Bath & North East Somerset Council

MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 SEPTEMBER 2016**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING STRATEGY STATEMENT 2016**	
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. The Committee approved a draft FSS at its meeting on 24 June 2016 which has been circulated to the employing bodies for comment. The deadline for receipt of comments was 23 August 2016.

1.2 An updated draft FSS is attached as Appendix 1 which, after consideration by Fund Officers and the Actuary, takes into account the comments received from the employing bodies following the consultation period. The comments received are summarised in Appendix 2. The actuary will attend the meeting to discuss the changes to the draft FSS.

1.3 Individual employer results will be disseminated in October and November. An Investment Forum to explain the outcome at the whole Fund level to employers will be arranged for 4Q16.

2 RECOMMENDATION

The Committee:

2.1 **Notes the feedback responses received, and the proposed modifications to the draft FSS.**

2.2 **Approves the 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.**

2.3 **Delegates the refinement and finalisation of the draft FSS to Fund Officers, with assistance of Fund Actuary.**

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2016 actuarial valuation fee and is provided for in the 2016/17 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) Guidance issued by CIPFA for this purpose
  - (ii) The Statement of Investment Principles[1] (or Investment Strategy Statement (ISS) under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2016 if this is published within this time period)
- 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/ISS.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

[1] The LGPS (Management and Investment of Funds) Regulations 2016, which require funds to have an ISS, have yet to be published hence the Statement of Investment Principles is still the statutory document.

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 to manage the funding position of the Fund.

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 materially revised until the next actuarial valuation in 2019.

4.5 The draft FSS attached as Appendix 1, estimates certain information that can only be confirmed once the valuation and associated analysis has been completed. The known financial and demographic assumptions are included in this updated draft.

4.6 The draft FSS was circulated to the employing bodies with comments required by 23 August 2016. Those comments which have been received are summarised in Appendix 2.

4.7 In light of some of the comments received via the consultation, some changes to the draft have been proposed. Details of the changes are set out in the next section.

5 COMMENTS ON RESPONSES FROM EMPLOYING BODIES

5.1 There were no responses that required action prior to the valuation being undertaken. In general the respondents are supportive of the approach being taken in the FSS, with most responding to highlight concerns about affordability given the funding environment and their own budgeting for short and long term salary progression. Affordability will be taken into consideration when setting individual employer plans.

5.2 The consultation asked specifically for comments about:

(1) The appropriateness of the assumptions and in particular those that relate to them e.g. the pay increases you expect to award over the next few years?

(2) The requirement from employers to at least maintain the same level of deficit recovery contributions as per the 2013 valuation where a deficit remains for an employer

(3) In relation to the affordability of contributions and in particular whether there is any particular year over 2017/2020 which will be more challenging. This will help us forma a view on any further flexibility required.

(4) Whether the level of detail was sufficient and whether they need anything further in terms of information / meeting etc. to understand the content and implications

(5) Whether they would be interested in ill health insurance

(6) If they were a Multi academy trust whether they had any comments on pooling of future service rates

(7) Invited any other comments.

5.3 In light of the responses received, and after further discussion with the Fund Actuary, it is proposed to modify the draft FSS, such that

(1) the application of the following two basic requirements will be at the ultimate discretion of the Fund for bodies with strong covenant and on affordability grounds:

a) At least maintain the same level of deficit recovery contributions (indexing in real terms) as per the 2013 valuation,

b) Shorten the deficit recovery period by at least 3 years.

(2) An ability to propose an "employer specific" short term pay assumption, subject to it being reasonable and practical. Employers will be informed that to the extent experience differs from this assumption; the effects will emerge at the 2019 actuarial valuation.

(3) The medium term recovery period target will be held as 15 years rather than reduced to 12 years. This will be reviewed again at the 2019 actuarial valuation.

5.4 A number of smaller employers are supportive of the Fund exploring the option of insuring ill-health costs which the Fund is currently considering. If such an arrangement is implemented the relevant employer contribution rates will be adjusted accordingly.

5.5 Following confirmation from the DfE that the departmental guarantee applies to both single and multi-academy trusts (MATs), the Fund is willing to allow a combined funding position and average contribution requirements to apply to MATs.

Notwithstanding this, the Fund will continue to track the constituent academies separately in the interests of transparency and clarity around entry and exit of individual academies to the MAT in future. There were few responses regarding pooling; however MATs will be given the option as part of the contribution rate setting exercise.

6 PRELIMINARY WHOLE FUND RESULT

6.1 The final actuarial outcome will be reported to Committee at December 2016 meeting, however preliminary whole Fund results (based on the proposed assumptions to assess solvency and future service plus updated demographic assumptions) are set out below:

	£m
Assets	3,737
Liabilities	4,334
Deficit	597
Funding Level	86.2%
Employer future service contribution rate*	15.3% p.a.

** no allowance for 50/50 take-up.*

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	