

## Item no 6 on Agenda

Local Members Interest	
Nil	

### **PENSIONS COMMITTEE – 26 MARCH 2021**

#### **Report of the Director of Corporate Services**

#### **Funding Strategy Statement and Investment Strategy Statement**

##### **Recommendations of the Chairman**

1. That the draft Funding Strategy Statement (FSS), attached as Appendix 2, is approved but, the Pensions Committee notes the need for wider consultation with Scheme Employers and delegates the approval of any minor changes required to the FSS, as a result of that consultation, to the Director of Corporate Services; and
2. That the Investment Strategy Statement (ISS) attached at Appendix 3 is approved but, the Pensions Committee notes the potential requirement for further updates, once the outcome of the Ministry of Housing, Communities and Local Government's (MHCLG) formal consultation on the Statutory Guidance on Asset Pooling in the LGPS is known.

##### **Background**

3. 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 valuation.
4. A full review of both the FSS and the ISS was undertaken as part of the 2019 Actuarial Valuation, to take account of various changes in financial and demographic assumptions, and the Strategic Asset Allocation review, which was carried out alongside the valuation process.
5. In preparing maintaining and reviewing both statements, the administering authority must have regard to guidance published by CIPFA. The latest guidance for both documents was published in September 2016.

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

6. 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.
7. At its meeting on 27 September 2019, the Pensions Committee approved the current version of the FSS, which had been updated to reflect various financial and demographic assumptions used in the 2019 Actuarial Valuation. Other key changes to the FSS at that time, included:
  - Detail on how the Fund will deal with the uncertainty arising from the McCloud ruling (2.7, Table 3.3 note (j)); and
  - Detail on when the Fund intends to carry out its next actuarial valuation considering MHCLG's proposals to change the valuation cycle (2.9);
8. The FSS was made available for a period of consultation with interested parties but, as there were no material responses or comments received during the consultation period, the final version of the FSS was approved by the Director of Corporate Services and published in June 2020.
9. As a result of LGPS Regulatory updates on 23 September 2020, further changes are required to the FSS to reflect:
  - A brief comment on the approach to be taken by the Fund in dealing with the uncertainty arising from the Goodwin court case (2.8):
  - An explanation of the circumstances under which the Fund might amend contribution rates between valuations (3.3 note (f));
  - Detail in relation to the payment of a cessation debt and the considerations that the Fund will make before paying an exit credit in line with their Exit Credit Policy (3.3 note (j)); and
  - The circumstances in which the Fund will enter into a Deferred Debt Agreement (DDA) as an alternative to the payment of an immediate cessation debt (3.3 note (j)).
10. Once again, there will need to be an appropriate period of consultation and it is proposed that unless there are any material changes, which it is considered necessary to bring to the attention of the Committee, that the Director of Corporate Services be given delegated authority to sign off the final version of the FSS, prior to its publication on the Fund's website.

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

11. 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.

12. 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, although limits on allocations to any asset class are not prescribed as was the case under the previous (2009) Regulations;
  - 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.
13. The Fund's ISS was first published in April 2017 and has been reviewed annually since, to better reflect the arrangements in place for asset pooling and the transfer of assets into LGPS Central Limited. Having been updated quite substantially, to incorporate the outcome of the 2019 Strategic Asset Allocation review and the 2019 Actuarial Valuation, the current version of the ISS (**Appendix 3**) includes some relatively minor amendments to better reflect activity during 2020, thus keeping it up to date.
14. 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,
15. Pensions Committee Members are asked to note that the document may need further substantial revision following the outcome of the MHCLG's formal consultation on the Statutory Guidance on Asset Pooling in the LGPS; expected sometime in 2021. At this stage, wider consultation on the ISS may also be considered appropriate.

**John Tradewell**  
**Director of Corporate Services**

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Background Documents:

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

## Appendix 1

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

**Resource and Value for money implications:** 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 ISS report.

**Risk implications:** The publication of an FSS and an ISS are requirements of the Local Government Pension Scheme Regulations.

**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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