Non-Executive Report of the: **PENSIONS COMMITTEE** **25 March 2021**	TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	**Classification:** Unrestricted
Pension Fund Updated Funding Strategy Statement	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All

Summary

This report covers updates to the Funding Strategy Statement's termination policy and a new contributions flexibilities policy in light of the new Regulations that came into force on 23 September 2020. The Regulations require these policies to be included in the Funding Strategy Statement. The Committee received the draft Funding Strategy Statement (FSS) in September 2019 and final in June 2020 post employer consultation following completion of the triennial valuation. This draft updated FSS (Appendix 1) will be circulated to employers in the Fund and comments fed back to the Committee verbally during the meeting.

Recommendations:

Pensions Committee is recommended to:

1. Note the content of this report; and
2. Approve the revised Funding Strategy Statement as set out in Appendix A which includes the draft policy for 'Flexibility in Contribution Rates' and 'Deferred Debt Agreements.

1. REASONS FOR THE DECISIONS

1.1 Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) together with the guidance issued by CIPFA provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

1.2 Following consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy with all relevant interested parties involved with the fund – for example, local authority employers, admitted bodies, scheduled/resolution bodies.

1.3 The administering authority will prepare and publish its funding strategy by having have regard to:-

a. the guidance issued by CIPFA for this purpose; and

b. the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate.

1.4 The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the statement of investment principles or investment strategy statement.

1.5 The revised FSS should be completed and approved by the Pension Committee (or equivalent) prior to the completion of each valuation.

1.6 The Fund actuary must have regard to the FSS as part of the fund valuation process.

2. <u>ALTERNATIVE OPTIONS</u>

2.1 There is no alternative because there is a requirement for Members of the Pensions Committee to approve any significant changes to the Funding Strategy Statement and associated policies.

3. <u>DETAILS OF REPORT</u>

BACKGROUND INFORMATION

3.1 A number of regulatory changes came into force on 23 September 2020 (LGPS (Amendment No.2) Regulations 2020). These allow for more flexibilities with contributions both on exit from the Fund (via spreading of exit payments and allowing employers to remain in the Fund with no active members) and via interim contribution reviews between actuarial valuations in line with these Regulations, the Fund is required to include policies within its Funding Strategy Statement (FSS) which sets out how the flexibilities will apply in practice to employers. The Fund has therefore updated its Funding Strategy Statement to incorporate the new Regulations (the changes are set out on pages 9, 17 and 20 -24X in the attached FSS). These policies aim to provide much needed flexibilities to manage employer liabilities.

3.2 To assist with drafting the policies and applying the Regulations, the Scheme Advisory Board (SAB) produced a practical guide in draft form for Funds and the MHCLG issued draft statutory guidance on the amendments to the FSS.

3.3 At the time of writing this report, the draft revised FSS was issued to employers in the scheme on 1 March 2021 for consultation on the updated termination policy and new contributions flexibilities. The Committee will be updated of any employer comments verbally during the meeting.

3.4 Further cosmetic updates to the FSS which include approach taken by the Fund to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure.

The Goodwin tribunal (details are set out on page 9 in the FSS) was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. The finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known. The impact, if any, of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2019 formal valuation.

Payment of cessation debt and Deferred Debt Agreement Policy

3.5 The new Regulations permit LGPS funds to develop policies that provide alternative options to employers when the last active member leaves the employer (subject to a covenant assessment and consideration of security) (page 21 of Appendix A).

3.6 The default position for exit payments is that they are paid in full at the point of exit. The termination policy in the FSS has therefore been updated to allow for the new Regulations which allow exiting employers (subject to a suitable review of the unaffordability of an immediate exist debt payment) to spread their exit debt over a set period or to enter into a Deferred Debt Arrangement allowing them to remain in the Fund with no active members. The policy sets out the process that must be followed by the Fund when an employer exits the Fund (usually triggered when the last active contributing member leaves pensionable service).

The Fund can only enter into one of the above arrangements if the FSS includes a policy setting out how the employer will be treated.

New Contributions Flexibilities Policy

3.7 The new Regulations (details are set out on page 17 of the FSS) also permit contribution rates to be adjusted between valuations. Currently the contribution rates set out in the valuation report stay in place until the next valuation (except in limited circumstances or where an employer exists the Fund). These Regulations allow changes to contributions to be made before the next valuation if an employer's circumstances meet the specified criteria. The policy sets out the situations where contributions may be reviewed between actuarial valuations and the conditions that must be met.

4. Consultation and publication

4.1 Regulation 58(3) of the LGPS Regulations 2013 states that following a material change in its policy the Administering Authority should consult such persons it considers appropriate. The FSS is being updated to meet regulatory changes and adopted policies are in line with regulations but given the potential impact on Fund employers resulting from the use of the new powers to manage and mitigate employer risk it is expected that all Fund employers would be considered as 'appropriate' for consultation.

4.2 This DRAFT version of the FSS was distributed to all participating employers in the Fund on 1 March 2021 for comments. Deadline for responses is the 31 March 2021. The Committee will be updated verbally of any comments received. If after consideration of responses received after 25 March and no changes are made, then the draft as submitted will be accepted as the final version and published accordingly. Should there be comments which will impact the Administering Authority will finalise and a revised version will be presented in the June 2021 meeting.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 The FSS sets out the funding basis and related policies through which the Fund manages the scheme liabilities and payment of contributions by scheme employers (including on exit from the Fund).

5.2 Actuarial and covenant advice regarding the FSS and related policies is met by the pension fund.

5.3 Allowing exiting employers to have the flexibility to have contributions reviewed, spreads costs or enter into DDAs may provide a greater likelihood of the Fund receiving full payment of the exit costs.

6. LEGAL COMMENTS

6.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.

6.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

6.3 The changes made to the FSS ensure that it is updated and reflects the two sets of amending regulations. The "Local Government Scheme (Amendment) Regulations 2020/179" permits Funds to determine the amount of exit credit payable to a employer leaving the Local Government Pension Scheme (LGPS). Whilst the legislation has retrospective effect, this does not apply to any cases where an exit payment has already been made.

6.4 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 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 adoption of a Work Plan should lead to more effective management of the Fund.

7.2 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 improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

8. BEST VALUE (BV) IMPLICATIONS

8.1 The preparation and production of a Funding Strategy Statement ought to result in a more efficient process of managing the Pension Fund.

8.2 Without sound financial management of the Pension Fund, the Council and other employers in the Pension Fund could see increased volatility in their contribution rates and increases in the cost of providing for the benefits of scheme members.

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 All material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

10.2 The Funding Strategy Statement forms part of the broader framework for funding and management of the London Borough of Tower Hamlets Pension Fund. It sets out how the Fund will approach the future funding of its liabilities and the recovery periods for recovering any deficit.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices
Appendix A – Revised Funding Strategy Statement March 2021

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report - NONE

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