Pension Fund Committee

16 March 2022

Pension Fund Policy Documents – Funding Strategy Statement

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To inform Members of the draft of the revised Funding Strategy Statement which has been out to consultation with Durham County Council 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 for the 2022 valuation as well as changes in the legislative environment.

Recommendation(s)

3 Members are asked to:

(a) note the report and to advise of any comments they may have on the draft FSS and Employer Flexibilities Policy set out in the appendices to this report, and;

(b) authorise the Corporate Director of Resources to finalise the wording of the FSS and Employer Flexibilities Policy.

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 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.

9 A red-line copy of the draft FSS is included at Appendix 1 and a red-line copy of the proposed Policy on Employer Flexibilities and Exits is included in Appendix 2 – this Policy consolidates policies on Flexibilities and Exits which the Fund previously formulated in separate documents.

Funding Strategy Statement

10 The Pension Fund Actuary has been closely involved in the preparation of the revised FSS, which reflects the funding approach taken to the latest triennial valuation, as at 31 March 2022. Significant changes from the previous version of the FSS are as follows:

- Setting out the proposed Probability of Funding of Success, of 76%.
- Setting out the approach to allowing for the anticipated McCloud remedy.
- Proposing the introduction of climate change scenario analysis in the 2022 valuation report, as required by Government Actuary's Department (GAD).
- Reflecting changes to the legislative environment, including the change from MHCLG to DLUHC, the cost management process, and removal of public sector exit payments cap.
- Deletion from the FSS matters which are set out separately in the Employer Flexibilities Policy.
- Setting out the Fund’s approach to surplus amortisation.

Next Steps

11 The draft FSS was sent (Appendix 3) to all Pension Fund employers on 15 February 2023 with a request for comments by 3 March 2023. No comments have been received. Officers of the Fund will therefore finalise the draft FSS, subject to comments from the Committee, in consultation with the Fund Actuary.

12 Additionally, there are occasions when participating employers do not inform the Fund of an outsourcing with enough time for the Fund Actuary to calculate an employer contribution rate for the new admission body. To calculate such a rate data needs to be obtained and passed to the Fund Actuary to calculate a new contribution rate for the new admission body

13 Officers are therefore in discussion with the Fund Actuary regarding the possibility of setting such new admission bodies an interim contribution rate that can be used in the short term in such situations, alongside other alternative approaches. This would allow the new admission body to pay contributions until such time as the full calculation of their specific contribution rate is completed. An addition would be needed to the Employer Flexibilities Policy to allow for this - Officers are consulting with the Fund Actuary regarding the required wording.

14 Final versions of both the FSS and the Employer Flexibilities Policy will be circulated by 31 March 2023, together with the Fund Actuary's 2022 Valuation Report. Separately, the ISS may need to be revised, in line with any agreed changes to the Fund's investment strategy.

Author(s)

Paul Cooper Tel: 03000 269 798