STAFFORDSHIRE LOCAL GOVERNMENT PENSION FUND

FUNDING STRATEGY STATEMENT

March 2008

1. Introduction

This is the Funding Strategy Statement (FSS) of the Staffordshire Local Government Pension Fund (“the Fund”), which is administered by Staffordshire County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2008.

1.1 Regulatory Framework

Employees’ accrued benefits are guaranteed by statute. Employees’ contributions are fixed in Local Government Pensions Scheme (LGPS) Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time.

In publishing the FSS the authority has to have regard to any guidance published by CIPFA and to the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years as part of of the triennial valuation. This FSS is relevant for the 2007 valuation and is expected to remain unaltered until it is consulted upon prior to the next valuation in 2010. The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including; the Statement of Investment Principles, Governance and Communications strategies. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at
http://www.staffordshire.gov.uk/yourcouncil/humanresources/retirement/

If you have any other queries please contact John Wood, Assistant Director Technical and Pensions in the first instance at e-mail address john.wood@staffordshire.gov.uk or on telephone number (01785 276335).

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions from employees and employers, transfer payments from other funds as staff transfer their pension rights and income or capital growth from the Fund's investments;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Appendix A.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment;

- to ensure that employer contribution rates are stable;

- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;

- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate if there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. There is currently a deficit on the Fund (see 3.7.1 below for deficit recovery periods)

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.6.

Details of the outcome of the Actuarial Valuation as at 31 March 2007 can be found in Appendix B including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can be found at Appendix C.

Any costs of non ill-health early retirements may be paid by instalments shortly after the decision in accordance with the Administering body's requirements set out in 3.9.1 below

Note that following the 2004 Actuarial Valuation the maximum period over which the cost of 'stain' could be spread was reduced from 7 years to 5 years on advice from the actuary and this is kept under review at each valuation.

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

The overall solvency of the Fund at the 2007 valuation is 89% which compares with 85% at the 2004 valuation.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the actuary. It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. Allowance has been made for improvements in line with PMA92/PFA92 series projections up to calendar year 2033 for prospective pensioners and 2017 for current pensioners, with age ratings applied to fit past LGPS experience. Contributions may increase in future if life expectancy exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for an anticipated out-performance of returns from equities relative to Government bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken.

For the purpose of the triennial funding valuation at 31 March 2007 and setting contribution rates effective from 1 April 2008, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than the return available from investing in government bonds at the time of the valuation (this compares with 1.74% used at the 2004 valuation). The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset out-performance assumption (AOA) of 1.6% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation see 3.6.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;

- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation where Hymans Robertson calculates asset shares – see section 3.6 below, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies e.g. District Councils, Fire, Police, Probation.	20 years
Best Value Admission Bodies e.g. contractors	The period from the commencement date of revised contributions (April 2008 for the 2007 valuations) until the end of the Remaining Working Lifetime of employee members (subject to an acceptable covenant).
Bodies with either no or very few active members at this valuation	Deficit to be recovered by a fixed monetary amount over a period to be agreed with the body or its successor not to exceed 10 years.
All other types of employer	15 years

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

As part of the overall Funding Strategy it was agreed to adopt a 'stabilisation mechanism' that limits increases and reductions in contribution rates for public sector bodies see 4.1 below.

3.7.3 *Phasing in of Contribution Rises*

With the exception of Best Value Admission Bodies employers may opt to phase in contribution rises as follows:

- for major tax raising bodies up to 6 years
- bodies who have no active members at this valuation will not be phased but are subject to the special arrangement referred to in table 3.7.1 above
- all other bodies 3 years

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions will be subject to the 'stabilisation mechanism' set out in 4.1 below for public sector bodies. Other bodies including Best Value Admission Bodies can take the reduction with immediate effect.

3.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2004 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Best Value Admission Bodies are usually also ineligible for pooling.

Employers who are eligible for pooling at the 2007 valuation will be advised of their contribution rate and that it is subject to a pooling arrangement unless they seek in writing to be excluded from the pool.

3.7.6.2 Other Contribution Pools

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers that have been pooled are identified in the Rates and Adjustments Certificate, which can be found in Appendix 3.

