

## Bath & North East Somerset Council

MEETING:	<b>LOCAL PENSION BOARD - AVON PENSION FUND</b>	
MEETING DATE:	<b>02 September 2025</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>DRAFT FUNDING STRATEGY STATEMENT 2025</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Appendix 1 – Draft Funding Strategy Statement 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 26 September 2025 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 SAB/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 SAB/CIPFA guidance and provides any comments to the Pension Committee to consider at the committee meeting on 26 September 2025.**

### **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 SAB/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 Pension Board must consider whether the Administering Authority has complied with the LGPS Regulations 2013 and SAB/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 FSS has changed substantially in format since the 2022 valuation to comply with new guidance which was issued in January 2025 by the Scheme Advisory Board (SAB) and The Chartered Institute of Public Finance & Accountancy (CIPFA). Also at a national level the FSS is subject to scrutiny by the Government Actuary’s Department under Section 13 of the Public Service Pension Schemes Act 2013.
- 5.7 As a result of the revised guidance the FSS is now far longer than previous versions. There is a lot of information in Appendices A to O, which set out our policies and implementation in detail. However the Board are not required to review and comment on these appendices, but should focus on Sections A to C.
- 5.8 The FSS checklist is included in Appendix 2 to assist the Board. The full guidance can be found here:  
<https://lgpsboard.org/images/Guidance/FSS%20guidance%20Final%20January%202025.pdf>

However the checklist is designed to aid the review without needing to refer to the guidance.

## **6 CONSULTATION WITH STAKEHOLDERS**

- 6.1 A communications plan for the 2025 valuation process including the FSS consultation is in place, in line with FSS guidance. We have consulted with all our employers and other relevant stakeholders and their comments will be considered by the committee at the meeting in September. The consultation was launched on 14 July 2025 and closed on 22 August 2025. Following the committee meeting we will publish the Fund’s response to the consultation.
- 6.2 This year the consultation was done online to improve accessibility and ease of access as well as hopefully increase the level of engagement with employers.. We also included a short video from Mercers explaining the objectives and content on the FSS.
- 6.3 The immediate benefit of the online approach is that we received comments and suggestions far earlier than in previous exercises, especially around the (practical) implementation of our funding policy. This enabled officers to consider and discuss with Mercers far earlier in the process and agree our approach as necessary.
- 6.4 Consideration by the Pension Board as to the draft FSS’s compliance with the regulations and guidance is the final phase of the consultation process.

## **7 CLIMATE CHANGE**

- 7.1 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 Pensions Committee.

## **8 EQUALITIES**

- 8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 9 CONSULTATION

9.1 The report and its contents have been discussed with the Head of Pensions representing the Avon Pension Fund and the Director of Financial Services, Assurance and Pensions representing the administering authority.

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<b>Background papers</b>	SAB/CIPFA guidance on preparing FSS, 2025  Correspondence with Actuary
<b>Please contact the report author if you need to access this report in an alternative format</b>	