

**PENSIONS COMMITTEE – 31 MARCH 2023**

**Report of the Director of Finance**

**2022 Actuarial Valuation Report, Funding Strategy Statement (FSS),  
and Investment Strategy Statement (ISS)**

**Recommendations of the Chair**

1. That the Report on the Actuarial Valuation of the Staffordshire Pension Fund at 31 March 2022, including the Rates and Adjustments Certificate and detailing the contribution rates for individual employers, attached at Appendix 1, be noted.
2. That the Staffordshire Pension Fund's Funding Strategy Statement (FSS) attached at Appendix 2, as amended post consultation, is approved but that the Committee notes the potential for further updates, as and when regulatory change is effective and requires implementation; and
3. That the Staffordshire Pension Fund's Investment Strategy Statement (ISS) attached at Appendix 3 is approved but that the Committee notes the potential requirement for further updates, once the outcome of the Department for Levelling Up, Housing and Communities (DLUHC) further consultation on Asset Pooling in the LGPS is known.

**Background**

4. Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires that:

***Actuarial valuations of pension funds***

**62.—(1) An administering authority must obtain—**

*(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;*

*(b) a report by an actuary in respect of the valuation; and*

*(c) a rates and adjustments certificate prepared by an actuary.*

*(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree*

5. All Local Government Pension Scheme (LGPS) Funds are required to prepare, maintain, and publish FSS and ISS documents. The FSS must be formulated, maintained, and published in accordance with the Public Service Pension Act 2013, whilst the ISS must be formulated, maintained, and

published in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Both documents must be kept under review and revised from time to time and at least every three years. The FSS must be issued for consultation during each triennial Actuarial Valuation and the Pensions Committee must also formally approve the FSS and ISS as part of the triennial Actuarial Valuation process.

6. In preparing maintaining and reviewing both statements, the administering authority must have regard to guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The latest guidance for both documents was published in September 2016.

## 2022 Actuarial Valuation Report

7. Throughout late 2021 and most of 2022, the actuarial team from Hymans Robertson, who are the Fund's appointed Actuary, have attended Pensions Committee meetings to provide training and discuss the 2022 Actuarial Valuation of the Fund at 31 March 2022. Over this period, Members have approved the actuarial approach to be taken, the actuarial assumptions to be used and they have received reports on the high-level results of the 2022 valuation and the funding and contribution levels for the different employer groups.
8. The Report on the Actuarial Valuation at 31 March 2022, attached at Appendix 1, fulfils the requirements of Regulation 62(3) and 62(4) in providing a document of record. It contains no fundamentally new information to that already presented by Hymans to the Pensions Committee at their meetings in September and December 2022. An Executive Summary can be found on page 3 of the report.
9. Members are asked to note that the Primary Rate for the whole Fund, which indicates the amount needed to be paid for **future** service contributions, has increased from 19.7% of pay at 31 March 2019, to 21.5% of pay at 31 March 2022, mainly due to higher inflation. This has been offset to some degree by a decrease in the Secondary Rate, which indicates the amount needed to be paid for **past** service liabilities, because of better-than-expected investment performance since the last valuation in 2019.
10. The Rate and Adjustments Certificate, which states the minimum Primary and Secondary Contribution Rate for each Employer in the Fund for the three years commencing 1 April 2023 can be found on pages 33-59 of the Report. Whilst there are significant variations in both rates across the range of employers it is important that the focus should be on the Total Contribution Rate payable.
11. Following each triennial Actuarial Valuation, Section 13, of the Public Service Pensions Act, requires the Government Actuaries Department (GAD) to publish a report on the health of the LGPS. Using a common set of assumptions determined by the Scheme Advisory Board (SAB), to enable consistent comparison, Hymans have recalculated the Fund's 2022 Funding

position on a local funding basis (120%) which has resulted in a funding position of 128% on a SAB basis; an increase of 16% since the last valuation in 2019.

12. The full Report on the Actuarial Valuation of the Staffordshire Pension Fund at 31 March 2022 will be published on the Pension Fund's website.