3.8 Admission Bodies Ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a termination valuation to determine whether there is any deficit or surplus.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Best Value Admission Bodies, the assumptions applying at the contract end would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a lump sum payment unless there are alternative sources of funds such as guarantees or bonds in place. Note that the County Council would usually expect new Community Admission Bodies to have a guarantee in place.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies – up to 5 years

Admission Bodies – Community Admission Bodies up to 3 years

Best Value Admission Bodies - payable immediately.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 Ill health monitoring

Admitted Bodies will usually have an 'ill health allowance'. Under these circumstances, the Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

4. Funding Strategy and Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Funding Strategy

The Funding Strategy is intended to achieve the Fund's objectives set out in 2.3 above. The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves). This conflicts with the objective to have stable contribution rates.

4.1.1 Key Objectives

The Actuary has developed four key measures which captures the essence of the Fund's objectives;

A) Affordability – how much can employer's afford

B) Stability – employers should not see significant moves in their contribution rates to provide a more stable budgeting environment

C) Prudence - the fund should have a reasonable expectation of being fully funded in the long term

D) Stewardship – the assumptions used should be sustainable in the long term.

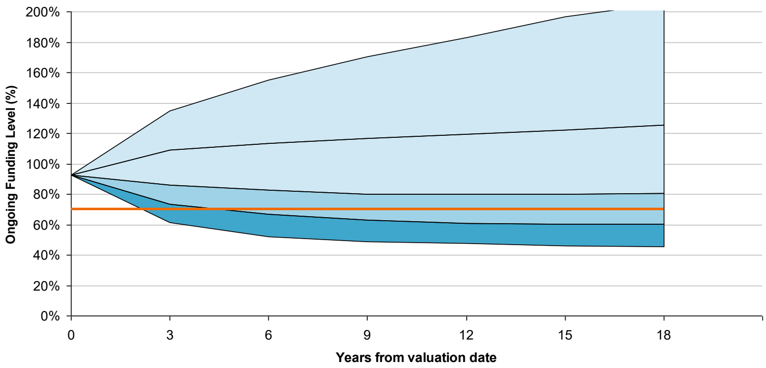
4.1.2 Asset Liability Modelling

The Actuary was able to model the impact of these four key areas using a range of investment mixes ranging from over 70% in equity (current) to 24% in equity.

The Actuary also looked at explicitly capping the increase in major employer contribution rates at 0.5% per annum in order to achieve stability and to provide a more certain budgeting environment.

The modelling demonstrated that retaining the present equity weighting together with the capped increases for major employers produced the following expected funding outcome over 18 years.

Chart to show potential funding outcomes with preferred strategy



Note the middle black line is the median outcome i.e. 50% chance the fund would be around 120% funded after 18 years.

After consulting with employers the Administering Authority concluded that this was the option that best balanced the differing objectives.

4.1.3 Funding Strategy Conclusion

The funding strategy therefore comprises several different elements;

A) a range of prudent assumptions that underpin the valuation of which the main ones are;

Asset out performance 1.6%

Deficit Recovery as set out in 3.7.1 above

Prudent assumption on mortality

Other financial assumptions set out in Appendix B

B) an investment mix based on over 70% in equity

C) an explicit stabilisation of contribution rates for public sector bodies which limits the increase at the valuation to a maximum 1.5% and limits reductions to no more 2%. Note this would not apply to public sector bodies either with closed schemes or small/declining numbers of active members.

4.2 Investments

The Administering Authority will determine the detailed asset allocation consistent with the overall asset allocation determined as part of the funding strategy. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP).

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.3 Consistency with Funding Basis

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 2.1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Balance between Risk and Return

The balance between risk and reward has been considered as part of the consultation on the funding strategy and has been informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.5 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance and monitors the relative funding position relative to the growth in the liabilities. It reports back to employers through the Employer's Consultative Forum.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between valuations at whole fund level.*
Inappropriate long-term investment strategy.	*Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option consider to provide the best balance.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark.	*Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.*

5.2 Financial Risks Continued

Risk	**Summary of Control Mechanisms**
Pay and price inflation significantly more than anticipated.	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*An explicit stabilisation mechanism has been agreed as part of the funding strategy.*

