

Report of the Director, West Yorkshire Pension Fund to the meeting of Joint Advisory Group to be held on 31 January 2019.

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Subject: Funding Strategy Statement (FSS)

Summary statement:

The current Funding Strategy Statement and the Policy on New Employers and Exit Valuations both require updating. The principal changes are in relation to the treatment of a surplus on exit where there is a subsumption commitment, following the change in the Regulations.

RECOMMENDATION

Subject to the outcome of the consultation exercise with all stakeholders it is recommended that the Joint Advisory Group approve the proposed changes to the FSS.

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Portfolio:

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Overview & Scrutiny Area:

1. SUMMARY

1.1 The current Funding Strategy Statement and the Policy on New Employers and Exit Valuations require updating. The principal changes are in relation to the treatment of surplus on exit where there is a subsumption commitment, following the change in the Regulations set out in 3.1 below.

1.1 A consultation exercise with all stakeholders will be undertaken in February 2019.

2. BACKGROUND

2.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which an Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

After consultation with all such persons as it considers appropriate, including officers and elected members and other employer representatives, the Administering Authority will prepare, maintain and publish their funding strategy;

In preparing the FSS, the Administering Authority must have regard to:-

- the statutory guidance issued by CIPFA for this purpose; and
- the Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) (“The Investment Regulations”).

2.2 The FSS must be revised and published in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended), whenever there is a material change in either the policy on the matters set out in the FSS or ISS.

3. CHANGES TO THE FSS

3.1 In May 2018 regulation 64 of the Local Government Pension Scheme Regulations 2013 was amended to say that if an employers admission in the scheme comes to an end (whether on the failure of the contractor or otherwise) and

- there is a deficit in the Fund on exit which cannot be met by the company or any bond, the relevant Scheme Employer (i.e. employer letting the contract) would need to make up this shortfall

or

- there is a surplus in the Fund we must pay it back to the admission body.

- 3.2 The Funding Strategy Statement is being amended to cater for the situation where it may not be appropriate to repay a surplus on exit. In order to protect the Fund from challenge however, clear documentary evidence will be required to show that it was a condition of the subsumption commitment that any surplus should be retained in the Scheme employer's share of the Fund on exit and if that agreement is not forthcoming, that the orphan funding target will be adopted.
- 3.3 The Fund's strong preference would be for Scheme employers to review all contract where the contractor is an admission body in the Fund and ensure they are comfortable with what would happen on exit, ensuring an agreement is clear whether a surplus should be refunded or not
- 3.4 The Fund will be holding a briefing session with representatives of the Councils and West Yorkshire Police and the Fund Actuary on 31 January so employers can further understand the implications of the changes to the regulations.
- 3.5 Other changes to the FSS and Policy on New Employers and Exit Valuations are:
- Minor changes to tidy up the wording/ensure consistency in references to the Fund/Regulations.
 - Some amendments to cover how multi-academy trusts are being dealt with going forward, in addition its also being made clear that the asset transfer is capped at 100% of the transferring liabilities.
- 3.6 A copy of the draft FSS and policy on New Employers and Exit Valuations can be found at Appendix A. The recommended changes to this document have been tracked for easy of reference.

4. RECOMMENDATIONS

- 4.1 Subject to the outcome of the consultation exercise with all stakeholder it is recommended that the Joint Advisory Group approve the proposed changes to the FSS.

5 APPENDIX

Appendix A – Funding Strategy Statement