### **Funding Strategy Statement (FSS)**

13. The FSS governs how employer liabilities are measured, the pace at which these liabilities are funded and how employers, or pools of employers, pay for their own liabilities. As required by Regulation, a full review of the FSS has been undertaken as part of the 2022 Actuarial Valuation. As well as a more general review, the opportunity to make some changes recommended by the Actuary has also been taken. These include a review of the structure and layout of the FSS and once published on the Fund's website, these will also improve accessibility and navigation for stakeholders.
14. Whilst there have been no significant changes to the funding strategy as part of the 2022 Actuarial Valuation of the Fund, the new FSS includes separate and updated policies on:
  - Academy funding (*Appendix E of the FSS*);
  - Passthrough arrangements for Admission Bodies (*Appendix F of the FSS*); and
  - Cessations, including a revised 'risk-based' corridor approach where applicable (*Appendix H of the FSS*).
15. Other main changes to highlight in the FSS include:
  - An increase in the time horizon allowed for Academies to reach full funding (*2.2 of the FSS*). This is now in line with that of local authorities and has changed from 15 years to 20-years;
  - Minor changes to the passthrough admissions process (*Appendix F of the FSS*); and
  - the fact that climate-related risks have been considered and documented when setting the funding strategy (*C3 of Appendix C of the FSS*).
16. The draft FSS was published on the Fund's website and was made available to Employers and other interested parties for a period of consultation that ran from 16 December 2022 to 31 January 2023. The consultation was publicised to Employers in several different ways. Albeit limited, feedback and questions arising from the consultation were received which resulted in some changes being made to the draft FSS presented to Pensions Committee previously.
17. The changes centred around the Fund permitting all individual academies within the same Multi Academy Trust (MAT) to be considered as pooled for contribution rate setting purposes. This would be dependent on certain criteria being met and would only be considered at the request of the MAT and

agreed at the discretion of the Fund. Minor amendments to allow for this were made in Section 2 – How does the Fund calculate Employer contributions? (2.6) and in the Policy on Academy Funding (Appendix E).

18. The final version of the FSS, incorporating the changes is attached for the approval of the Pensions Committee at Appendix 2.
19. In line with best practice, once the FSS has been approved and published, it will be maintained and updated periodically as Regulation and good governance dictates. The new format should make this significantly easier, and thanks go to Hymans Robertson for their assistance with this revision of the FSS and the reformatting.

### **Investment Strategy Statement (ISS)**

- 20.. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force in 2017 and under Regulation 7(6) and 7(7), the first ISS (which replaced the Statement of Investment Principles) had to be published by 1 April 2017, kept under review, and revised from time to time and at least every three years.
21. The ISS documents how the investment strategy for the Fund is determined and implemented and is required to cover numerous areas, specifically:
  - The requirement to invest money across a wide range of investments;
  - An assessment of the suitability of particular investments and investment types;
  - The maximum percentage authorities deem should be allocated to different asset classes or types of investment;
  - The authority's attitude to risk, including the measurement and management of risk;
  - The authority's approach to investment pooling;
  - The authority's policy on social, environmental and corporate governance considerations; and
  - The authority's policy with regard to stewardship of assets, including the exercise of voting rights.
22. The last major review of the ISS was undertaken in April 2020, and this incorporated the outcome and outputs from the 2019 Strategic Asset Allocation review and the 2019 Actuarial Valuation.
23. Whilst very similar in structure, the April 2023 version of the ISS, attached at Appendix 3, contains major revisions, as it reflects the outcome and outputs from the 2022 Strategic Asset Allocation review and 2022 Actuarial Valuation. The April 2023 ISS also includes detail about the arrangements for the Fund's transfer of assets into LGPS Central Ltd and it incorporates the Fund's Climate Change Strategy (first published in 2022).
24. Under Regulation 7(5), the authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

In the formulation of the updated ISS, the Fund has consulted with its investment advisors, Hymans Robertson, and the Pensions Panel, who are recommending approval of the ISS to the Pensions Committee.

25. Pensions Committee Members are asked to note that the ISS may need some revision following the outcome of DLUHC's further consultation on Asset Pooling in the LGPS; expected sometime in early 2023. At this stage, wider consultation on the ISS may also be considered appropriate.

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Background Documents:

- Local Government Pension Scheme Regulations 2013
- Public Service Pensions Act 2013
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

**Equalities implications:** There are no direct equalities implications arising from this report.

**Legal implications:** The legal implications are considered in the body of his report.

**Resource and Value for money implications:** The triennial Actuarial Valuation is a significant cost to the Pension Fund but is a legal requirement. The direct cost of producing the FSS and ISS is relatively small; they are published only on the web site. The wider resource and value for money implications are included in the body of the reports.

**Risk implications:** The publication of these documents is a requirement under Regulation.

**Climate Change implications:** There are no direct implications arising from this report.

**Health impact assessment screening:** There are no direct implications arising from this report.

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