

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Update to Funding Strategy Statement (FSS)

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. To note and agree the Funding Strategy Statement, which has been updated following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee agrees the Funding Strategy Statement (FSS), included at Appendix 1.

4. Reason for Decision

- 4.1. The Local Government Pension Scheme (Amendment) Regulations 2018, introduced the concept of exit credits. Employers who cease to participate as scheme employers can be due a credit payment, if it is assessed that they are leaving the fund in a surplus position – that is to say, that the assets held on behalf of that employer exceed the liabilities accrued to pay pension benefits for its employees.
- 4.2. The Fund is required to keep the FSS under review and to update the statement where there has been a material change from current policy. Normally the FSS is updated every three years in line with the fund's valuation. The introduction of exit credits by the new regulations necessitates an update to the current FSS in between fund valuations.

5. Other options considered

5.1. None.

6. Background information

- 6.1. The Local Government Pension Scheme Regulations 2013 (“Regulations 2013”) require the fund to publish a FSS, after consultation with such persons as it considers appropriate (regulation 58 (1)). The regulations also require that the FSS is kept under review, and should policy change, that an updated FSS be published (regulation 58 (3)).
- 6.2. At the July 23 Pensions Committee and Board meeting, officers presented a report to the committee detailing the changes brought within the LGPS (Amendment) Regulations 2018 (“Regulations 2018”), including exit credits.
- 6.3. Officers have consulted with Hymans Robertson, the Fund Actuary, and the Independent Advisor to the Fund regarding the updates required to the FSS. A draft version of the FSS was agreed, and this was then circulated to all employers within the fund, for consultation. There were no responses. This draft version of the FSS is included at Appendix 1 to this report, the recommendation of this report is that this be agreed as a final version. This updated FSS is shown with ‘track-changes’, so members can see which parts of the FSS have been updated.
- 6.4. Hymans Robertson, the Fund’s actuary has produced a summary report on the topic of exit credits, this is appended at exempt Appendix 2 to this report.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance

- 8.1. The Fund is reviewing and updating its FSS to reflect the changes from the updated LGPS Regulations, to remain compliant with these. The concept of ‘exit credits’ which are introduced by these regulations are of particular importance, and could impact on the fund’s liquidity, investments and overall financial standing. The fund’s current Investment Strategy Statement includes a 74.5% allocation to liquid investments (such as pooled investment vehicles) where investments can be sold at short notice (within 1-4 weeks), without significant

transaction costs or penalties, (other than the risk of selling coinciding with the timing of a market low). Any future changes to the fund's investment strategy will have to be cognisant of this new potential requirement to pay exit credits within a 3 month time frame.

- 8.2. Exit credits are still a relatively new concept to LGPS, so there may be further industry wide developments that come to light in coming months. Haringey officers have sought advice from relevant stakeholders in updating the fund's FSS, however they will maintain up to date knowledge on this issue, in case it becomes clear that further changes are required to the fund's policies.

Legal

- 8.3. The amendments to the Funding Strategy Statement dealing with "exit credit" is in line with Regulation 64 of the Regulations 2013 (as amended by Regulation 13 of Regulations 2018).
- 8.4. Members should note that if an exit credit is payable to an exiting employer, the administering authority must pay the amount payable to that employer within three months of the date on which that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer may agree. Where the administering authority has paid an exit credit to an exiting employer, no further payments are due from the administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer.

Equalities

- 8.5. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – Draft Funding Strategy Statement

Appendix 2 – Exempt Report from Hymans Robertson LLP

10. Local Government (Access to Information) Act 1985

- 10.1 Not applicable.