

COMMITTEE: Pensions Committee	DATE: 25th February 2014	CLASSIFICATION: Unrestricted	AGENDA NO.
REPORT OF: Acting Corporate Director of Resources		TITLE: Funding Strategy Statement 2013	
ORIGINATING OFFICER(S): Kevin Miles – Chief Accountant		Ward(s) affected: N/A	

Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report sets out the Funding Strategy Statement (FSS) which the Council is required to publish under Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008, having regard to guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) and to its Statement of Investment Principles.
- 1.2 The FSS is reviewed in detail every three years in line with the statutory revaluation of the pension fund and sets out the period over which the deficit is to be recovered and the corresponding employer's contributions for each of the bodies participating in the scheme.
- 1.3 The contents and format of the report have been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the document will be distributed to admitted bodies for consultation.

2. RECOMMENDATIONS

- 2.1 Members are recommended to adopt the Funding Strategy Statement set out in appendix A of this report.

3. BACKGROUND

- 3.1 Revised investment Regulations issued by the Government require Councils to publish a revised Funding Strategy Statement (FSS) following a material change in its policy on the matters set out in the statement or a change to its current version of the Statement of Investment Principles.
- 3.2 The FSS sets out the Council's policies on a number of essentially technical issues relating to the bodies which it admits into the Local Government Pension Scheme it administers.
- 3.3 The contents and format of the FSS has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 3.4 The Council is required to consult the admitted bodies on the FSS. The admitted bodies have been invited to comment on the FSS.

4. THE REVALUATION OF THE PENSION FUND

- 4.1 The Local Government Pension Scheme regulations require Councils to have the pension funds they administer revalued by a qualified actuary every three years.
- 4.2 The revaluation relates to both the Council as administering body and the organisations the Council has admitted to the LGPS. These organisations are: -

Admitted Bodies

- East End Homes Ltd
- Agilisys Ltd
- Gateway Housing Association
- Capita
- Greenwich Leisure Ltd
- One Housing Group
- Swan Housing Ltd
- Circle Anglia
- Ecovert FM Ltd
- Look Ahead Housing Association
- Vibrance
- Tower Hamlets Community Housing

Scheduled Bodies

- Tower Hamlets Homes Ltd
 - Canary Wharf College
 - Sir William Burrough School
 - Bethnal Green Academy
 - St Pauls Way Community School
- 4.3 The actuary calculates the financial position of each element of the aggregate fund and devises a specific deficit recovery strategy based on an assessment of the organisation itself.
- 4.4 The actuary when calculating the financial position of the admitted bodies requires the administering authority to specify how it requires a number of essentially technical issues to be applied to the admitted bodies.
- 4.5 The FSS provides transparency to this process by explicitly stating how these issues are to be treated.

5. MAIN ISSUES

5.1 The main issues relating to the treatment of employers as contained in the FSS may be summarised as follows:-

- Adjustments for individual employers
- Accounting for assets
- Deficit recovery periods
- Phasing of contribution rises and reductions and
- Investment strategy.

5.2 Adjustments for Individual Employers

5.2.1 The actuary calculates one rate of contribution for all bodies participating in the pension fund. This common contribution rate is then adjusted for factors, which are specific to each body.

5.2.2 The FSS sets out the factors, which will determine the individual adjustments. These are as set out in Appendix D -The calculation of Employer contributions.

5.3 Accounting for Assets

5.3.1 This necessitates the actuary using sophisticated statistical techniques to apportion the assets to the respective bodies.

5.4 Deficit Recovery Periods.

5.4.1 The Council can apply different recovery periods for each type of employer. The periods basically correspond to the financial surety of the relevant body.

5.4.2 The Council to minimise the risk associated with the funding of deficits by external bodies has specified the maximum periods allowable.

5.4.3 The relevant periods are as set out in section 3.3 of the FSS

5.5 Phasing in of Contribution Increases and Reductions

5.5.1 Bodies which have a stabilisation mechanism in place are not subject to the phasing in of contribution increases. This currently applies to the London Borough of Tower Hamlets Council.

5.5.2 The stabilisation mechanism allows the employer contribution rate to be kept within a pre-determined range.

5.5.3 Other bodies may opt to phase in contribution increases subject to the maximum period specified by the Council.

5.5.4 The Council to maximise the overall level of assets within the fund has specified the maximum periods allowable.

5.5.5 These are as set out in section 3.3 of the FSS.

5.6 Investment Strategy

5.6.1 The Council does not apply different investment strategies to the investments attributable to the admitted bodies. This is on the basis that

it has not opted to account for the assets relating to the employer separately.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1. The comments of the Director of Resources have been incorporated into the report.

7. LEGAL COMMENTS

- 7.1 The report sets out the Councils Funding Strategy document which is required under regulation 35 of the the Local Government Pension Scheme (Administration) Regulations 2008. Regulation 35(2) requires the administering authority to:

- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change-
 - (i) in its policy on the matters set out in the statement, or
 - (ii) to the current version of its statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles); and
- (c) if revisions are made, publish the statement as revised.

In accordance with Regulation 35(3), in reviewing and making revisions to the statement, the authority must-

- (a) have regard to the guidance set out in the document published in March 2004 by CIPFA and called "CIPFA Pensions Panel Guidance on Preparing and Managing a Funding Strategy Statement (Guidance note issue No.6)"; and
- (b) consult such persons as it considers appropriate.

- 7.2 The Council is required to consult the admitted bodies on the FSS which will be used by the actuary when undertaking statutory revaluations of the pension fund.

- 7.3 Appendix 1 has been prepared in accordance with the above statutory requirements.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The Fund must ensure it has sufficient assets to meet its pension liabilities and the funding strategy is critical to achieving this.

- 8.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to

cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 The principle risk associated with the admission of organisations into the LGPS is that they become insolvent and are unable to fund the pension liabilities of their employees. In these circumstances the deficit becomes a liability of the Council as administering authority.

10.2 The Council has adopted policies within the FSS which minimise the risk associated with this situation. The Council has adopted the maximum period to recover deficits.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications arising from this report.

12. EFFICIENCY STATEMENT

12.1 The FSS seeks to ensure efficient operation of the Fund by setting out a strategy for making sure the Fund has sufficient assets to meet its pension liabilities when they fall due.

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder
And address where open to inspection

Hymans Robertson Report

Kevin Miles Ext. 6791
Mulberry Place, 3rd Floor.

Appendix A