

Pension Fund Committee

11 March 2021

Pension Fund Policy Documents – Funding Strategy Statement



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 To inform Members of the draft of the revised Funding Strategy Statement which must go out to consultation with Pension Fund employers.

Executive summary

- 2 The Local Government Pension Scheme (LGPS) Regulations require the Fund to maintain and publish a Funding Strategy Statement (FSS). The FSS has been amended to reflect the approach recommended by the Actuary in respect of MHCLG's partial response to its 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation.

Recommendation(s)

- 3 Members are asked to:
 - (a) note the report and to advise of any comments they may have on the draft FSS set out in the appendices to this report, and;
 - (b) authorise the Corporate Director of Resources to finalise the wording of, and publish the FSS; and to expand the existing Exits Policy in respect of employer flexibilities, taking into account where appropriate both professional advice as well as comments received from employers.

Background

- 4 Regulation 58 of the Local Government Pension Scheme Regulations 2013 ('the LGPS regulations') requires Local Government Pension Schemes (LGPS) administering authorities to prepare, maintain and publish a 'Funding Strategy Statement' (FSS).
- 5 The key requirements for preparing the FSS can be summarised as follows:

After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy; In preparing the FSS, the Authority must have regard to:

 - i. the guidance issued by the Chartered Institute of Public Finance (CIPFA) for this purpose; and
 - ii. their own Investment Strategy Statement (ISS)
 - iii. 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 the ISS
- 6 On 8 May 2019 MHCLG launched its LGPS consultation 'Changes to the local valuation cycle and the management of employer risk'. To date there have been two partial responses to the consultation covering separately Exit Credits and Employer contributions and Exit Payments.
- 7 On 27 February 2020 the Local Government Pension Scheme (Amendment) Regulations 2020 were laid before parliament. They come into force on 20 March 2020, but have effect backdated to 18 May 2018. The amended rules give LGPS funds a discretion to determine the amount of exit credits when a participating employer leaves the fund in surplus. The Fund formulated an Exit Credit policy in response to the Amendment Regulations.
- 8 In August 2020 MHCLG issued a partial consultation response in respect of Employer contributions and Exit Payments. Statutory Guidance following MHCLG's response will allow administering authorities, where appropriate, to revise scheme employer contributions between valuations, spreading of Exit Payments and Deferred Debt Agreements.
- 9 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the 2016 investment regulations'), which took effect from 1 November 2016 require administering authorities, after taking proper advice, to prepare and publish a written statement setting out their investment strategy in relation to the Fund – the 'Investment Strategy Statement' (ISS). The ISS needs to be prepared in

accordance with guidance issued from time to time by the Secretary of State.

- 10 A revised draft FSS is included at Appendix 1.

Funding Strategy Statement

- 11 The Pension Fund Actuary has been closely involved in the preparation of draft revisions to the FSS, which reflects the funding approach taken to the latest triennial valuation, as at 31 March 2019. Significant changes from the previous version of the FSS are as follows:
 - (a) Amending the wording of the FSS to allow for the revision of scheme employer contributions between valuations where appropriate, once finalised Statutory Guidance is issued
 - (b) Amending the wording of the FSS to allow for spreading of Exit Payments where appropriate, once finalised Statutory Guidance is issued
 - (c) Amending the wording of the FSS to allow for Deferred Debt Agreements where appropriate, once finalised Statutory Guidance is issued
 - (d) Addition of Climate Change to Investment Risks
 - (e) Reference to covid-19 in respect of Employer Risks
 - (f) Update to Regulatory Risk

- 12 It is proposed that the FSS is finalised after Statutory Guidance is issued and after consultation with Pension Fund employers once Statutory Guidance, and that the Fund's existing Exit Credits policy is expanded to outline the approach to the employer flexibilities after further consultation with the Fund's Actuary.

Next Steps

- 13 The amended FSS will be sent to all Pension Fund employers following the Committee's Meeting of 11 March, with a request for comments within two weeks.
- 14 Officers to expand the existing Exits Policy in consultation with the Actuary and share finalised version with Committee for comment, before circulating the finalised policy to all participating employers.

Author(s)

Paul Cooper

Tel: 03000 269 798

Appendix 1: Funding Strategy Statement
