

Report to: Pension Committee

Date of meeting: 16 March 2020

By: Chief Finance Officer

Title: Triennial Valuation 2019, Funding Strategy Statement and Investment Strategy Statement

Purpose: To seek input and approval to the Fund's revised strategy statements and draft 2019 Valuation report

RECOMMENDATIONS: The Pension Committee is recommended to:

- 1) consider and approve the draft 2019 Valuation report (Appendix 1);**
 - 2) approve the revised Funding Strategy Statement, to become effective from 1 April 2020 (Appendix 2); and**
 - 3) approve the revised Investment Strategy Statement, to become effective from 1 April 2020 (Appendix 3).**
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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 (the Fund), to prepare, publish and maintain the Fund's Funding Strategy Statement and Investment Strategy Statement. These documents have been reviewed alongside the 2019 Valuation.

1.2 The 2019 Valuation of the Fund on a triennial basis is a regulatory requirement and is used to determine contribution rates payable by participating employers for the period commencing 1 April 2020. The valuation is carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). The Fund Actuary has now prepared the 2019 Valuation report which records the high-level outcomes of the actuarial valuation.

2. Triennial Valuation 2019 report

2.1 The Pension Committee meetings of September 2019 and November 2019 received update reports and presentations from the Fund Actuary setting out the initial 2019 whole fund valuation results and draft employer contributions (with particular focus on the Major Authorities' contribution rates in the Fund). The initial results showed a current whole fund funding level of 108% (i.e. where the market value of assets of the Fund is compared against a value of the benefits accrued by all members in the Fund to date) and employer contribution rates which were (on average) expected to slightly reduce. These were approved by the Pension Committee alongside the Fund's revised draft Funding Strategy Statement.

2.2 Working alongside the Fund Actuary, Fund Officers have now completed the consultation period with employers around the revised Funding Strategy Statement and their individual results and contribution rates. This included a well-attended Employer Forum on 29th November, where a presentation was received from the Fund Actuary.

2.3 The Fund Actuary has now drafted the 2019 Valuation report which records the high-level outcomes of the actuarial valuation, including the value of the assets and liabilities of the Fund as at 31 March 2019 and the required rate of employers' contributions to the Fund for the period from 1 April 2020 to 31 March 2023 (set out in the Rates and Adjustments certificate). The report is provided in Appendix 1. Please note at the time of writing (early February) there were a small number of employer contribution rates which were still to be finalised. Therefore, the draft report

does not include the Rates and Adjustments certificate or the total employer contributions the Fund can expect to receive over the three years from 1 April 2020.

2.4 This report must be published no later than by 31 March 2020.

3. Funding Strategy Statement (FSS)

3.1 Under the Regulations, all Local Government Pension Scheme (LGPS) funds have a statutory obligation to produce a Funding Strategy Statement (FSS). The Fund reviews the FSS at least every three years alongside the valuation but also from time-to-time when required. The current version of the FSS was approved by this Committee on February 2019 following updates required as a result of the introduction of “exit credits” becoming available to exiting employers.

3.2 The revised FSS was approved in draft form by the Pension Committee in November 2019. Following this approval, the draft version was issued to all participating employers for consultation alongside their individual results and contribution rates in November 2019. This consultation ended on 17th January 2020. No comments on the contents of the FSS were received from employers for consideration.

3.3 Since the draft version of the revised FSS was approved by the Pension Committee, Ministry of Housing Communities and Local Government (MHCLG) has published its response to the consultation last year on the exit credit regime that was introduced into the LGPS in May 2018 (NB an exit credit is the funding surplus remaining at the end of an employer’s participation in the Fund). These amendments will come into force on 20 March 2020.

3.4 A key change from the amendments is the provision of a new discretionary power to the Fund to decide if an exit credit should be payable to an exiting employer. The Fund’s decision should take account of:

- i. *The extent to which the employer’s assets are in excess of its liabilities* – this is not contentious for the Fund as our actuary tracks each employer’s assets and liabilities (unless a pass-through arrangement is in place)
- ii. *The proportion of the excess of assets which has arisen because of the value of employer’s contributions* – the initial regulations had unintentionally enabled some short-term employers to leave funds with large exit credits (due mainly to strong growth on the assets that were transferred from letting authorities). In some cases, across the LGPS, exit credits have been large and have even dwarfed any contributions made by the contractor. This amendment now allows the Fund to consider whether or not to restrict future exit credits to growth only on the money paid by employers.
- iii. *Any representations made by the exiting employer and its letting authority/guarantor* – the intention behind this is to allow any risk-sharing arrangements that sit behind an employer’s participation to be taken into account. The Government has said however that there is no onus on the Fund to ‘enquire into the precise risk sharing arrangements adopted’. Instead, it will be left to the employer and letting authority/guarantor to explain why the arrangements made by them make payment of an exit credit more or less appropriate. There is a risk that the Fund could get caught up in the middle of arguments between employers over commercial terms that were agreed outside the Fund, leading to higher actuarial, legal and internal management costs, and of course delays to the settlement of cessation valuations. It is worth noting that the amending regulations force the Fund to notify how it intends to deal with the exit credit to both parties ahead of any payment.
- iv. *Any other relevant factors* – this gives a lot of power to the Fund to take into account whatever factor it feels is relevant in its decision. The Fund will need to ensure that it

applies this power consistently over time and provide justification to the employer and letting authority/guarantor about why any factors have been taken into account.

3.5 In addition, the amendments have extended the maximum time period by which an exit credit must be paid to an employer from three to six months.

3.6 In addition to making allowance for the exit credit amendments, since the November 2019 approved draft, the following minor changes have been made:

- Adding flexibility to allow Major Authorities to have their secondary contribution rates certified as either % of pay or monetary amounts;
- Incorporating the Fund's updated Cessation policy as an appendix to the FSS; and
- Updating the effective date, consultation dates and officer contact details.

3.7 The final version of the revised FSS, which includes revisions to allow for the amendments to the exit credit regime outlined above on page 16-17 and within the updated Cessation Policy, has been prepared in collaboration with the Fund Actuary. This is provided in Appendix 2.

4 Investment Strategy Statement (ISS)

4.1 There is a statutory requirement to maintain an Investment Strategy Statement (ISS) that reflects the Fund's governance and investment arrangements. The changes that have been made to the ISS reflect:

- the recommendations made by William Bourne in his 'Investment Governance Review' paper that was approved by the Committee at the November meeting; and
- the Investment Beliefs section set out in Appendix 2 of the ISS has also been expanded to evidence where the beliefs are implemented in either the working of the Committee or the Fund's investment strategy and structure.

4.2 The update document is provided in Appendix 3.

5. Conclusion and reasons for recommendations

5.1 The Fund Officers have been working with their advisors to progress the review of the Fund's strategy statements alongside the 2019 Valuation. The revised FSS and ISS are recommended for approval. Once approved, the Funding and Investment strategy statements will become effective from 1 April 2020.

5.2 The Fund Actuary has drafted the 2019 Valuation report including contribution rates payable by participating employers for the period commencing 1 April 2020. This draft report is recommended for approval. The report will then be published no later than 31 March 2020.

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