Pension Committee

Monday, 20 March 2017

7.00 pm at the

Civic Offices, St Nicholas Way, Sutton SM1 1EA

Sutton

SUPPLEMENT NO.1

To all members of the Pension Committee:-

Please bring the following papers with you to the meeting:-

9. REPORTING BREACHES OF LAW (Pages 1 - 12)

This is report requests that Members consider and agree the draft Breaches of Law Policy as required by the Pension Regulator.

10. FUNDING STRATEGY STATEMENT (Pages 13 - 22)

The Fund is required to prepare and maintain a Funding Strategy Statement. This is a requirement under Regulation 58 of the Local Government Pension Scheme Regulations 2013. The statement has been developed by officers in conjunction with the Fund's actuary, Barnett Waddingham.

Niall Bolger
Chief Executive
14 March 2017

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Sutton

Report to:	Pensions Committee	**Date:**	20 March 2017
Report title:	Reporting Breaches of Law Policy		
Report from:	Gerald Almeroth, Strategic Director – Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Lyndsey Gamble, Head of Financial Strategy and Planning, 0208 770 5358		
Corporate Plan Priorities:	• A Smart Council		
Open/Exempt:	Open		
Signed:	G. Almeroth	**Date:**	14 March 2017

1. Summary

1.1. This is report requests that Members consider and agree the draft Breaches of Law Policy as required by the Pension Regulator.

2. Recommendation

The Pension Committee is recommended to:

2.1. Agree the Breaches of Law Policy attached at Appendix A.

3. Background

3.1 Under Section 70 of the Pensions Act 2004 breaches of the law which affect pension schemes should be considered for reporting to the Pension Regulator. The attached appendix sets out a draft policy for the management and reporting (where necessary) of any such breaches. This policy adheres to guidance set out by the Pension Regulator.

3.2 The approval of a policy for reporting breaches of law was a high priority recommendation made as part of the Governance Review undertaken by John Raisin during 2016.

4. Options Considered

4.1 Not applicable.

5. Impacts and Implications

Financial

5.1 The financial implications are addressed within the report.

Legal

5.2 There are no legal issues arising from this report.

6. Appendices and Background Documents

Appendix letter	Title
A	Reporting Breaches of Law Policy

Background documents
Pension Regulator Guidance on Reporting Breaches of Law

Audit Trail		
Version	Final	Date: 14 March 2017
Consultation with other officers		
Finance	Yes	Lyndsey Gamble
Legal	No	N/A
Equality Impact Assessment?	No	N/A

London Borough of Sutton Pension Fund
Policy for Reporting Breaches of Law

1. Introduction

1.1. This document sets out the policy and procedures to be followed in relation to identifying managing and where necessary reporting breaches of the law to the Pensions Regulator.

1.2. The policy reflects guidance in the Pension Regulator's Code of Practice and sets out the responsibility of Pension Committee and Local Pension Board members and officers at London Borough of Sutton.

1.3. The Strategic Director, Resources will be responsible for the management and execution of this breaches policy.

2. Duty to Report breaches of the law

2.1. Under Section 70 of the Pensions Act 2004 breaches of the law which affect pension schemes should be considered for reporting to the Pension Regulator.

2.2. Certain persons are required to report such breaches to the Pension Regulator. These persons known as 'reporters' are as follows:

- The Scheme manager (London Borough of Sutton as the Administering Authority)
- All members of the Pension Committee
- All members of the Local Pension Board
- All officers involved in the administration of the Fund
- Professional advisors including auditors, actuaries, legal advisers and investment managers
- Any person who is otherwise involved in advising managers of the Sutton Fund in relation to the LGPS

2.3. This policy only applies to elected members and officers of the Council and members of the Local Pension Board. It is for the other 'reporters' to ensure adequate procedures and policies are put in place in order to identify, assess and where necessary report breaches. Both the Committee and the Local Pension Board will take all necessary steps to consider the breach and report to the Regulator rather than having the breach solely reported by any other 'reporters'

2.4. All staff are expected to take a proactive approach to the identification, management and reporting of all breaches that have occurred or likely to occur.

2.5. The Council will maintain a log of all breaches of the law as applicable to the management and administration of the Fund.

3. What is a breach of the law?

3.1. A breach of the law is ‘an act of breaking or failing to observe a law, agreement or code of conduct’. In the context of the Local Government Pension Scheme (LGPS) it can encompass many aspects of the management and administration of the scheme, including failure:

- to do anything required under the LGPS Regulations;
- to do anything required under overriding legislation,
- applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time.