5.3 Demographic Risks

Risk	**Summary of Control Mechanisms**
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *The Fund Actuary has direct access to the experience of over 50 funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the Valuation.*
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	*Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.*

5.3 Demographic Risks Continued

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	*Employers are charged the extra cost of non ill-health retirements following each individual decision.* *Employer ill health retirement experience is monitored.* *Government changes to regulations to increase the minimum pension age from 50 to 55 and to have a normal retirement age of 65 by abolishing the 'rule of 85'.*

5.4 Regulatory Risks

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*
Changes to national pension requirements and/or HMRC rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of the rule of 85, new look scheme from 1 April 2008.	*The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.* *The cost of the revised Local Government Pension Scheme effective from 1 April 2008 has been built into the 2007 valuation assumptions including the implications of the 'rule of 85' and commutation.*

5.5 Governance Risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	*The Administering Authority has a close relationship with employing bodies and has published an Administration Strategy setting out service standards.* *The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit contributions may be expressed as monetary amounts.*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	*The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the scheme from various risks.* • *Requiring new Community Admission Bodies to have a guarantor.*

Appendix A

Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Appendix B

Outcome of the Triennial Valuation as at 31 March 2007

CONTRIBUTION RATES FUND LEVEL (NB see Appendix C for individual rates)

Employer Contribution Rates	31 March 2007 % pensionable payroll	31 March 2004 % pensionable payroll
Total future service cost	**20.1%**	**17.0%**
Employee contributions (excluding AVC's)	**6.4%**	**6.0%**
Expenses	**0.4%**	**0.5%**
Net employer future service cost	**14.2%**	**11.5%**
Past service adjustment – 15 year spread	**4.1%**	**4.7%**
Employer contribution rate	**18.3%**	**16.2%**

FUNDING POSITION

Funding Position (£m)	31-Mar-07	31-Mar-04
A. Value of Assets	**2,331.7**	**1,512.9**
Assessed cost of past service benefits in respect of:		
Employee members	1342.9	915.4
Pensioner members	977.9	687.8
Deferred pensioner members	310.1	178.7
B. Total assessed cost of past service benefits	**2630.8**	**1781.9**
Funding surplus (shortfall) (A minus B)	**(299.1)**	**(269.0)**
Funding level (A as a percentage of B)	**89%**	**85%**

Key financial assumptions

Assumption	Derivation	31 March 2007	31 March 2004
Price Inflation (RPI)	**Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date**	**3.2%**	**2.9%**
Pay Increases	**Assumed to be 1.5% p.a. in excess of price inflation**	**4.7%**	**4.4%**
'Gilt based' discount rate	**The yield on fixed interest (nominal) and index-linked (real) Government bonds**	**4,5%**	**4.7%**
Funding basis discount rate	**Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds for 2007 and 1.74% p.a. above the yield on fixed interest Government bonds for 2004**	**6.1%**	**6.5%**
Real yield	**Funding basis discount rate minus price inflation**	**2.9%**	**3.6%**

Life Expectancy Assumptions

	Assumptions to assess funding position and 'gilt based' position at 31 March 2007		**Assumptions to assess funding position as at 31 March 2004**	
Males (M) or Females (F)	**M**	**F**	**M**	**F**
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	**19.6**	**22.5**	**18.4**	**21.3**
Average future life expectancy (in years) for a non-pensioner aged 45 at the valuation date	**20.7**	**23.6**	**18.4**	**21.3**
Average future life expectancy (in years) at age 45 for a non-pensioner aged 45 at the valuation date	**40.1**	**43.0**	**37.2**	**40.2**

