

Pension Fund Committee

5 March 2012



Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

Report of Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To inform Members of the review of the policy documents for the year ended 31 March 2012.

Background

- 2 The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities are required to have prepared a Funding Strategy Statement (FSS).
- 3 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 CIPFA for this purpose; and
 - ii. their own Statement of Investment Principles (SIP) for the Fund.
 - 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 Statement of Investment Principles.
- 4 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the "Regulations") which require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund – the 'Statement of Investment Principles' (SIP).
- 5 The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously the Chartered Institute of Public Finance (CIPFA)

Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom.

Review of the FSS and SIP

- 6 The FSS should be reviewed regularly and when there is a material change to the SIP. The FSS is the framework within which the Fund's actuary carries out triennial valuations to set contribution rates for individual scheme employer contribution rates. As the triennial valuation was completed at 31 March 2011, changes to the FSS are now required.
- 7 The changes are as suggested by the Actuary to reflect the 2010 Valuation process and are as follows:

Section	Change
Statutory background and key issues	Updated references for current regulations
Purpose and aims of the Fund	Moved the purpose of the Fund to the beginning of the section and revised wording. Additional wording has been included in relation to matching of liabilities and the consideration of smoothing mechanisms for Admission Bodies' contribution rates.
Funding targets, solvency and notional sub-funds	Additional Sections included.
Recovery Periods and Stepping	The limits for these have been retained.
Grouping	Additional information included.
Sub-funding and other practicalities of funding calculations	A number of new sections have been included.
Special considerations for admission bodies	A new section dealing with admission bodies has been added.
Guarantors and underwriting of admission bodies	The previous FSS did not include any explicit provision for admission bodies to be underwritten, except to the extent that it is in the Administration Regulations.

- 8 The revised FSS is attached at Appendix 1.
- 9 The 2009 Regulations required that the SIP containing the compliance statement was published by 1 July 2010 in line with the Regulations, and that it is reviewed and if necessary, revised from time to time, and in the case of any material change in the administering authority's policy on investments or their management.

- 10 The SIP has been reviewed and changes made to reflect the introduction of a passive equity investment with BlackRock into the asset allocation.
- 11 The revised SIP is attached at Appendix 2.
- 12 It is anticipated that further review of the FSS and the SIP will be considered as part of the Review of the Pension Fund Arrangements.

Consultation

- 13 In line with Regulations, the FSS and SIP must now be the subject of consultation with the Fund's employers before publication. Subject to the agreement of the Committee, these documents will be circulated to all relevant interested parties for comment.

Recommendations

- 14 It is recommended that:
 - Members note the contents of the revised Pension Fund's policy documents.
 - the documents are circulated to all relevant interested parties to consult on their contents.

Background papers

- (a) Pension Fund Committee - 25 October 2004 – Funding Strategy Statement
- (b) Pension Fund Committee – 21 June 2010 – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- (c) Pension Fund Committee – 28 February 2011 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

Contact: Hilary Appleton Tel: 0191 383 3544
