Report No.
CSD23027

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**LOCAL PENSION BOARD**
Date:	**7 February 2023**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**REPORT ON THE REVIEW OF THE FUNDING STRATEGY STATEMENT TO APPLY TO THE PENSION FUND VALUATION**
Contact Officer:	Martin Doyle – Head of Pensions Shared Service Tel No: 020 8871 6522 E-mail: martin.doyle@richmondandwandsworth.gov.uk
Chief Officer:	Director of Finance
Ward:	Borough Wide

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1. Reason for report

1.1 The Local Pension Board are recommended to review the revised Funding Strategy Statement (FSS) set out in Appendix A to this report. Changes described in this report have been incorporated into the proposed FSS. Any comments or concerns will be reported to the Pensions Committee's next meeting.

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2. REVIEW REVISED FUNDING STRATEGY STATEMENT (FSS)

2.1 **Members of the Local Pension Board are asked to review:**

2.11 The revised Funding Strategy Statement (FSS) set out in Appendix A to this report; and,

2.12 the draft communication to all scheme employers to consult on the revised FSS attached to this report as Appendix B.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A

Corporate Policy

1. Policy Status: Existing Policy. The Council's pension fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.
2. BBB Priority: Excellent Council

Financial

1. Cost of proposal: No Cost
2. Ongoing costs: TBC
3. Budget head/performance centre: Pension Fund
4. Total current budget for this head: TBC
5. Source of funding: Contributions to Pension Fund

Personnel

1. Number of staff (current and additional): The Local Pension Board comprises of 2 Employer Representatives and two Member Representatives. The Board is supported by the Head of Pensions Shared Service.
2. If from existing staff resources, number of staff hours: N/A

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
2. Call-in: Not Applicable: No Executive Decision.

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,137 current active members, 7,469 deferred pensioners and 5,911 pensioner members (for all employers in the Fund) as at 30th September 2022.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Reviewing these documents will assist the scheme manager in ensuring the efficient governance and administration of the Scheme. With regard to any comments that the Local Pension Board may have on any other papers on this agenda, it is proposed that these be notified to the next Pensions Committee.

3.2 The statutory triennial Pension Fund valuation was last carried out as at 31st March 2019.

3.3 Before determining the employers' contribution rates to apply from 1st April 2023, the actuary is required to have regard to the Council's FSS, laying out the approach to handling the risks involved in valuations and to determining the period over which any surplus or shortfall is to be spread.

3.4 The revised FSS will be presented later in the year for consideration and approval by the Pensions Committee after a consultation with all scheme employers in the fund for comments.

3.5 Life expectancy is a key determinant in the valuation of prospective liabilities. Mortality investigations over the last few years have concluded that the population across the UK is living longer but the recent improvements in life expectancy have been slower than previously predicted.

3.6 Investment Performance/Discount Rate - as contributions are being invested now to provide for benefits payable in the future, then part of the cost of providing the benefits can be met from investment returns. The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculations reflect this by placing a lower value on liabilities if the "discount rate" is higher.

3.7 Pay growth enhances the future pension benefits of the active members of the Fund. The long-term pay increase assumption adopted as at 31 March 2019 was 3.90% p.a. and now for 31 March 2022 it is 4.60% p.a.

3.8 Annual increases in pensioner and deferred pensioner benefits and active members' benefits earned after 31 March 2014 are linked to Consumer Price Inflation (CPI). The CPI assumption adopted as at 31 March 2019 was 2.4% p.a. and now for 31 March 2022 it is 3.10% p.a.

3.9 **Employer Flexibilities** - since the last valuation, the legal framework has been introduced to provide additional flexibilities in relation to payments due when LGPS employers leave the scheme or their circumstances change. The FSS was amended in 2021 to incorporate these new discretions.

3.10 **Contribution reviews** - the contribution rates payable by employers participating in the fund are normally determined at fund valuations every three years. Since the last valuation, contribution reviews have been introduced whereby an employer with a significant change in liabilities and/or covenant can make a request for a review at any time. The Council must consider when it wishes to review an employer's contribution rate, in between valuation dates, and publish its policy in its FSS.

3.11 The Fund's draft Contribution Review Policy is included with the FSS as appendix F.

3.12 **Exit payments** - the Council now has a statutory power to recover a departing employer's exit payment over an agreed period of time, rather than as single payment upon exit. This power will be exercised, at the discretion of the Council, so as not to expose other employers in the fund to additional risks.

3.13 This option is particularly attractive to employers who wish to exit an LGPS fund, but also wish to do so with a certainty of cost. Unlike with a deferred debt agreement (overleaf), if spreading an exit payment, the departing employer does not continue to participate in the LGPS fund. Once its final staggered payment is made, its liabilities to the fund will be fully discharged.

3.14 **Deferred debt arrangements -** for many employers, the cost of leaving the LGPS, with the associated exit debt, has been prohibitive. This has left some in the difficult position of wishing to reduce their future service pension costs but being unable to afford to do so.

3.15 Deferred debt arrangements allows employers to continue to participate in a fund without any active members. These arrangements differ to spreading of exit payments as the value of the debt can be revisited with payments adjusted accordingly and so require more regular monitoring and their existence remains subject to the ongoing agreement of the administering authority.

3.16 The Fund’s policy on Termination, flexibility for exit payments and Deferred Debt Agreement is included in the FSS as Appendix D.

3.17 **Climate risk** - for the first time, the Fund Actuary will consider climate risk in its valuation approach. This is required by GAD under the recommendations of their latest Section 13 review.

3.18 As a minimum, all LGPS funds have to look at two different climate scenarios and what impact each has on the funding position over the long term. One of the scenarios is Paris-aligned and assumes good progress towards the Paris ambitions and demonstrates early action in tackling climate risk. The other scenario is based on higher temperature rises due to late action and/or no new climate policies introduced beyond those already agreed. The Fund Actuary analysis also considers two additional scenarios and look at the impact on both assets and liabilities to gain understanding on the potential impact on funding.

3.19 Ultimately, the scenario analysis considers whether the funding strategy is resilient to climate change and, alongside this, the Fund Actuary recommends any other actions that the Fund can take in managing climate risk. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.

3.19 Identification of Risks and Counter-Measures - the funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target. The key risks and the measures that could be taken to counter them are discussed at page 7 of the FSS.

3. POLICY IMPLICATIONS

4.1 The Council’s Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.

4. FINANCIAL IMPLICATIONS

5.1 None arising from directly from this report.

6. LEGAL IMPLICATIONS

6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

Non-Applicable Sections:	Procurement and Personnel Implications Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme Regulations 2013 (as amended); Code of Practice ‘Governance and Administration of Public Service Pension Schemes’ The Pensions Regulator Engagement Report “Governance and administration risks in public service pension schemes”