

Committee report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	14 FEBRUARY 2020
Title	TRIENNIAL VALUATION PROGRESS REPORT
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. This report provides an update to Pension Fund Committee members on the progress towards the completion of the formal valuation of the Isle of Wight Council Pension Fund as at 31 March 2019, and sets out the future action to finalise the valuation.
2. Members are asked to note the progress made to date, and the process by which the valuation will be completed.

BACKGROUND

3. At the Pension Fund Committee meeting on 15 November 2019, members received a presentation from Hymans Robertson, the fund's actuaries, setting out the progress made to that date in the valuation; including the initial whole fund results. That presentation also set out how the fund would approach setting contribution rates for the next three-year period for each of the employers within the fund, and the process by which the valuation would be completed.
4. Members were advised that initial draft employer results, including draft contribution rates had been discussed with officers on the day before the committee meeting, and that a number of employers had held meetings with the actuaries and officers to discuss their draft results.
5. Following that committee meeting, Hymans Robertson colleagues finalised the draft contribution rates for each of the employers.
6. At the same time, the fund's funding strategy statement (FSS) was updated to reflect the revised assumptions and updated regulatory requirements for the current valuation cycle. This also included the assumptions which the fund had adopted in estimating the potential future liabilities which may arise as a result of the McCloud judgement (see separate section below).
7. The draft results and proposed contribution rates were sent to employers on 23 December 2019. Employers were asked to confirm their acceptance of the proposed contribution rate by 31 January 2020.

8. Following circulation, additional meetings and telephone conversations have been held with three employers to discuss further their valuation results. In addition, a reminders email was sent on 20 January and 4 February.
9. At the date of publication of these papers (5 February) the following confirmations of employer rates have been received. Where necessary, a further update will be provided at the committee meeting.

Employer group	Number in group	Number (%) confirmed	Comments
Isle of Wight Council	1	1 (100%)	No change to previous rate
Town and parish councils	9	9 (100%)	Employers pay same rate as IWC – notified; deemed acceptance
Academies	7	6 (85.7%)	Given option to pay IWC rate or own calculated rate
College	1	1 (100%)	
Community admission bodies	3	3 (100%)	
Transferee admission bodies	9	9 (100%)	Some employers have fixed rate for duration of contract.
	30	29 (96.7%)	

FUNDING STRATEGY STATEMENT CONSULTATION

10. Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare a funding strategy statement. It specifies that the statement should be prepared and published after consultation with all relevant interested parties involved with the fund.
11. To that end, the draft FSS was sent to all employers within the fund on 23 December 2019, opening a consultation period terminating on 31 January 2020.
12. The draft FSS was also sent to members of both the Pension Fund Committee and the Local Pension Board on 24 December 2019, at the same time as to officers of the fund.
13. The Pension Board discussed the draft statement at its meeting on 28 January.
14. Any matters arising from the consultation will be presented at the committee meeting.

FINALISATION OF THE VALUATION

15. The statutory deadline for the completion of the 31 March 2019 valuation is 31 March 2020, with the new employer contribution rates being effective from 1 April 2020.
16. It is intended that the final valuation report, including the agreed employer contribution rates, will be presented for the committee's approval at the meeting on 13 March 2020.
17. It is further intended that the FSS will be presented for adoption at that meeting.

STRATEGIC CONTEXT

18. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.
19. The completion of the valuation and the publication of the FSS in accordance with statutory deadlines fulfils the fund's agreed governance objective to *ensure compliance with the LGPS regulations, other relevant legislation and the Pensions Regulator's codes of practice*.

CONSULTATION

20. The process by which the funding strategy statement has been consulted upon is outlined in paragraphs 10 to 14 above.

FINANCIAL / BUDGET IMPLICATIONS

21. The cost of the triennial valuation will be borne directly by the pension fund, and will have no impact on the council's budget. The cost is consistent with the value included in the pricing considerations when the actuarial services contract was procured in 2018.
22. The triennial valuation is a planning exercise for the fund, to assess the monies needed to meet the benefits owed to its members as they fall due. It estimates the cost of future liabilities for the members of the fund, and allows the fund to determine the appropriate investment strategy and employer contributions required to ensure that there are sufficient assets to meet those liabilities as they fall due.
23. The setting and agreement for affordable and sustainable employer contribution rates is part of this exercise.

LEGAL IMPLICATIONS

24. Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires that each administering authority must obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and on 31 March in every third year afterwards.
25. Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires that each administering authority must prepare, maintain and publish a written statement setting out its funding strategy.

McCLOUD JUDGEMENT IMPLICATIONS

26. The "McCloud judgement" (also sometimes reported as McCloud/Sargeant) relates to separate employment tribunals brought by members of the judges' and firefighters' pension schemes claiming that the transitional protections given to certain scheme members as a result of the change in public service pension

schemes from final salary benefits to career average benefits were age discriminatory.

27. In December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination. In June 2019, the Supreme Court denied the government permission to appeal. The matter was subsequently referred back to the Employment Tribunals for a remedy hearing in each case, held between October and December 2019.
28. Although these cases relate directly to the judges' and firefighters' pension schemes, the transitional protections were applied to all members within ten years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. In July 2019, the chief secretary to the Treasury confirmed that the principles of the outcome would be accepted as applying to all public service schemes, including the Local Government Pension Scheme.
29. It is, however, very unclear what form the remedy will take in the LGPS. The Scheme Advisory Board has advised that, for the 2019 valuation, LGPS funds should value the benefits as per the current LGPS regulations, but should consider how to factor in the uncertainty and risk associated with the McCloud case when setting employer contribution rates (and reflect in their FSS).
30. These implications will be discussed in more detail at the committee meeting in March 2020, when the final valuation report and FSS are considered.

EQUALITY AND DIVERSITY

31. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
32. Noting the progress of the triennial valuation has no implications for any of the protected characteristics.

RISK MANAGEMENT

33. In completing the triennial valuation of the pension fund, including the preparation and publication of the funding strategy statement, the administering authority is ensuring compliance with regulations.
34. As noted above, the triennial valuation is a planning exercise for the fund, to assess the monies needed to meet the benefits owed to its members as they fall due. Detailed consideration of a number of risks is included within this exercise, which are detailed in the final valuation report and the funding strategy statement. Both of these documents will be presented for the committee's approval and adoption at the meeting on 14 March 2020.

RECOMMENDATION

35. The committee is asked to note the progress made towards the completion of the formal valuation of the fund at 31 March 2019.
36. The committee is asked to note that the final valuation report and funding strategy statement will be presented for approval at the meeting in March 2020.

BACKGROUND PAPERS

37. Isle of Wight Pension Fund Committee 15 November 2019; presentation from Hymans Robertson.
<https://www.iow.gov.uk/Meetings/committees/IW%20Pension%20Fund/15-11-19/PRESENTATION%20-%20HYMANS%20Valuation.pdf>

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