3.2. LGPS Regulations and guidance will be referred to when considering whether or not a breach has occurred. Some of the key provisions are shown at Appendix A.

4. Reporting Breaches

4.1. The decision whether to report requires two key judgements:

- Is there reasonable cause to believe there has been a breach of the law
- If so is the breach likely to be of material significance to the Pension Regulator?

4.2. It is important to understand that not every breach that is identified needs to be reported to the Regulator. For example where it can be demonstrated that appropriate action is being taken to rectify the breach, or the breach has occurred due to problems with a new or revised systems or processes, it may not be necessary to report the incident to the Regulator. It is still necessary that all incidents of breaches identified are recorded in the Council's breaches log. This log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour. Where such failings or fraudulent behaviour are identified immediate action will be taken to agree and put in place a plan of action to rectify the matter and prevent such an occurrence in the future.

5. Deciding whether the breach is likely to be of material significance

5.1. To decide whether a breach is likely to be of material significance the following factors should be considered:

- Cause of the breach (what made it happen e.g. dishonesty, poor governance, incomplete or inaccurate advice or acting (or failing to act) in deliberate contravention of the law)
- Effect of the breach (the consequences of the breach)
- Reaction to the breach (e.g. taking prompt and effective action to investigate and correct the breach and its causes and where appropriate to notify any members whose benefits have been affected)
- Wider implications of the breach (e.g. is it likely to happen again due to a lack of knowledge and understanding or inadequate systems)

5.2. A decision tree has been provided by the Regulator to assist schemes in identifying the significance of the breach and whether it should be reported. This is shown at Appendix B. The decision tree provides a 'traffic light' framework of categorising an identified breach and should be used to guide a decision.

5.3. A breach is in the green category because all of the following apply:

- It was not caused by dishonesty, poor scheme governance, poor advice or by a deliberate contravention of the law
- Its effect is not significant
- Proper steps are being taken to put matters right
- It does not have wider implications

5.4. A breach is categorised as red because one or more of the following applies:

- It was caused by dishonesty, poor scheme governance, poor advice or by deliberate contravention of the law
- Its effect is significant
- It has wider implications

5.5. A breach is categorised as amber if it does not fall obviously into the red or green classification. The decision whether or not to report will require a balanced judgement based on the breach’s cause, its effect, the reaction of the trustees and others to it and any wider implications it may have. In this context, other previously reported or unreported breaches will be relevant in determining the most appropriate course of action.

6. Process for reporting breaches

6.1. All relevant officers and elected members of the Council, as well as all members of the local pension board have a responsibility to:

- identify and assess the severity of any breach or likely breach;
- in conjunction with relevant colleagues agree a proposed course of action to rectify the breach and put in place measures to ensure the breach does not re-occur, obtaining appropriate legal or other advice where necessary;
- ensure that the appropriate corrective action has been taken to rectify the breach or likely breach and to prevent it from recurring;
- co-operate with, and assist in, the reporting of breaches and likely breaches to the Pension Committee, local pension board and where necessary the Regulator.

7. Responsibilities of the responsible officer

7.1. The Council will appoint one of its senior officers to be responsible for the management and execution of this breaches policy. That officer will be the Strategic Director, Resources. The Strategic Director, Resources will be responsible for recording and reporting breaches and likely breaches as follows:

- record all identified breaches and likely breaches of which they are aware in the Council’s breaches log;
- investigate the circumstances of all reported breaches and likely breaches;

- ensure, where necessary that an action plan is put in place and acted on to correct the identified breach and also ensure further breaches of a similar nature do not re-occur;
- Notify by email the Pension Committee and Local Pension Board of all materially significant breaches or likely breaches that will require reporting to the Regulator as soon as practicable, but no later than one month after becoming aware of the breach or likely breach. Report all other breaches at least quarterly as part of the Committee cycle.
- report all materially significant breaches to the Regulator as soon as practicable but not later than one month after becoming aware of the breach.

7.2. The Strategic Director, Resources will determine whether any breach or likely breach is materially significant, having regard to the guidance set out in the Code of Practice and where considered appropriate the Pension Committee and Local Pension Board. Where uncertainty exists as to the materiality of any identified breach the Council or Local Pension Board will be required to informally notify the Regulator of the issue and the steps being taken to resolve the issue.

8. Making a report to the Regulator

8.1. Once a breach or likely breach has been identified, regardless of whether it needs to be reported to the Regulator, the relevant manager, in consultation with the Strategic Director, Resources must review the circumstances of the breach in order to understand why it has occurred, the consequences of the breach and agree corrective measures required to prevent re-occurrence including an action plan where necessary. All breaches must be recorded in the Council's breaches log.

