Appendix 2

Funding Strategy Statement – responses to employer comments

As required under the Local Government Pension Scheme Regulations 2018, the fund reviewed the Funding Strategy Statement (FSS), as part of the 2023 valuation process. The regulations also require that the fund must consult with employers on any changes being made.

The draft revised FSS was approved by Pensions Committee in December 2023 and issued to employers on 21 December 2023 as part of a special edition of the employer bulletin. The bulletin advised that the consultation period would run until 31 January 2024.

Officers received two official responses to the consultation. These comments and our feedback are detailed below:

- 'Regarding the change in setting of employer contribution rates; it is recognised that given the surplus at the most recent valuation, increased prudence to the likelihood of achieving the funding target has been built in, and the contribution stability mechanism has been suspended for the current valuation period. However, it is less clear how an equitable approach has been applied to the proposed reduction for stabilised employers (to pay contributions at a lower rate than previously expected) i.e. given not all long-term stabilised employers were paying the same rate, a revised common rate represents different levels of reduction relative to the current rates payable. How will this variance be addressed at the next valuation if/when the CSM is re-introduced?'

  Employer contribution rates are based on individual circumstances and as noted above, not all stabilised employers have paid the same employer contribution rate in the 2023/24 year. The 2023 valuation results have allowed the fund to propose a suspension in the contribution stability mechanism and a reduction to employer contribution rates for the three years from 1 April 2024. It is unclear however what the results will be at the next valuation and although additional prudence has been built into the valuation, there is a risk that rates may have to revert to previous levels (or higher). In applying contribution reductions, the employers with the largest membership group have seen the greatest reduction. These employers, with their larger membership base, and tax-raising powers, will be better placed to withstand any significant increases in contribution rates at the next valuation.

- 'Appendix E states "In particular, contribution rates for certain employers may be frozen to protect the accumulated surplus position at 31 March 2023". Is there a process and criteria for deciding which employers that this might apply to?'

  The fund is made of a variety of different employer types, from large Councils to small third sector bodies. The largest, most secure bodies were part of the Contribution Stability Mechanism (CSM), but smaller bodies were not. Appendix E of the FSS sets out how employer contributions are calculated. The table sets out the different employer groups and the funding bases which apply. As noted in Appendix E Employer covenant is also an important consideration and discussions with guarantors (where applicable) have also taken place.

- 'It also states in Appendix E that; "Additional prudence has been included in the calculation of employer contribution rates from 1 April 2024 by building in the potential for an asset shock of

20% - that is a reduction in the value of current assets applied proportionally across all assets held by the fund". Will this prudence be built in for future valuations or is it only for this year to take account of the better improvement in the funding position?'

The strong valuation results as at 31 March 2023 have resulted in a significant surplus at the valuation date. This result has been due to greater than expected investment returns and therefore we have taken steps to protect the fund, not only by moving some assets from more volatile equities to less risky assets, but also by ensuring that employer contribution rates set will be able to withstand an asset shock of 20%. We cannot predict the valuation results in 2026, but prudence is always a key consideration in any valuation and should a similarly strong surplus position arise in 2026, we may consider such steps again.

- 'We would like the opportunity to engage in the planned review of the stability mechanism taking place in 2024'.

  The contribution stability mechanism will be reviewed in December 2025 in advance of the 2026 triennial valuation. This will be a full review of asset liability modelling by the actuary and results and recommendations will be presented to Pensions Committee in December 2025. We will advise employers of the results and will also update our FSS to include details of how the mechanism will operate from 1 April 2027. Employers will, as always be consulted on changes to the FSS.

- 'It would be useful if someone could confirm when we might have confirmation of what the maximum change would be when the stability mechanism is reintroduced. We would need these changes to be controlled to allow planning for the increased costs that this may bring'.

  As noted above, we plan to carry out the review of the CSM in 2025 and this will allow us to complete the process in advance of the 2026 valuation which will set employer contributions for the three years from 1 April 2027. We fully understand that employer budgetary planning cycles do not align with the valuation but as always we will give as much notice as possible of changes.