

<b>Essex Pension Fund Strategy Board</b>	<b>EPB/22/16</b>
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### **Draft Funding Strategy Statement**

Joint Report by the Head of Essex Pension Fund & the Director for Essex Pension Fund

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#### **1. Purpose of the Report**

- 1.1 To highlight to the PSB the context in which the 2016/17 LGPS triennial Actuarial Valuations take place.
- 1.2 To provide the Essex Pension Fund Strategy Board (PSB) with an updated draft Funding Strategy Statement. The FSS has been reviewed and updated in preparation for the results of the 2016 triennial Fund Valuation. The full draft FSS is attached at Annex A.
- 1.3 To seek the PSB's approval of the draft FSS for issue for consultation to participating Fund employers and other stakeholders in accordance with statutory guidance.

#### **2. Recommendations**

- 2.1 That the PSB note the context in which the 2016/17 Actuarial Valuations take place.
- 2.2 That the PSB approve the draft FSS which will be the basis for consultation with Fund employers in accordance with the timescales outlined in paragraph 6.1.
- 2.3 That the consultation on the draft FSS includes the Pension Advisory Board (PAB).

### **3. National context to the 2016/17 LGPS Triennial Valuations**

- 3.1 All LGPS Funds in England & Wales are required to commission an independent actuarial valuation as at 31 March 2016. Given the scale of the work invoiced, which includes the consultation with employing bodies around contribution rates, the process takes around one year to complete.
- 3.2 Set out below are a number of features within the national context. These will be covered further in the presentation of this report to the meeting.
- 3.3 This is the first Actuarial Valuation to take place since the introduction of:
- the Career Average benefit structure on 1 April 2014; and
  - cost control mechanisms.
- 3.4 The Government Actuaries Department (GAD) has recently completed a review of the 2013 Valuations. Under section 13 of the Public Services Pension Act 2013, GAD are required to analyse the valuations on four criteria:
- compliance
  - consistency
  - solvency
  - long term cost efficiency
- 3.5 A summary of the GAD's s13 analysis will be presented at the meeting.
- 3.6 GAD's work and the current valuation process featured in the remarks made by Local Government Minister earlier this year. In his May 2016 address to the Local Authority conference of the Pensions & Lifetime Savings Association Marcus Jones MP said:
- "...we must recognise that achieving solvency and long term cost efficiency takes precedence, in regulatory terms, over stability of costs to employers".*
- 3.7 In August, a Government consultation closed on an insolvency regime for Further Education & Sixth Form Colleges. Whilst these establishments have their origins (and therefore LGPS membership) in local government, they are now deemed to be in the private sector. The Fund's response based on the views of Officers and discussions with Cllr Bass, PSB Chairman and Margaret Lee, s151 officer, is attached at Annex B to this report and included the following:
- "The Essex Fund supports calls for the appointed education administrator (in the event of an insolvency) to have an explicit stated responsibility to carry out their function in a way that achieves the best*

*interests of the tax payer. This would include doing everything to avoid the pension liability falling onto other public sector employers.”*

- 3.8 Since the 2013 Valuation the Fund’s governance structure has been expanded to include the establishment of the Pension Advisory Board (PAB) as Local Pension Board under the requirements of the Public Service Pension Act 2013 and revised LGPS Regulations. The PAB consists of nine people including four employer and four scheme member representatives.

#### **4. Background**

- 4.1 Essex County Council, as administering authority of the Essex Pension Fund (the Fund), is required under the Local Government Pension Scheme (LGPS) Regulations to prepare and publish a FSS and keep the statement under review; making appropriate revisions following any material change in its policy on the matters set out in the statement, or in its statement of investment principles/investment strategy statement. If revisions are made to the FSS it has to publish the statement as revised. In reviewing and making revisions to the statement, the authority must have regard to the guidance produced by the Chartered Institute of Public Finance & Accountancy and consult with relevant interested parties.
- 4.2 The current FSS was produced in 2013/14, following a review in conjunction with the triennial valuation of the Fund as at 31 March 2013. The strategy set out in the FSS has been kept under review in the years since its publication. In both September 2014 and September 2015, in the light of the Actuary’s annual Interim Reviews, the PSB considered whether changes were required to the FSS. On both occasions the PSB agreed that no changes were required.
- 4.3 A further triennial valuation of the Fund, as at 31 March 2016, is currently underway, with new employer contribution rates effective from 1 April 2017.

