

**Report to:** Pension Board

**Date:** 4 February 2019

**By:** Chief Finance Officer

**Title of report:** Funding Strategy Statement

**Purpose of report:** This report covers the review of the Funding Strategy Statement (FSS) for the East Sussex Pension Fund.

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**RECOMMENDATION – The Board is requested to consider and note the Funding Strategy Statement (FSS)**

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**1. Background**

1.1 It is the responsibility of East Sussex County Council, acting in its capacity as Administering Authority to the East Sussex Pension Fund, to prepare, publish and maintain the Funding Strategy Statement having regard to guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement". Local Government Pension Scheme Regulations require each administering authority, after consultation to prepare, maintain and publish a written statement setting out their funding strategy.

1.2 The statement was prepared by the Council in consultation with the Fund's Actuary, Hymans Robertson. The statement include a policy on the ESPF pass-through arrangements on outsourcing exercises, which is required following the introduction of exit credits under the Local Government Pension Scheme (Amendment) Regulations 2018. The revised statement will be effective from 1<sup>st</sup> April 2019.

1.3 The statement is reviewed every three years in line with the valuation of the Fund, and the next valuation will be 31 March 2019. However, a revised statement can be issued in the interim if any significant or material change arises.

**2. Funding Strategy Statement (FSS)**

2.1 The purpose of the strategy statement is:

- to ensure the long-term solvency of the Fund, using a prudent long term view;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund;
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

2.2 The statement sets out the key financial and demographic assumptions, staff turnover and retirements and future contribution rates. Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and employer's asset share. The strategy sets out the key risks and controls. The risks identified link in with the Pension Fund Risk Register.

### **3. Pass-through arrangements**

3.1 A pass-through arrangement is where the risks inherent in participating in the LGPS are shared between the new employer and Letting Authority, and typically with the majority of the pensions risk being borne by the Letting Authority rather than the new employer.

3.2 Importantly, it also means that the new employer would not be required to fund any deficit at the end of the contract, subject to any agreed exceptions. This change in policy will not affect any outsourcing procurement exercises currently underway or existing contracts. The Fund is proposing an implementation date of 1st April 2019, following the completion of the Funding Strategy Statement consultation with employers.

3.3 The two approaches that can be adopted by the Fund in setting the contributions payable under pass-through arrangements are:

- a. Matches the Letting Authority (employer) - where the contractor is pooled with the letting authority. In this case, the contractor pays the same rate as the letting authority, which may be under a stabilisation approach.
- b. Fixed contribution rate - where the contractor pays a fixed contribution rate at the outset and this is not re-calculated during the remainder of the contract. The contractor does not pay any cessation deficit or receive any surplus at the end of the contract term, as the letting authority has retained all of the funding risks.

3.4 The Fund intends to offer 'pass-through' with a fixed contribution rate as the default arrangement for all new contractors. This will replace the current default arrangement (which passes pensions risks from the letting authority to the contractor).

### **4. Consultation**

4.1 In compliance with the Regulations, the FSS must be subject to consultation with the Fund's employers before publication, and this document has been circulated to all relevant interested parties for comment.

### **5. Conclusion and reasons for recommendations**

5.1 The Pension Committee at its meeting on 25 February 2019 will be required to approve the FSS that include a policy and options on the ESPF pass-through arrangements on outsourcing exercises, which is required following the introduction of exit credits under the Local Government Pension Scheme (Amendment) Regulations 2018.

5.2 The Pension Board is recommended to consider and comment on the FSS.

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Background Documents

None