

Pension Fund Board

Date: 6th November 2020

Report by: Head of Pensions

Subject:	Update to Funding Strategy Statement
Purpose of the Report	To present the amendments to the Funding Strategy Statement.
Recommendations	That the Pension Fund Board notes the amendments to the Funding Strategy Statement.
Enquiries to:	Name – Cory Blose – Employer Services and Systems Manager Tel – 07990560829 E-mail – cblose@northamptonshire.gov.uk

1. Background

1.1 The Funding Strategy Statement was previously approved, by the Pension Fund Committee as part of the valuation process. Since publication, there has been an amendment to the Local Government Pension Scheme Regulations 2013 affecting cessations from the Fund, requiring further revision to the strategy statement.

1.2 The most recent amendments give administering authorities some discretion when determining whether or not an exit credit is payable and, if so, the value of that exit credit. Following the amendment, regulation 64 paragraph 2ZC states the following:

In exercising its discretion to determine the amount of any exit credit the administering authority must have regard to the following factors

- a) *the extent to which there is an excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)(a);*
- b) *the proportion of this excess of assets which has arisen because of the value of the employer's contributions;*
- c) *any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 to these Regulations; and*
- d) *any other relevant factors.*

1.3 At the June meeting of the Pension Fund Committee, approval was given update the Funding Strategy Statement in consultation with the Fund's legal and actuarial advisors and to then release the statement for consultation with Scheme employers.

1.4 The consultation was opened on 10 August and ran for 28 days, closing on 7 September. No responses were received.

1.5 The administering authority discretions will need to be updated to reflect these changes.

2. Update to Funding Strategy Statement

2.1 The Funding Strategy Statement has been updated to include a specific policy regarding exit credits. This is an entirely new policy that replaces the previous policy completely.

2.2 The following policy statement, will be added to Note J, starting on page 20 of the Funding Strategy Statement. The current version, for comparison, can be found on the Fund's website: <https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/>

2.3 Exit Credit Policy

In making a determination as to the value of any exit credit payable, the Administering Authority will consider: (a) the extent of any surplus, (b) the proportion of surplus arising as a result of the exiting employer's employer contributions; (c) in the case of an Admission Body that is an exiting employer, any representations made by the Admission Body (and any other parties notified, as set out above) which may include information as to any risk sharing agreements in place, any guarantor arrangements, any specific agreement between scheme employers, and any such other representations relevant in the specific case and (d) any other relevant factors, which may include, for example, factors such as:

- 1. whether the Admission Body participates in the Fund via the "fixed contribution rate" (or pass through) (as set out under "Note (i) (New Transferee Admission Bodies)");*
- 2. any admission terms/Pooling arrangements (as set out under "Note (i) (New Transferee Admission Bodies)/contractual or risk sharing agreements which deal with the ownership of exit credits/cessation surpluses (and the dates such agreements were entered into);*
- 3. the approach/factors considered when setting contribution rates payable by the Admission Body during its participation in the Fund (including which party was responsible for funding risks and/or any forms of employer assistance/support in place);*
- 4. whether the admission agreement ends early and, if so, the reasons for the early termination;*
- 5. whether a scheme employer or resolution body becomes an exiting employer due to a reorganisation, merger or take-over;*
- 6. whether an Admission Body /scheme employer/or resolution body leaves on a gilts exit basis;*
- 7. any contributions due or monies owed to the Fund that remain unpaid by the Admission Body at the cessation date; and*

8. *whether the admission body had entered the fund prior to the original exit credit regulations start date of 14 May 2018.*

Any representations to be made by the Admission Body (and any other parties notified as set out above) - together with copies of any documents provided for the Fund to consider - must be provided to the Fund as soon as reasonably practicable and in any event within one month of the Administering Authority's notification of its intention to make a determination (as set out above).

The determination will be made jointly by the Head of Pensions and Section 151 Officer in accordance with the LGPS Regulations 2013, in conjunction with advice from the Fund's Actuary, taking the above into consideration. Legal advice will be sought where necessary. The determination will set out the value of any exit credit payable and the factors considered in reaching this determination, and will advise the exiting employer of the amount due to be paid (if any).

Where it is determined that an exit credit is payable, the Administering Authority will make the payment to the exiting employer within six months of the exit date where possible. A longer time may be agreed between the Administering Authority and the exiting employer where necessary. For example, if the exiting employer does not provide all the relevant information to the Administering Authority within one month of the cessation date or such other period as specified by the Administering Authority, the Administering Authority will not be able to guarantee payment within six months of the cessation date.

3. Administering Authority Discretion Document

3.1 Under regulation 64 (2ZAB) of the Regulations, the Administering Authority now has the discretion to determine the amount of an exit credit, taking into account the factors specified in regulation 64 (2ZC), listed under paragraph 1.2 of this report. The administering authority discretions document must be updated to include this new discretion. Officers propose the following update:

Regulation No.	Description of Discretion	Administering Authority Policy
R 64(2ZB) Determination over value of exit payment	Determine the amount of an exit credit, which may be zero, when an employer becomes an exiting employer in the Fund with a funding surplus	Delegated jointly to the Head of Pensions and Section 151 Officer, and to be agreed in co-operations with the Fund Actuary. See separate Funding Strategy Statement. [Link to be included when published]

4. Approval

4.1 The amendments to the Funding Strategy Statement were approved by the Pension Fund Committee on 9th October 2020.

5. 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. <i>(Objective no 1)</i>
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. <i>(Objective 2)</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>(Objective no 5)</i>
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. <i>(Objective no 15)</i>

6. Finance and Resources Implications

6.1 None

7. Risk Management

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

7.2 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 exercising its discretion over the payment exit credits.

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

7.4 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

7.5 A full version of the Fund risk register can be found at the following link – <http://pensions.northamptonshire.gov.uk/governance/key-documents/northamptonshire/>

8. Communication Implications

Direct Communications	A communication will be issued to inform employers that the amended Funding Strategy Statement has been approved by the Pension Fund Committee and published on the Fund's website.
Website	The Funding Strategy Statement will be published on the Fund's website.

9. Legal Implications

9.1 No immediate legal implications

10. Consultation with Key Advisers

10.1 Consultation with the Scheme Actuary and the Fund's legal advisors was undertaken when drafting the new policy.

11. Alternative Options Considered

11.1 None

Checklist of Key Approvals	
Has this report been cleared by Head of Pensions?	Mark Whitby – 21/10/20