

Pension Fund Committee

7 March 2017

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



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Purpose of the Report

1. To inform Members of the drafts of the revised Funding Strategy Statement and the new Investment Strategy Statement which are currently out to consultation with Pension Fund employers.

Background

2. 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).
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 the Chartered Institute of Public Finance (CIPFA) for this purpose; and
 - ii. their own Statement of Investment Principles (SIP) for the Fund (or, from 1 April 2017 the Fund's 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 SIP / ISS.
4. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund – the 'Statement of Investment Principles' (SIP). As reported at the December 2016 Pension Fund Committee meeting, these regulations were replaced by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the 2016 investment regulations'), which took effect from 1 November 2016 and 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) – to be published no later than 1 April 2017. The ISS needs to be prepared in accordance with guidance issued from time to time by the Secretary of State.

5. A revised draft FSS is included at Appendix A and a draft ISS is included at Appendix B.

Funding Strategy Statement

6. 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 2016. Significant changes from the previous version of the FSS are as follows:
 - A new section has been added entitled ‘Commencement of Employers’ clarifying how (notional) asset transfers are calculated for new employers. This will be of particular relevance for new academy trusts.
 - The ISS is referred to as well as the SIP, as for an interim period both documents will be relevant.
 - Reference is made to the role of the Local Pension Board in reviewing the valuation process.
 - Reference is made to the LGPS regulations requirement for Funds to target long term cost efficiency as well as solvency.
 - After discussions with, and advice from, the Pension Fund actuary the pooling of risks associated with payment of death in service lump sums has been extended to include risks associated with payment of survivors pensions on death in service and payment of ill health pensions. The effect of this will be negligible for the larger Fund employers but for smaller employers will reduce contribution volatility and effectively self-insure what are currently significant risks.

Investment Strategy Statement

7. The main additions to the ISS compared with the current SIP are as follows:
 - A section on investment beliefs and objectives
 - A section setting out how the Council as administering authority to the Pension Fund will comply with the requirement to pool assets with other Fund.
 - A commitment by the Pension Fund to the principles of active asset ownership set out in the UK Stewardship Code.

Next Steps

8. The draft FSS and ISS will be sent to all Pension Fund employers week commencing 27 February 2017 with a request for comments within two weeks.

9. Final versions of the documents will be circulated by 31 March 2017. The ISS may need to be revised in future, for example if the Pension Fund's investment strategy changes. This will require necessitate further consultation with employers and with the Committee.

Recommendations

10. Members are asked to
- i) note the report and to advise of any comments they may have on the draft FSS and ISS set out in the appendices to this report, and;
 - ii) authorise the Corporate Director Resources to finalise the wording of the FSS and ISS, where appropriate taking into account any comments received from employers, and publish final versions by 31 March 2017.

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