

## Bath & North East Somerset Council

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| MEETING:   | <b>LOCAL PENSION BOARD - AVON PENSION FUND</b> |                           |
| MEETING DATE:  | <b>13 September 2022</b>                       | <b>AGENDA ITEM NUMBER</b> |
| TITLE:   | <b>DRAFT FUNDING STRATEGY STATEMENT 2022</b>   |                           |
| WARD:  | ALL  |                           |
| <b>AN OPEN PUBLIC ITEM</b>   |  |                           |
| List of attachments to this report:<br>Appendix 1 – Draft Funding Strategy Statement<br>Appendix 2 – FSS Checklist |  |                           |

### **1 THE ISSUE**

- 1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the Fund's Actuary has used in preparing the actuarial valuation and the policies adopted by the Administering Authority.
- 1.2 The draft FSS approved by the Committee at its June meeting has been circulated to the employing bodies for comment. The comments arising from the consultation will be reported to the Committee meeting on 23 September 2022 when the FSS will be approved.
- 1.3 The Pension Board is asked to consider the FSS in terms of its compliance with regulations and CIPFA guidance and provide feedback to the Pensions Committee. The FSS checklist is included in Appendix 2 to assist the Board.

### **2 RECOMMENDATION**

- 2.1 **The Board reviews the draft FSS for compliance with the LGPS Regulations 2013 and CIPFA guidance and provides any comments to the Pension Committee to consider at the committee meeting on 23 September 2022.**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no direct implications related to the Pension Board in connection with this report.

### **4 BACKGROUND AND PROCESS**

- 4.1 The LGPS regulations require each administering authority to prepare and publish a Funding Strategy Statement. The key requirements for preparing the FSS are as follows:
  - After consultation with all relevant interested parties involved with the Fund, the administering authority must prepare and publish their funding strategy
  - In preparing the FSS, the administering authority must have regard to:

- (i) Guidance issued by CIPFA for this purpose
  - (ii) The Investment Strategy Statement (ISS) for the Fund published under the LGPS (Management and Investment of Funds) Regulations 2016
- 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.
  - The Fund's Actuary must have regard to the FSS as part of the valuation process.
- 4.2 The FSS sets out all the key assumptions which the Actuary will use in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where it has discretion to manage the funding position of the Fund.
- 4.3 The draft FSS attached as Appendix 1 is based on preliminary information that can only be finalised once the valuation, consultation processes and associated analysis have been completed.
- 4.4 The draft FSS was circulated to employers and interested parties for consultation during July and August. Comments will be considered by Officers and reported to the next committee meeting (23 September 2022) where the FSS will be approved. Under the governing regulations, the Fund's Actuary cannot finalise the valuation until the FSS has been approved by the Committee. The 2022 valuation outcome will be reported to Committee in March 2023.
- 4.5 The Pension Board must consider whether the Administering Authority has complied with the LGPS Regulations 2013 and CIPFA guidance when drafting the FSS.

## **5 DRAFT FUNDING STRATEGY STATEMENT**

- 5.1 The FSS is an important document for the Fund and its employers. It sets out a clear and transparent funding strategy that will identify how each employer's pension liabilities will be met going forward. Therefore the policies and information contained within the FSS will have a financial and operational impact on all participating employers within the Fund. In addition it contains the key policies by which the Fund manages funding, employer and financial risk.
- 5.2 The FSS is the key governance document as it sets out the risk management strategy by which the administering authority ensures the solvency of the Fund for all employers. The other key strategy, the investment strategy, influences the FSS as the Actuary must allow for the investment return expectations when finalising the discount rate assumption adopted in the funding strategy.
- 5.3 Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on professional advice provided by the Actuary.
- 5.4 The objective of the FSS is to secure the solvency and long term cost efficiency of the Fund. In doing this it seeks to balance solvency with affordability of the employing bodies. The purpose of the FSS is therefore
- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities
  - To establish contributions at a level "to secure the solvency of the pension fund" and the "long term cost efficiency"

- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

5.5 The key financial and demographic assumptions in the FSS are set following advice from the Fund Actuary after consultation with the administering authority. Some of the demographic assumptions have yet to be finalised but the Actuary has done some preliminary analysis to inform on the “direction of travel”.

5.6 The format of the FSS has been changed this year so that the main actuarial and valuation principles are clearly set out at the beginning of the report. The FSS also includes all the funding related policies, even though the regulations do not require them all to be included; this is to provide a single reference document for employers and to ensure consistency with the Funding Strategy itself. The Board are not required to review and comment on Appendices A-J of the FSS.

## 6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

## 8 CONSULTATION

8.1 The report and its contents have been discussed with the Service Director – Financial Control & Pensions representing the Avon Pension Fund and the Service Director – Commercial & Governance representing the administering authority.

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| <b>Background papers</b>   | CIPFA Pensions Panel (guidance on preparing FSS)<br>Correspondence with Actuary |
| <b>Please contact the report author if you need to access this report in an alternative format</b> |   |