#### **5. Draft 2016/17 FSS**

- 5.1 As part of the 2016/17 Valuation process an updated FSS has now been drafted. This draft FSS is attached at Annex A for Members’ review and consideration.
- 5.2 In producing this draft, Fund officers have consulted with the Fund Actuary and have had of the sight of the CIPFA Pension Panel Guidance “Preparing and *Maintaining a Funding Strategy Statement in the LGPS*” (draft 2016 edition).
- 5.3 A presentation on the draft FSS will be made at the September Board meeting and will explain key changes.

- 5.4 At the Board meeting, Members will be asked to consider and approve the draft FSS for issue for consultation.
- 5.5 Following consideration of responses to the consultation and matters emerging from the valuation as it progresses, a further draft will be brought to the March 2017 meeting of the Pension Board.
- 5.6 The FSS should be completed and approved by the Pension Board prior to completion of the Fund Valuation by 31 March 2017.

## **6. Future Actions**

- 6.1 A timetable of the remaining necessary actions to complete the revision of the FSS and the Fund Valuation is summarised below:

<b>Timescale</b>	<b>Action</b>
September 2016	Draft Funding Strategy considered by PSB
October 2016	Issue draft FSS for consultation together with draft valuation results to tax raising bodies
November – December 2016	Issue draft FSS for consultation together with draft valuation results to remaining employers and any other consultees
Mid October - December 2016	Employer forums and meetings held to discuss valuation results
January 2017	Response deadline for employers and other consultees on FSS
February 2017	Review consultation responses and consider any further amendments required to the FSS
8 March 2017	Essex Pension Board to consider and agree final FSS for subsequent publication
By mid-March 2017	Final FSS published
Mid to end March 2017	Final valuation results issued to employers and other relevant bodies
April 2017	New employer contribution rates commence

## **7. Recommendations**

- 7.1 That the PSB note the context in which the 2016/17 Actuarial Valuations take place.
- 7.2 That the PSB consider and agree the draft FSS for consultation with Fund employers in accordance with the timescales outlined in paragraph 6.1.
- 7.3 That the draft FSS is passed to the Pension Advisory Board (PAB) for comment.

## **8. Link to Essex Pension Fund Objectives**

- 8.1 There is a strong link to the Essex Pension Fund Objectives. They have been reviewed as part of the revision of the FSS and are considered to remain appropriate.

## **9. Risk Implications**

- 9.1 Revision of the FSS to incorporate management information emerging from the employer analysis and engagement work and in preparation for the Fund Valuation will reduce the risk of an inappropriate funding strategy being in place, which could result in the setting of inappropriate employer contribution rates and irrecoverable deficits.
- 9.2 The FSS contains a risk analysis covering funding and investment risks.
- 9.3 The Pension Fund Score Card also contains measures which relate directly to the funding strategy and are reported to each Board

## **10. Communication Implications**

- 10.1 Following Board approval, a consultation will take place with participating employers and other interested parties.

## **11. Finance and Resource Implications**

- 11.1 None directly as a result of this report. It is a requirement to complete the triennial valuation and to keep the FSS under review. Resources are planned accordingly.
- 11.2 There will be financial implications for employers in the Fund emerging from the 2013 Fund Valuation and from changes made to the FSS. Changes to the FSS should assist the Essex Pension Fund and the participating employers to manage and understand their financial responsibilities to the Fund.

## **12. Background Papers**

- 12.1 2013/14 Funding Strategy Statement
- 12.2 CIPFA Pension Panel Guidance “Preparing and *Maintaining a Funding Strategy Statement in the LGPS*” (draft 2016 edition).