APPENDIX C

EMPLOYER CONTRIBUTION RATES FROM 1 APRIL 2008

Employer Code	Employer	Minimum Contributions for the year ending			Deficit Spread Period
		31 March 2009	31 March 2010	31 March 2011	
	Major Scheduled Bodies				
101	Staffordshire County Council	16.1%	16.6%	17.1%	20
102	Staffordshire Moorlands District Council	13.0%	14.4%	15.8%	20
103	Newcastle Borough Council	19.4%	20.5%	21.7%	20
104	Stoke City Council	15.0%	15.5%	16.0%	20
105	Stafford Borough Council	13.2%	14.5%	15.8%	20
106	East Staffordshire Borough Council	13.2%	14.6%	16.1%	20
107	South Staffordshire District Council	13.2%	14.7%	16.3%	20
108	Cannock Chase District Council	16.6%	17.7%	18.9%	20
109	Lichfield District Council	16.2%	16.7%	17.1%	20
110	Tamworth Borough Council	15.2%	16.4%	17.6%	20
	Other Employing Authorities				
111	Staffordshire Probation Service	18.4%	18.4%	18.4%	15
174	Stoke On Trent Education Action Zones	27.0%	41.0%	55.0%	15
198	Stoke & Staffs Combined Fire Authority	14.8%	15.3%	15.8%	20
199	Staffordshire Police Authority	13.6%	14.1%	14.6%	20
	Schools and Further Education Establishments				
150	Staffordshire University	16.2%	16.7%	17.2%	15
151	Sixth Form College - Stoke On Trent	12.7%	13.2%	13.7%	15
152	Leek College of FE and School of Art	11.9%	12.4%	12.9%	15
153	Newcastle Under Lyme College	11.0%	11.5%	12.0%	15
154	Stoke On Trent College	12.5%	13.0%	13.5%	15
155	Stafford College	13.5%	14.0%	14.5%	15
156	Burton On Trent Technical College	14.1%	14.6%	15.1%	15
157	Rodbaston College	12.8%	13.3%	13.8%	15
158	Cannock Chase Technical College	12.9%	13.4%	13.9%	15
160	Tamworth & Lichfield Colleges	12.5%	13.0%	13.5%	15
161	St Thomas More Catholic College	14.8%	15.3%	15.8%	20
162	Cannock Chase High School	16.1%	16.6%	17.1%	20
163	Rising Brook High School	16.1%	16.6%	17.1%	20
164	Cardinal Griffin RC School	16.1%	16.6%	17.1%	20
165	Chasetown High School	16.1%	16.6%	17.1%	20
166	Hollinsclough CE Primary School	16.1%	16.6%	17.1%	20
167	St Mildred's CE Primary School	16.1%	16.6%	17.1%	20
168	The Corbett Primary School	16.1%	16.6%	17.1%	20
169	Anglesey Primary GM School	16.1%	16.6%	17.1%	20
170	St Benedict Biscop CE Primary School	16.1%	16.6%	17.1%	20
194	St Joseph's College Stoke	14.8%	15.3%	15.8%	20
	Minor Employers (Pool)				
113	Staffordshire & Shropshire Valuation Panel	12.7%	13.8%	15.0%	15
115	Cheadle Town Council	12.7%	13.8%	15.0%	15
119	Burntwood Town Council	12.7%	13.8%	15.0%	15

