Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 March 2021**
Subject:	**Lincolnshire Pension Fund – Funding Strategy Statement and Employer Flexibilities Policies**

Summary:

This report covers updates to the Funding Strategy Statement, following the appointment of Barnett Waddingham, and new employer flexibilities policies in light of the new Regulations that came into force on 23 September 2020. The Regulations require these policies to be referenced in the Funding Strategy Statement.

Recommendation(s):

That the Committee approve the updated Funding Strategy Statement, the Deferred Debt and Debt Spreading Policy and the Contribution Review Policy.

Background

1. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation. Following the appointment of the new Fund Actuary, Barnett Waddingham, with effect from 1 January 2021, the FSS has been updated to reflect this.

2. The FSS has not been materially changed at this point, as the existing employers have had their rates set until April 2023 under the previous Actuary's approach. Amendments have been made to reference the change in Actuary. New employers commencing participation in the Fund on or after 1 January 2021 will have a contribution rate calculated based on a single set of financial assumptions, which have been set so as to achieve broad consistency with the previous Fund Actuary's approach. The FSS will be updated fully following the 2022 Triennial Valuation, when the methodology of Barnett Waddingham will be fully utilised.

3. A number of regulatory changes came into force on 23 September 2020 (LGPS (Amendment No.2) Regulations 2020). These allow for more

flexibilities for employers 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 set out how the flexibilities will apply in practice to employers. The Fund has therefore drafted policies to incorporate the new Regulations. These policies aim to provide much needed flexibilities to manage employer liabilities.

4. To assist with drafting the policies and applying the Regulations, the Scheme Advisory Board (SAB) has produced a practical guide in draft form for Funds, and MHCLG has issued draft statutory guidance on the amendments to the FSS. A consultation took place on the practical guide from the SAB which ran until 9 January 2021 and the final documents were published on 2 March 2021.

5. Further information on the policies is set out below.

Draft Deferred Debt and Debt Spreading Policy

6. The default position for exit payments is that they are paid in full at the point of exit and this will continue under the new policy. The previous regulations generally required the exit debt to be paid in full on exit. This restricted the ability of employers to leave the Fund in an ordered and affordable manner and put the Fund at higher risk of unrecoverable debts. This is especially the case for those employers in a weak financial situation. As a consequence, employers tended to remain in the Fund building up further, often unaffordable, liabilities. The new Regulations provide greater flexibility to manage this debt in conjunction with the employer and allow the employer to limit the further accrual of liabilities.

7. 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):

   a) **Deferred Debt Arrangement (DDA)** - The Fund may enter into a DDA with a scheme employer. This allows the employer to defer its obligation to make an exit payment and continue to make 'deficit' (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing on-going participation, but with no contributing members. The Fund or employer can terminate the DDA and settle a revised (potentially more affordable) exit debt; or

   b) **Debt Spreading Arrangement (DSA)** - The Fund and the employer may enter into an agreement which spreads the payment of the final exit debt calculated by the Actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms).

8. 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. The Fund is also required to consult with the exiting employer, following advice from the Fund Actuary as well as any other specialists as appropriate as part of the process.

9. Appendix B sets out the draft policies for these flexibilities for the Committee to consider. The policies have been designed to strengthen the Fund's ability to manage employer liabilities, ensuring there is no detriment to the solvency of the Fund.

Contribution Review Policy

10. The new Regulations 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 exits the Fund. These Regulations allow changes to contributions to be made before the next valuation if an employer circumstances meet the specified criteria.

11. Such a revision to contribution rates is only permitted if the Fund's policy is set out in the FSS and one of the following apply:

    a) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

    b) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer to meet their obligations in the Scheme; or

    c) a Scheme employer requests a review of employer contributions and has undertaken to meet the costs of that review (and point (a) or (b) also applies).

12. Appendix C sets out the draft policy for the Committee to consider. The policy ensures that any contribution changes will only be due to significant liability or covenant changes which would create additional risk to the Fund or employer.

13. The FSS and the policies were sent to all employers in the Fund for consultation on 4 March 2021. No feedback from employers on the consultation has been received.

Conclusion

14. The Funding Strategy Statement has been reviewed following the change in Actuary for the Fund and the requirement for policies dealing with employer flexibilities, after new regulations came in.

15. The Committee are asked to approve the updated FSS and the policies on deferred debt and debt spreading and contributions reviews.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund - Draft Funding Strategy Statement
Appendix B	Draft Deferred Debt and Debt Spreading Policy
Appendix C	Draft Contribution Review Policy

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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