

Cambridgeshire Pension Fund

Pension Fund Committee

Date: 25 March 2021

Report by: Head of Pensions

Subject: Update to Funding Strategy Statement

Purpose of the Report: To seek approval of amendments to the Funding Strategy Statement for consultation with Scheme employers

Recommendation: That the Pension Fund Committee approve the amendments to the Funding Strategy Statement for consultation with employers.

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1. Background

1.1 In May 2019, the Ministry for Housing Communities and Local Government (MHCLG) launched its consultation “Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk”. The consultation sought views in several areas:

- a) Changes to the LGPS local fund valuation cycle
- b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations
- c) Proposals for flexibility around employer cessation debts
- d) Proposals for policy changes for payments of employer exit credits
- e) Potential changes to employers required to offer LGPS membership.

1.2 At the date of writing, there has been no update on changes to the valuation cycle proposals (a) or to the employers who are required to offer LGPS access (e).

1.3 A response to items (b) and (c), together known as “employer flexibilities”, was published in August 2020.

1.4 Following the MHCLG consultation, the LGPS Regulations 2013 were amended from 23 September to allow the Fund to recalculate employer contributions outside of the triennial formal valuation in the following circumstances:

- There has been a significant change to the liabilities of an employer;

- There has been a significant change in the employer's covenant; or
- At the request of the employer.

1.5 The amendments also allow greater flexibility around managing the exit of an employer from the Fund. On exit from the Fund, where the employer is in deficit, the following options are available:

- The employer pays a full cessation payment carried out in line with regulations;
- The Fund can agree a repayment schedule with an employer to allow them to spread the exit payment over a number of years; or
- The Fund and employer can enter into a Deferred Debt Arrangement (DDA) where an employer can continue in the Fund with no active members but continue to pay secondary contributions as determined at formal valuations. An employer entering into this arrangement would be known as a "deferred employer".

2. Update to Funding Strategy Statement

2.1 The FSS has been updated to include the Fund's policy in applying these new employer flexibilities. These proposed changes are summarised below and the amended document has been included as appendix A with changes highlighted in the document:

Contribution review

2.2 In general, the draft FSS updates consider an amendment to contribution rates between valuations only as a result of significant changes to the liabilities or covenant of an employer. While the Fund would consider requests from employers to review contributions, it is expected that the reason for the request is a material change in covenant or significant restructure which impacts their membership and consequently liabilities in the Fund. The added policy wording can be found under note F (Regular Reviews) on pages 15 and 16 of the Strategy.

Exit arrangements

2.3 Despite the updates, for an employer ceasing with a deficit, the normal policy within the draft FSS remains the requirement to immediately pay any debt. Any variation away from this would be considered in the light of this benchmark and would primarily need to be in the interests of the Fund. However, the FSS updates allow the Fund to be mindful of the broader objectives and finances of the employer when considering a more flexible exit arrangement. For example, a flexible approach may in some cases still be appropriate where the employer covenant is weak as it may allow the employer to avoid building up further liabilities. When entering into any flexible exit arrangement, a continual but proportionate review of the conditional elements will be required to ensure it remains appropriate and in the best interests of all parties. The added policy wording can be found under note J (Exiting the Fund) on pages 19 to 23 of the Strategy.

2.4 We are currently awaiting further guidance on applying these new regulations. Therefore, while the proposed changes are in line with the draft guidance, we may need to revisit the FSS again once these have been formally issued.

3. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *(Objective no 1)*

Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *(Objective 2)*

Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *(Objective no 5)*

Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. *(Objective no 15)*

4. Finance and Resources Implications

4.1 None

5. Risk Management

5.1 The Funding Strategy Statement sets out the policies that will apply to employers during and/or following certain events.

5.2 The amendments being made are required in order to ensure that the Funding Strategy Statement reflects current legislation and ensure that the Administering Authority acts fairly and equitably when an employer exits the Fund.

5.3 There are risks associated with making or not making this decision have been captured below.

5.4 In order to mitigate this risks, officers have sought advice from the Fund's legal and actuarial advisors and consulted with employers before seeking Committee approval of the final draft.

Risk No	Risk	Residual risk rating
5	Fund assets are not sufficient to meet the obligations and liabilities	Amber
6	Information may not be provided to stakeholders as required	Green
8	Those charged with governance are unable to fulfil their responsibilities effectively	Green
14	Failure to administer the scheme in line with regulations and guidance	Green
20	Failure to act appropriately upon expert advice and/or risk of poor advice	Green

5.5 A full version of the Fund risk register can be found at the following link – [Pension Fund Risk Register hyperlink](#)

6. Communication Implications

Direct Communications - A communication will be issued to inform employers that the Funding Strategy Statement has been amended and that a consultation has over the changes has been launched.

Website - The draft Funding Strategy Statement will be published on the Fund's website alongside a news article launching the consultation

7. Legal Implications

7.1 No immediate legal implications

8. Consultation with Key Advisers

8.1 Consultation with the Scheme Actuary was undertaken when drafting the new policy.

9. Alternative Options Considered

9.1 None

10. Appendices

10.1 Appendix A – Draft Funding Strategy Statement

Checklist of Key Approvals

Is this decision included in the Business Plan? Not applicable

Will further decisions be required? If so, please outline the timetable here

No

Is this report proposing an amendment to the budget and/or policy framework?

No

Has the Chairman of the Pension Fund Committee been consulted? Councillor Rogers – 12/3/21

Has this report been cleared by Head of Pensions? Mark Whitby – 1/3/21

Has this report been cleared by Section 151 Officer? Sarah Heywood – 15/3/21

Has this report been cleared by Legal Services? Fiona McMillan – 1/3/21