

PENSION FUND COMMITTEE – 6 MARCH 2020

2019 VALUATION AND THE FUNDING STRATEGY STATEMENT

Report by the Director of Finance

RECOMMENDATION

- 1. The Committee is RECOMMENDED to note the latest position on the 2019 Valuation and approve the Funding Strategy Statement.**

Introduction

2. Under the current regulatory framework, the Pension Fund is required to arrange for a Valuation of the Pension Fund every three years. The latest Valuation is based on the position as at 31 March 2019, with a requirement for the Fund Actuary to produce their report and certify the employer contribution rates for 2020/21 onwards by 31 March 2020.
3. In completing the Valuation, the Fund Actuary must have regard to the Committee's approved Funding Strategy Statement which sets out the key policies to be followed in determining the approach to the Valuation. Following discussion at the December meeting of this Committee, initial results and a draft Funding Strategy Statement was formally issued for consultation with key stakeholders. This report includes the feedback from that consultation and recommends the Committee approves the final version of the Funding Strategy Statement.

Update on the 2019 Valuation

4. All scheme employers were issued their draft results and the draft Funding Strategy Statement and invited to attend the Employers Forum where the Fund Actuary attended and presented the draft results. Scheme Employers were also offered the opportunity to meet with the Fund Actuary after the Forum for a short surgery session to discuss their results and any key concerns.
5. As noted in the December report, the draft results had shown an improvement in the funding level (as calculated at a single point in time and on a single set of financial assumptions) from 91% to 99%, which in general had led to a reduction in the required deficit contributions from most employers. However, this had been offset by a less optimistic view of future investment returns, as well as an increased level of prudence to allow for future uncertainty, particularly in respect of the McCloud/Sargeant judgement.
6. For most scheme employers therefore, the total contribution rate proposed for 2020/21 was broadly in line with that for the current financial year. Small

increases were identified for Cherwell and Vale of White Horse District Councils reflecting poorer historic funding levels relative to other employers, with a larger increase proposed for West Oxfordshire District Council reflecting the reducing membership going forward under its new service delivery model through Publica. West Oxfordshire and Cherwell DC are exploring the impact of making a one-off cash contribution to the Fund to reduce or eliminate the increase on their on-going contribution rate. Work is also continuing with Vale of White Horse District Council alongside South Oxfordshire District Council to ensure the future contribution rates fairly reflect the joint staff structures now in place.

7. The largest increases in proposed contribution rates were in respect of the Further Education Colleges with an increase in the total contribution rate of up to 8%. This in part reflects the fact that the FE Colleges were previously paying lower rates than the majority of other scheme employers, as well as the proposal in the draft Funding Strategy Statement to shorten the deficit recovery period to 15 years compared to a standard 20 years reflecting the weaker financial covenant of the FE sector as a whole.
8. Within the Academy sector, the majority of employers have seen increases and decreases in proposed total contribution rates of between +2% to -2%. There was one proposed increase of 4%. These movements reflect the different employee profiles of the various academies as well as the regularly changing membership as academies form new or join existing multi-academy trusts.
9. For both the small admitted bodies pool and the small schedule body pool, the proposed total contribution rate saw a small reduction.
10. A small number of employers took advantage of the surgery sessions after the Employers Forum to discuss their results with the Fund Actuary. In all cases these were seeking clarification or to explore the flexibilities available under the draft Funding Strategy Statement, including options around phasing in any increases in contribution rates, or the payment of lump sums.
11. We had one request from an Academy whose active membership numbers had increased just above the 50 used to mandate membership of the small academies pool. In line with the flexibilities within the draft Funding Strategy Statement they made a request to remain within the academy pool on a permanent basis, subject to no further significant increase in membership numbers and this was agreed by Officers.
12. We received just three formal responses to the consultation exercise. These were from a FE College, a Housing Association and an Academy. All three were again seeking clarification and to understand the flexibilities under the draft Funding Strategy Statement, and none made a specific proposal to amend the draft.
13. The Housing Association wished to explore the flexibilities around a potential cessation of their admission agreement. These were subsequently explored as part of a surgery session and an approach agreed between the Fund Actuary

and the Scheme Employer within the terms of the draft Funding Strategy Statement and with the support of Officers.

14. The Academy wished to explore the options around phasing in the increase in their rate. The Fund Actuary has been asked to provide revised figures on a phased basis before a final approach is agreed with the employer.
15. The FE College was concerned about the significant increase in their contribution rate and wanted to seek clarification on the approach followed by Hymans Robertson, the level of prudence within the calculations, and the options open to the college to mitigate the increase in their contribution rate through the flexibilities within the draft Funding Strategy Statement. Following initial correspondence by email, the Fund Actuary and Officers recent discussed the outstanding issues with the financial advisers to the College. At the time of writing this report, we are waiting to hear back from the College on their preferred approach to their results, but it is not expected that they will seek a variation to the Funding Strategy Statement. Any variation to that position will be provided directly to the Committee.
16. At the present time therefore there have been no proposed changes to the draft Funding Strategy Statement as presented to the December meeting of this Committee and the Committee are now recommended to formally approve the Statement.
17. The Fund Actuary continues to work with the Officers and Scheme Employers to agree any variations to the initial results in line with the flexibilities offered by the Funding Strategy Statement. The final results will be included in the formal Valuation results report to be produced by the Fund Actuary by 31 March 2020.

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