that required action prior to the valuation being undertaken. Where the approach taken in the FSS has been questioned, an explanation has been provided to the relevant employer.

6.2 In general the respondents are supportive of the approach being taken in the FSS.

- 6.3 Evidence of short term pay constraint from employing bodies **will** be taken into account by the Actuary (as it was in 2010). However, the Actuary is required to use an assumption for long term pay growth that is aligned to the long term liability profile and the assumption used is based on actual Fund experience. If there is evidence in the future that the basis on which local government pay is based alters, then this will be taken into account in future valuations.
- 6.4 South Gloucestershire Council questioned whether future valuation gains should be shared with the employer rather than solely used to reduce deficit recovery periods towards the Fund's medium term objective of 15 years. The FSS is aiming for stability of contributions in order to manage both adverse and positive movements in the funding level and the deficit recovery period is the mechanism that dampens any increase or decrease in contributions in order to achieve stability. In 2010 the deficit recovery period was temporarily extended to keep contributions as stable as possible and in 2013 the recovery period is being maintained to aid stability. Therefore, it is reasonable to use improvements in the funding position in the future to move towards the medium term objective. This would build in flexibility to lengthen recovery periods in the future if there is an adverse movement in the deficit in order to maintain stable contributions.
- 6.5 University of Bath questioned the process for moving certain admitted bodies on to the Sterling AA Corporate Bond basis. The Fund would discuss with the relevant body prior to any change and would only do so after a detailed covenant assessment had been undertaken that justified such a change in the valuation basis.
- 6.6 The FSS included the potential to alter the contribution rates set at 2013 if any ill-health retirement costs are subsequently insured by a 3rd party or internally within the Fund. Before the 2016 valuation it is intended that the Fund will explore the options for insuring against ill-health retirement costs for the smaller employers. All employing bodies would be consulted as part of the exercise.

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 (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, 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	