Employer Code	Employer	Minimum Contributions for the year ending			Deficit Spread Period
		31 March 2009	31 March 2010	31 March 2011	
121	Great Wyrley Parish Council	12.7%	13.8%	15.0%	15
124	Shoal Hill Common Joint Committee	12.7%	13.8%	15.0%	15
129	Bretby Cremation Joint Committee	12.7%	13.8%	15.0%	15
130	Uttoxeter Town Council	12.7%	13.8%	15.0%	15
136	Lichfield City Council (Former Charter Trustees)	12.7%	13.8%	15.0%	15
140	Penkridge Parish Council	12.7%	13.8%	15.0%	15
141	Wombourne Parish Council	12.7%	13.8%	15.0%	15
142	Stone Town Council	12.7%	13.8%	15.0%	15
146	Brereton & Ravenhill Parish Council	12.7%	13.8%	15.0%	15
147	Codsall Parish Council	12.7%	13.8%	15.0%	15
148	Kinver Parish Council	12.7%	13.8%	15.0%	15
149	Brewood and Coven Parish Council	12.7%	13.8%	15.0%	15
171	Lapley, Stretton & Wheaton Aston Parish Council	12.7%	13.8%	15.0%	15
172	Perton Parish Council	12.7%	13.8%	15.0%	15
173	Rolleston On Dove Parish Council	12.7%	13.8%	15.0%	15
175	Shenstone Parish Council	12.7%	13.8%	15.0%	15
176	Hednesford Town Council	12.7%	13.8%	15.0%	15
177	Essington Parish Council	12.7%	13.8%	15.0%	15
178	Kings Bromley Parish Council	12.7%	13.8%	15.0%	15
183	Kidsgrove Town Council	12.7%	13.8%	15.0%	15
184	Eccleshall Parish Council	12.7%	13.8%	15.0%	15
185	Madeley Parish Council	12.7%	13.8%	15.0%	15
186	Cheddleton Parish Council	12.7%	13.8%	15.0%	15
188	Biddulph PC	12.7%	13.8%	15.0%	15
189	Horninglow and Eaton PC	12.7%	13.8%	15.0%	15
190	Colwich PC	12.7%	13.8%	15.0%	15
191	Draycott in the Clay PC	12.7%	13.8%	15.0%	15
192	Alrewas & Fradley with Streethay Parish Council	12.7%	13.8%	15.0%	15
197	Rugeley Town council	12.7%	13.8%	15.0%	15
	Admitted Bodies				
216	Community Council of Staffordshire	17.2%	18.2%	19.1%	15
218	Keele University	31.9%	34.7%	37.5%	15
287	South Staffordshire Housing Association	18.2%	19.2%	20.2%	15
289	Homezone Housing Ltd (Lichfield)	15.8%	17.3%	18.7%	15
291	Connexions Staffordshire	11.8%	12.8%	13.8%	15
292	Moorlands Housing	15.1%	15.7%	16.4%	15
293	Aspire Housing Ltd (Newcastle)	14.9%	15.7%	16.6%	15
296	Trent & Dove Housing Association	14.5%	15.7%	16.9%	15
	Individual Employers				
187	Audley Rural Parish Council	8.6%	4.3%	0.0%	15
295	Stafford and Rural Homes	15.2%	15.2%	15.2%	15
300	Morrisons Facilities	10.2%	10.2%	10.2%	Contract
310	Mencap	11.8%	11.8%	11.8%	Future Working Lifetime
317	J & S Seddon (Building) Ltd	0.0%	0.0%	0.0%	Contract
320	Vale Contract Services Ltd	0.0%	0.0%	0.0%	Contract
332	JDM Accord Ltd (ex 103)	0.0%	0.0%	0.0%	Contract

Employer Code	Employer	Minimum Contributions for the year ending			Deficit Spread Period
		31 March 2009	31 March 2010	31 March 2011	
333	JDM Accord Ltd (ex 105/106/108)	0.0%	0.0%	0.0%	Contract
360	Inspace Partnerships	7.0%	0.0%	0.0%	Contract
378	Flow Foods Ltd	15.6%	15.6%	15.6%	Contract
380	Connaught Property Services Ltd	0.0%	0.0%	0.0%	Contract
381	Walbrook Group Ltd	13.9%	14.9%	16.0%	15
	Employers with no Actives				
112	West Midlands (West) Local Valuation Panel				
114	Staffordshire Magistrates Courts Service				
120	Rent Officers (Non-Clerical Staff)				
122	National Health Service (Rec)				
123	Water Authorities (Rec)				
125	Walsall District Council (A-B UDC) (Rec)				
131	Dudley District Council (Rec)				
137	West Midlands (Prop of Former SCC) (Rec)				
138	Walsall DC (Prop of Former SCC) (Rec)				
180	DETR (Ex RCU Staff) (Rec)				
181	DETR (Former LTL Staff - SCC & ESDC) (Rec)				
182	DETR (Former LTL Staff - Stoke)				
226	West Midlands Regional Arts Board				
227	West Midlands Arts Association				
228	Dr Barnardos - Druids Heath School				
233	South Staffordshire Waterworks Company				
234	West Midlands Development Agency				
235	Biddulph Swimming Pool Joint Committee				
243	Newcastle Under Lyme School				
290	Poplars Resource Man Co Ltd				
	Employers with no further interest in the Fund				
132	Wolverhampton District Council (Rec)				
139	Birmingham District Council (Anstey College) (Rec)				
144	Rocester Parish Council				
145	Burton Charter Trustees				
179	West Midlands Regional Forum (Rec)				
217	Lichfield Diocesan Association for Moral Welfare				