Report of the Director, West Yorkshire Pension Fund to the meeting of Joint Advisory Group to be held on 28 January 2020

O

Subject: Funding Strategy Statement (FSS)

Summary statement:

Ministry of Housing, Communities and Local Government (MHCLG) laid regulations LGPS (Amendment) (No2) Regulations 2020 on employer contributions and exit payment flexibility on 23 September 2020.

As a result WYPF's current Funding Strategy Statement requires updating to cater for:

- Regulation 64A: revision of rates and adjustments certificate – **Revisions to scheme employer contributions between valuations**
- Regulation 64B : Revision of actuarial certificates – **Spreading of exit payments**
- Regulation 64: Special circumstances where revised actuarial valuations and certificates must be obtained – **Deferred Debt Arrangements**

The Scheme Advisory Board (SAB) and MHCLG have issued draft guidance on the operational and practical assistance to administering authorities and scheme employers in implementing these flexibilities.

Recommendation

The Joint Advisory Group approve the changes to the FSS subject to there not being any material changes to the guidance to be issued by MHCLG and SAB and the results of the consultation exercise with stakeholders does not indicate any concerns or issues.

Rodney Barton
Director WYPF

Portfolio:

Report Contact: Caroline Blackburn
Technical and Development Manager
Phone: (01274) 434523
E-mail: caroline.blackburn@bradford.gov.uk

Overview & Scrutiny Area:

1. Background

1.1 On the 26th August 2020 Government published a partial response to the Local Government Pension Scheme 2019 consultation: Review of employer contributions and flexibility on exit payments and subsequently amended the LGPS Regulations 2020 which came into force on 23 September 2020.

1.2 For some employers in the Fund the cost of exiting the scheme has been a significant issue. Before the new Regulations were issued in September 2020 the LGPS Regulations 2013 required the payment of a lump sum exit payment when the last active member left the scheme.

2. Changes to the Regulations

2.1 These new amendment regulations allow for certain employer flexibilities. These are:

- Regulation 64A: revision of rates and adjustments certificate – **Revisions to scheme employer contributions between valuations**
- Regulation 64B : Revision of actuarial certificates – **Spreading of exit payments**
- Regulation 64: Special circumstances where revised actuarial valuations and certificates must be obtained – **Deferred Debt Arrangements**

2.2 **Revisions to scheme employer contributions between valuations**

This regulation allows for a contribution review to be available when an employer sees a significant change in its liabilities or covenant. The FSS has been updated to detail when an employer can request a review is undertaken**.**

2.3 **Spreading of Exit Payments**

Exit payments allow employers to spread any exit payment, which is due when the last active member leaves the scheme and an exit valuation is calculated by the Fund's Actuary. Payments may be made over a period of time as agreed with, and at the discretion of, the Administering Authority, to avoid exposing other employers in the fund to additional risk. It also addresses the issue of the "too expensive to stay in and too expensive to get out" problem that many employers face. This change in regulations will help the fund manage the employers with unaffordable exit debts and help employers where it is simply impossible to pay off these debts as a single payment**.**

2.4 **Deferred Debt arrangement**

The introduction of deferred employer status will allow administering authorities to defer triggering an exit payment for certain employers who have a sufficiently strong covenant. This arrangement will allow deferred employers to continue paying contributions to the Fund, as revised from time to time following an actuarial valuation.

3. SAB and MHCLG Guidance

3.1 In support of the new flexibilities, MHCLG has issued draft statutory guidance for administering authorities, working with the Scheme Advisory Board (SAB) and CIPFA. In addition, the Scheme Advisory Board is also developing practical guidance to assist administering authorities and employers in the implementation of the employer flexibilities, and it is intended that this will be published alongside the statutory guidance, in due course.

3.2 The Fund has worked with the Fund's Actuary to draft changes to the FSS in anticipation of SAB and MHCLG's published guidance being issued. It is anticipated that there will be not be any material changes to the final versions when these are issued.

4 Revised FSS

4.1 We have considered the regulatory changes, sought advice, and developed an approach which we believe achieves the Government's objectives and very clearly protects the interests of members and all employers of the West Yorkshire Pension Fund. Our proposed approach is set out in the attached Funding Strategy Statement, or FSS (principally the Policy on New Employers and Exit Valuations appended to the FSS). The proposed changes are highlighted to make it easier to review.

5. Consultation exercise

5.1 The LGPS Regulations 2013 require:

- An administering authority must, after consultation with such persons it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

- The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

5.2 Once both sets of guidance on employer flexibilities have been published a full consultation exercise will be undertaken with all stakeholders.

6. Recommendation

6.1 The Joint Advisory Group approve the changes to the FSS subject to there not being any material changes to the guidance to be issued by MHCLG and SAB and the results of the consultation exercise with stakeholders does to indicate any concerns or issues.

7. Appendix

Appendix A – Draft FSS - January 2021