8.2. Reports to the Regulator will be overseen by the Strategic Director Resources and will include as a minimum:

- The name of the scheme
- Description of the breach or breaches
- Any relevant dates
- Name of the employer or scheme manager
- Name position and contact details of the reporter
- Role of the reporter in relation to the scheme

8.3. The following information will be included within the report:

- Reason the breach is thought to be of material significance to the Pension Regulator
- Scheme address
- Scheme Manager contact details
- Pension scheme registry number (insert number)
- Address of employer

8.4. Failure to comply with the obligation imposed by the requirement to report breaches of law without ‘reasonable excuse’ is a civil offence that can result in civil penalties.

9. Whistleblowing

9.1. It is a statutory duty to report breaches of the law. In rare cases this may involve a duty to whistleblow on the part of an employee of the Council or a member of the Local Pension Board. The duty to report does not override any other duties a “reporter” may have, such as confidentiality. Any such duty is not breached by reporting to the Regulator. Given the statutory duty that exists, in exercising this breaches policy the Council will ensure it adheres to the requirements of the Employment Rights Act 1996 in protecting an employee making a whistleblowing disclosure to the Regulator. The duty to report, however, does not override ‘legal privilege’, so oral and written communications between the Council or Local Pension Board and a professional legal adviser do not have to be disclosed.

10. Training

10.1. The Strategic Director, Resources will ensure that all relevant officers and elected members, as well as members of the Local Pension Board receive appropriate training on this policy at the commencement of their employment or appointment to the local pension board as appropriate and on an ongoing basis.

10.2. This policy will be kept under review and updated as considered appropriate by the Strategic Director, Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

10.3. If you require further information about reporting breaches or this procedure, please contact:

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Andy Banham

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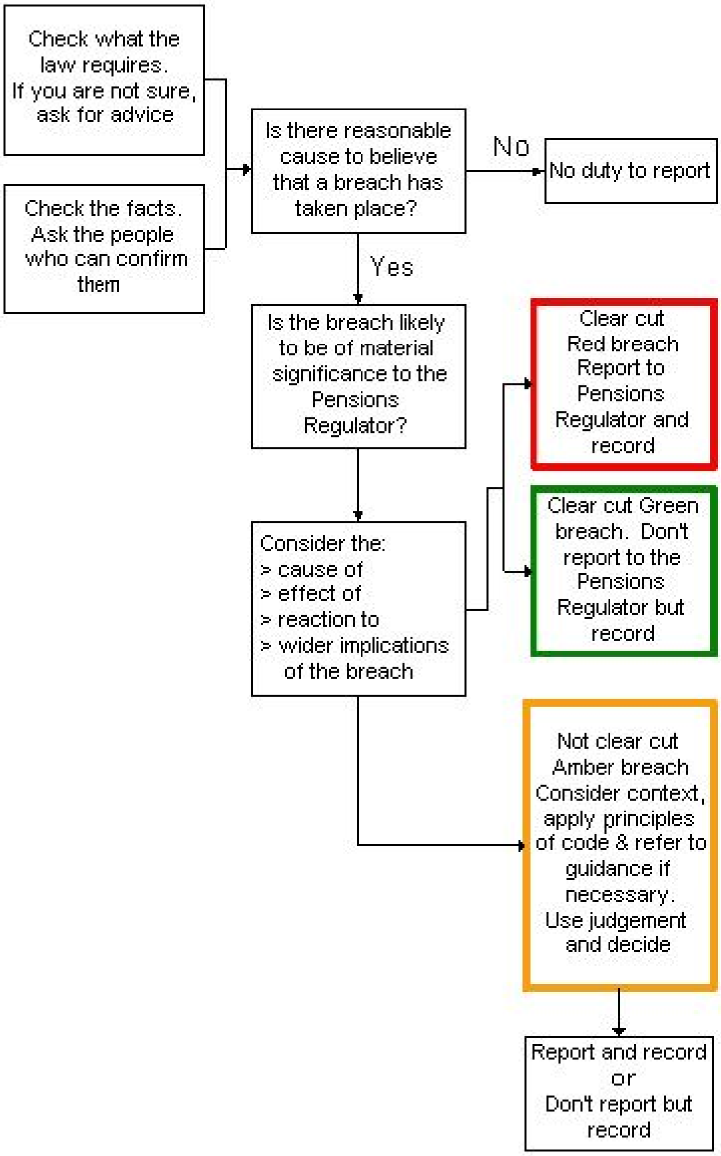
Appendix A: LGPS Regulation, legislation & Guidance

