



## Report of the Section 151 Officer

Pension Fund Committee – 11 March 2021

# City & County of Swansea Pension Fund Draft Funding Strategy Statement (Employer Flexibility Revisions)

<b>Purpose:</b>	To ensure compliance with Local Government Pension Scheme Regulations.
<b>Reason for Decision:</b>	To approve the revised funding strategy statement.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	It is recommended that: -  1) the revisions to the funding strategy statement are approved, subject to consultation.
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<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

## Funding Strategy Statement

### 1 Background

1.1 In line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund produced and approved a funding strategy statement in consultation with its scheme employers and appointed actuary and advisors in March 2020.

The main purpose of this Funding Strategy Statement is to set out the processes by which the Administering Authority:

- establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.

- supports the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.
- ensures that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund are met.
- takes a prudent longer-term view of funding the Fund's liabilities.

Noting that, whilst the funding strategy applicable to individual employers must be reflected in the Funding Strategy Statement / Investment Strategy Statement, its focus should at all times be on those actions which are in the best long term interests of the Fund.

1.2 MHCLG and the SAB have now issued guidance in relation to new regulations laid which allow greater employer flexibilities. How these greater flexibilities are implemented need to be formalised in the Funding Strategy Statement (FSS) ensuring that all parties are aware of how those flexibilities shall be dealt with by the Administering Authority.

1.3 The **MHCLG Statutory guidance** issued identifies areas that Administering Authorities need to consider :

*General points*

- Where the FSS is amended to allow for the use of the new flexibilities, it is expected that all fund employers should be consulted on the changes.
- The administering authority should consider individual employers' views when deciding whether to make use of the new powers
- Any new arrangements under the new powers are considered as new administration arrangements and so should be recorded in the pension fund annual report.

*Policy on amending contributions between fund valuations*

The policy should include:

- The key factors to decide whether contributions should be reviewed
- How the impact of a review on other fund employers will be assessed
- How the employer will be involved in the process (and any other associated employers)
- When it would be inappropriate to carry out a review e.g. just before a triennial valuation is due to take place (or during the valuation process)
- The process the employer needs to follow to request a review, and how long a review may take
- How the employer's circumstances may be monitored after a change in contribution rate.

The guidance is clear that the policy should set out what actuarial advice will be required in revising a contribution rate. This could involve calculating any change in liabilities, and changes in the employer's covenant. It should be clear that employers

need to provide required covenant information for ongoing monitoring to take place.

#### *Policy on spreading exit payments*

The policy needs to state that in all cases the proposed exit payment spreading will be discussed with the employer.

The policy should include:

- The key factors to decide whether an exit payment should be spread
- When it would be inappropriate to spread an exit payment
- How the AA will decide on an appropriate length of time for an exit payment to be spread
- The maximum length of any spreading period
- The process the employer needs to follow to request a spreading of an exit payment, and how long a decision may take
- The details to be included in the spreading decision i.e. the spreading period, annual payments due, interest rates applicable, other costs payable, and the responsibilities of the employer during the exit spreading period.
- How the employer's circumstances may be monitored after an exit payment has been spread.

The guidance is clear that actuarial, covenant and legal advice should be taken as necessary in considering an exit payment spreading case.

#### *Policy on deferred debt agreements (DDAs)*

The deferred debt agreement allows an administering authority to defer the exit valuation, and the employer is treated similarly to an employer with active members with liabilities reviewed and contributions set at triennial valuations. The AA's policy on this:

- Needs to state that in all cases the proposed DDAs will be discussed with the employer.
- Should include
  - the process for consulting the exiting fund employer in question
  - the matters to be included in the DDA, for example, what would cause the arrangement to be terminated leading to an exit valuation and payment or credit at that time
  - details on how DDAs will be monitored and under which circumstances a variation to the DDA length would be considered
  - how the costs of entering a DDA would be calculated and met, the indicative timetable for entering into a DDA

The guidance is clear that actuarial, covenant and legal advice should be taken as necessary in considering a DDA case.

- 1.4 The SAB has produced more detailed **SAB guidance** for both administering authorities and employers on the new flexibilities, which is set out in a question and answer format.

The guidance is clear that administering authorities (AAs) need to have a good understanding of employer covenant to take advantage of the flexibilities, and need to be able to assess it in an appropriate and transparent way. In order for employers to be able to provide the required information, the AA need to set out what “notifiable events” employers should be reporting to the AA in fund documentation. These could be:

- Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund
- Material change in total employer payroll and LGPS pensionable pay
- Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)
- A decision which will restrict the employer’s active membership in the Fund in future
- Any restructuring or other event which could materially affect the employer’s membership.
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi-Academy Trust for example due to the individual academies that make it up, or a change in how its rate is assessed across its academies
- A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements, age retirements, large number of withdrawals or the loss of a significant contract or income stream
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund.
- Material change in an employer’s immediate financial strength (evidence should be available to justify such a view).
- Material change in an employer’s longer-term financial outlook (evidence should

be available to justify such a view).

- Where an employer exhibits behaviour that raises concerns over their ability to contribute to the Fund. For example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Administering Authority over a significant period of time

The SAB guidance is also clear that full engagement in covenant reviews and “regular but proportionate” reviews of the employers’ circumstances will be essential in implementing these flexibilities whilst managing the additional risks involved.

## **2 Legal Implications**

2.1 The relevant legal provisions and guidance are set out in Appendix 1.

## **3 Financial Implications**

3.1 The financial implications arising from this report are outlined in the Employer Contribution Rates payable as outlined in the rates certificate included in the Triennial Valuation Report also on this agenda.

## **4 Equality and Engagement Implications**

4.1 There are no equality and engagement implications arising from this report.

**Background Papers:** None.

**Appendices:** Appendix 1 – Swansea FSS.