



Pensions Fund Sub-Committee
08 November 2016

**Report from the Chief Finance
Officer**

For Decision-Making

Wards affected:
ALL

Triennial Review

1. INTRODUCTION

- 1.1 This paper updates members on the progress in the Triennial Review, informs them about the next stages. It also requests that members approve the draft FSS (Funding Strategy Statement) for consultation and that members delegate to officers to fine-tune items within the FSS with regard to the individual employers. The paper also requests that members delegate the decision on the Council contribution rate once the Monte Carlo modelling is complete.

2. RECOMMENDATIONS

- 2.1 Note the update on the Triennial Review process
- 2.2 Note the results of the Triennial Valuation – whole fund results.
- 2.3 Agree the Current Draft of the Funding Strategy Statement (FSS) within the Restricted section.
- 2.4 Agree to delegate to Council Officers the completion of certain detailed elements with the Fund Actuary, when employer-level calculations become available.

- 2.5 Note that the FSS will be consulted with employers as required by LGPS Regulations.
- 2.6 Note that this FSS will come back to this Committee for formal ratification after consultation has ended.
- 2.7 Agree to delegate to the Chief Finance Officer the decision on Council contribution rate with the Fund Actuary using this modelling and the principles of the FSS.

DETAILS

- 3.1 The Triennial Review ends with the setting of the contribution rates of the various employers for the period 2017/18 through 2019/20. Its key document is the Funding Strategy Statement that sets out the Pension Fund's strategy to achieve an appropriate funding level and manage risk appropriately.
- 3.2 The production of Whole Fund results that identifies the Pension Fund's overall funding level has been delayed by various data quality problems. There have been particular problems with data quality in smaller admitted bodies. A post-mortem will be carried out and this will be reviewed by the Pensions Board in early 2017 to ensure lessons are learned.
- 3.3 The Whole Fund results look at the overall funding level. Various employers will have different funding levels based on contribution rates in the past. Some will also have very different levels of risks, such as smaller bodies with no guarantee are a high risk whereas academies are guaranteed in effect by the Department of Education. Brent Council, as by far the largest element in the Fund has a funding level broadly consistent with the overall fund.
- 3.4 The Funding Strategy Statement is necessary because employee benefits are guaranteed by LGPS regulation. The FSS includes the time-frame through which the Pension Fund will expected to become fully-funded by the various type of employers and expectations around guarantees. The statement further explains how the Pension Fund measures its liabilities, its approach to affording to pay for them and how it complies with regulatory requirements.

- 3.5 The next stage would be model the individual employer results. Data issues should not affect the production of this process for Brent Council but it may affect some of the smaller bodies within the Fund, as data quality issues on a few members may distort any modelling.
- 3.6 Hymans Robertson used an advanced Monte Carlo Modelling tool called ComPASS. The Monte Carlo method uses repeated random sampling to generate numerical results. The method sets funding objectives (e.g. 75% chance of being fully funded within 19 years) subject to various criteria. It then predicts future funding levels based on the current investment strategy and 10,000 future possible outcomes. The employer selects various possible contribution strategies in order to understand the range of options and impacts of various decisions. The goal is to balance affordability, likelihood of success and risk tolerance of the employer. Ultimately, the approach is data driven and this is why data quality and the assumptions are key to making the final decision on the contribution rate approach.

4.0 Financial Implications

- 4.1 Employer contributions are the single largest component in the Pension Fund's yearly cash inflow. Appropriate contribution rates by the various employers is necessary for the Pension Fund to improve its funding level.
- 4.2 These contribution strategies will bind the employers to differing amounts over the next three years. For many of these employers, it will significantly affect their budgetary position, therefore, it is important to have regard to affordability. This is why one reason why different employers will have different approaches to contribution rates.

5.0 Legal Implications

- 5.1 This is a statutory process conducted every three years that ensures the Pension Fund is both compliant with regulation and has a viable long-term funding strategy. Members are reminded to remember that their responsibility is to the Pension Fund.

5.2 The Financial Strategy Statement (FSS) is required by LGPS Regulations. The Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

6.0 Diversity Implications

6.1 Not Applicable

Contact Officers

Persons wishing to discuss the above should contact Conrad Hall, Chief Finance Officer, Investment and Pensions Section, Finance, on 020 8937 6528, conrad.hall@brent.gov.uk at Brent Civic Centre