LGPS Legislation
Section 70 of the Pensions Act 2004
Section 228(2) of the Pensions Act 2004
Part 3 of the Pensions Act 2004
Section 69 and section 120 of the Pensions Act 2004
Pensions Act 1995
Section 47(4) of the Pensions Act 1995
The Employment Rights Act 1996
Section 311

Appendix B: Pension Regulator Decision Tree



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Sutton

Report to:	Pension Committee	**Date:**	20 March 2017
Report title:	Funding Strategy Statement		
Report from:	Gerald Almeroth, Strategic Director – Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Lyndsey Gamble, Head of Financial Strategy and Planning, 0208 770 5358		
Corporate Plan Priorities:	• A Smart Council		
Open/Exempt:	Open		
Signed:	G. Almeroth	**Date:**	14 March 2017

1. Summary

1.1 The Fund is required to prepare and maintain a Funding Strategy Statement. This is a requirement under Regulation 58 of the Local Government Pension Scheme Regulations 2013. The statement has been developed by officers in conjunction with the Fund's actuary, Barnett Waddingham.

2. Recommendations

It is recommended that the Pension Committee:

2.1 Approve the Funding Strategy Statement as attached at Appendix A.

3. Background

3.1 Under regulation 58 of the Local Government Pension Scheme Regulations 2013 the fund is required to prepare and maintain a Funding Strategy Statement (FSS). The draft statement is attached at Appendix A. The FSS describes the London Borough of Sutton's strategy, in its capacity as administering authority, for the funding of the London Borough of Sutton Pension Fund.

3.2 The statement has been prepared by officers in conjunction with the Fund's actuary Barnett Waddingham and with reference to the latest guidance provided by CIPFA on preparing and maintaining a FSS. The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or Investment Strategy Statement

(ISS). As a minimum the FSS should be reviewed and revised where necessary at each triennial valuation of the fund.

3.3 The London Borough of Sutton Pension Fund FSS has been reviewed following the introduction of the new ISS being considered elsewhere on this agenda of the Pension Committee.

4 Impacts and Implications

Financial

4.1 There are no direct financial implications.

Legal

4.2 The Fund is required to prepare and maintain the Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013.

4. Appendices and Background Documents

Appendix Letter	**Title**
A	Draft Funding Strategy Statement

Background Documents
CIPFA guidance -Preparing & maintaining a funding strategy statement in the LGPS (2016 edition)

Audit Trail		
Version	Final	Date: 13 March 2017
Consultation with other officers		
Officer	**Comments Sought**	**Comments checked by**
Finance	Yes	Lyndsey Gamble
Legal	N/A	N/A

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London Borough of Sutton Pension Fund Funding Strategy Statement

Introduction

This is the Funding Strategy Statement for the London Borough of Sutton Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes the London Borough of Sutton's strategy, in its capacity as administering authority, for the funding of the London Borough of Sutton Pension Fund (the Fund).

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP) and has been prepared with regard to the guidance issued by CIPFA.

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;
- Ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purposes of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purposes of the Fund are to:

- Pay pensions, lump sums and other benefits provided under the Regulations;
- Meet the costs associated in administering the Fund; and

- Receive contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective.

Key parties

The key parties involved in the funding process and their responsibilities are as follows:

The administering authority

The administering authority for the Fund is London Borough of Sutton. The main responsibilities of the administering authority are to:

- Operate the Fund;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS/SIP after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme Employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers, including admission bodies, participate in the Fund.

The responsibilities of each Scheme employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation on the Fund.

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. A summary of the methods and assumptions adopted is set out in the sections below.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

Funding method

The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date ("past service") and benefits in respect of service expected to be completed after the valuation date ("future service"). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year's benefit accrual.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

Future pay inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March

2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate. The discount rate adopted for the 31 March 2016 valuation was 5.2% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

Asset valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical assumptions

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

2016 valuation results

As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 80% funded, corresponding to a deficit of £129m.

The primary rate required to cover the employer cost of future benefit accrual was 17.2% of payroll p.a.

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Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

The recovery periods adopted for the employers in the Fund for the 2016 valuation varied by employer but was not to exceed 19 years. The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise the responsibility of particular historic liabilities.

Cessation valuations

When an employer exits the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links with the Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP)

The main link between the Funding Strategy Statement (FSS) and the ISS/SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS/SIP.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.