

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 December 2020	AGENDA ITEM NUMBER
TITLE:	Funding Strategy Statement - Policy updates	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Draft Policy - Spreading Exit Payments and Deferred Debt Agreements</p> <p>Appendix 2 – Draft Policy - Flexibility in Employer Contributions</p> <p>Appendix 3 – Extract of relevant Regulations</p>		

1 THE ISSUE

- 1.1 A number of changes to the regulations were made in September 2020 following the Governments partial response to a consultation which commenced in 2018. The Fund responded to this consultation at the time. For the Fund to implement these changes it must have a policy set out in its Funding Strategy Statement (FSS).
- 1.2 Although the supporting statutory guidance and the further guide from the Scheme Advisory Board (SAB) is yet to be published, the Actuary has drafted the policies for the Committee to approve the key principles embedded in each policy. Any amendments required once the statutory guidance and guide is published in 1Q21 will be agreed by Officers in consultation with the Actuary. If there are any substantive changes in the principles, the policy will be brought back to committee for further consideration.
- 1.3 There will then be a short consultation with employers once the draft policies have been finalised.

2 RECOMMENDATION

That the Committee:

2.1 Approves

- a) **The draft policy for Deferred Debt Agreements subject to the publication of statutory guidance and SAB guide**
- b) **The draft policy for Flexibility in Contribution Rates subject to the publication of statutory guidance and SAB guide**

2.2 Delegates amending the draft policies following publication of the guidance, as necessary, to Officers having taken advice from the Scheme Actuary

3 FINANCIAL IMPLICATIONS

- 3.1 The FSS sets out the funding basis and related policies through which the Fund manages the scheme liabilities and payment of contributions by scheme employers (including on exit from the Fund).
- 3.2 Actuarial advice regarding the FSS and related policies is provided for in the annual budget.

4 REGULATORY CHANGES

- 4.1 A number of regulatory changes came into force on 23 September 2020 (LGPS (Amendment No.2) Regulations 2020) but we are still waiting for statutory guidance (as well as a supporting guide from the SAB) before we can finalise our new policies which is currently expected to be issued in 1Q21. However, as these policies provide much needed flexibility to manage the liabilities, our intention is to implement them as soon as we can once the guidance is published rather than wait until the March committee meeting.
- 4.2 In addition, a short consultation with scheme employers will be conducted once the draft policies have been finalised after which the FSS will be updated with the new policies once they have been finalised. These policies do not alter the main principles of the current funding strategy but instead provide the Fund and employers with further flexibilities.
- 4.3 The policies have been drafted based on the Actuary's expectation of the guidance following initial indications from the MHCLG and SAB. It is proposed that any changes required to the draft policy once the guidance is issued will be made by Officers on the advice of the Actuary. We do not expect substantive changes will be required.

5 FLEXIBILITY FOR EXIT DEBT PAYMENTS AND DEFERRED DEBT AGREEMENTS - DRAFT POLICY

- 5.1 The default position for exit payments has generally been that they are paid in full at the point of exit. However, the new regulations permit LGPS funds to develop policies that provide alternative options to employers (subject to a covenant assessment and consideration of security) as follows:
 - a) Allow the Fund and the employer to enter into an agreement which instead spreads the payment of the final exit debt calculated by the Actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms), or
 - b) The Fund may enter into a deferred debt arrangement (DDA) with a scheme employer. This allows the employer to defer its obligation to make an exit payment and continue to make 'deficit' (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members. The Fund or employer can terminate the DDA and settle a revised exit debt.
- 5.2 Current regulations which require the exit debt to be paid in full on exit, restricts the ability of employers to leave the Fund in an ordered and affordable manner. This is especially the case for those in a weak financial situation. The new Regulations provide greater flexibility to manage this debt.

- 5.3 The Fund can only enter into these arrangements with an exiting scheme employer when the last active member for that employer leaves the scheme (voluntarily or otherwise), if the FSS includes the Fund's policy on the arrangements, and where the Fund has consulted the exiting scheme employer and has taken advice from the scheme Actuary as well as any other specialists as appropriate.
- 5.4 Appendix 1 sets out the draft policies for these flexibilities for the Committee to consider. The policies have been designed to strengthen the Fund's ability to manage employer liabilities, ensuring there is no detriment to the solvency of the Fund. The drafted policy will form part of Appendix C of the FSS.
- 5.5 Appendix 3 includes the extract of the relevant regulations.

6 FLEXIBLE CONTRIBUTIONS POLICIES - DRAFT POLICY

- 6.1 These new regulations permit contribution rates to be adjusted between valuations. Currently the contribution rates set out in the valuation report stay in place until the next valuation except in limited circumstances or where an employer exits the Fund. These regulations allow changes to be made before the next valuation if they meet the criteria.
- 6.2 Such a revision to contribution rates is only permitted if the Fund's policy is set out in the FSS and one of the following apply:
- a) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
 - b) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
 - c) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review (and point (a) or (b) also applies)
- 6.3 Appendix 2 sets out the draft policy for the Committee to consider. The policy ensures that any changes will only be due to significant changes that create additional risk to the Fund or employer. The new policy will be a new section within the FSS.
- 6.4 Appendix 3 includes the extract of the relevant regulations.

7 NEXT STEPS

- 7.1 Once the statutory guidance (and the SAB guide) is published, the draft policies will be finalised. If the guidance is in line with expectations and no substantive changes in principles are required, the policies will be consulted on with employers. Following the consultation, the FSS will be updated.
- 7.2 If substantive changes are required or feedback from employers requires further consideration by the Committee the policy/s will be brought back to the March meeting.

8 RISK MANAGEMENT

- 8.1 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 appropriate investment and funding strategies in place that are 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.

8.2 The Fund monitors the funding position regularly as well as reviewing the strength of the employer covenant to ensure liability risks are proactively managed.

8.3 The Funding Strategy Statement is the main statutory document that addresses the management of the funding risks identified in the Risk Register.

9 CLIMATE CHANGE

9.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

10 EQUALITIES

10.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

11 OTHER OPTIONS CONSIDERED

11.1 None.

12 CONSULTATION

12.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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Background papers	LGPS Regulations and Government Guidance Avon Pension Fund FSS (2020)
Please contact the report author if you need to access this report in an alternative format	