

Compliance and Reporting Committee (CRC)

HYBRID MEETING – 24 June 2024

ITEM 4 PAPER B

Development of Funding Strategy Statement Guidance

Background

1. Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires funds to publish a written statement setting out its funding strategy. Part (4) of this regulation requires that:

‘(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to -

(a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012(42); and

(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

2. This workstream has been working on updating the guidance mentioned in part (4)(a) as a joint guidance document between the Board, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Department for Levelling Up, Housing and Communities (DLUHC), with the same approval process as the Annual Report guidance. As confirmed above, the LGPS regulations do currently name the CIPFA guidance dated 2012 and this has been raised with DLUHC to be amended.

Current position

3. Following a short pause on this workstream whilst the Annual Report guidance was prioritised, there has been good progress made on the updated guidance with 2 workstream meetings taking place since the last Committee meeting.
4. To add to the work already completed and to assist with the forthcoming work required, the membership of this workstream has been increased to now include wider stakeholder representation. The membership changes broaden the working group from solely practitioners to include representation from all four fund actuarial firms, the Government Actuary's Department, scheme employers, LGPS legal advisors and scheme members. The Scottish Scheme Advisory

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Board also wish to have a representative on the group and are seeking a volunteer.

5. The Secretariat believes that broadening the membership helps with the substantial work involved in adding and shaping the content already identified as missing and requiring development from the current guidance. It is also accepted that actuaries and employers are key stakeholders to the FSS, so it is hoped a broad consensus on the topics to be covered in the guidance can be reached. To cover the broadening of membership, a Terms of Reference has been agreed and can be found in **Annex A**.
6. Discussions in the last 2 meetings have focused on the structure and new content. It was agreed that the guidance should help administering authorities create their own funding strategy, covering all the necessary topic areas but without being prescriptive in the policy approach to take. It is also key that the guidance should help administering authorities publish a document which is presented and understood by its primary readership of scheme employers. Some of the workstream discussion focused on how the guidance covers the below topics:
 - Roles and responsibilities of key parties
 - Engagement with employers and other key stakeholders
 - A funding framework which establishes and monitors fund aims
 - Funding deficit, surpluses and de-risking policies
 - Funding risk management
 - Setting out good principles and justification for funding decisions
 - Links with other fund policies and strategies.
7. Before and after these meetings, work has been undertaken by the Secretariat to combine and refine the previous guidance within the preferred new structure and to highlight and draft (where needed) the new content. The latest version of the guidance has been shared with the group and feedback was requested by 7 June 2024. Comprehensive feedback has been received with the overarching theme being striking a balance between providing information for Fund officers and providing a succinct list of what is required in a FSS.

Next steps

8. The next workstream meeting is being organised for the end of July 2024. The planned timetable to ensure the guidance is ready for the end of this calendar year will be reviewed once the new Government is formed.

Terms of Reference for the Scheme Advisory Board (SAB) Funding Strategy Statement Working Group

Background

- Regulation 58 of the Local Government Pension Scheme (LGPS) Regulations 2013 outline the requirements for a LGPS Administering Authority to prepare and publish a Funding Strategy Statement (set out below)

58. -(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to-

(a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012(42); and

(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- The Chartered Institute of Public Finance and Accountancy (CIPFA) released guidance in 2016 'Preparing and Maintaining a Funding Strategy Statement' which updated the previous 2012 guidance.

Objectives for the Funding Strategy Statement (FSS) working group

1. Identify the gaps and new additions to the 2016 FSS guidance
2. To reach a broad consensus on the remit and scope of the new guidance.
3. Take into consideration the evolving LGPS landscape and how appropriately this should be reflected in the new guidance:
 - Growing number of LGPS employers and profile type and scheme wide events may impact funding strategies
 - Increased number of funds reporting surpluses and how this should be

- covered in the FSS including various risk management strategies
 - Scheme maturity
 - Proposed future changes to LGPS investment regulations
 - The impact of Public Sector finances on scheme membership, scheme maturity and cash flow
 - Different approaches to employer exits and requests for partial terminations
 - Communications and engagement best practice between funds and scheme employers
4. Produce a new draft of the guidance for submission for approval by the Compliance and Reporting Committee, CIPFA Public Finance and Management Board (PFMB) and the Minister within the Department for Levelling Up, Housing and Communities (DLUHC).

Membership

The membership of the FSS working group will have a broad representation to accurately reflect the parties who assist the Administering Authority to produce the FSS and who may have an interest in the statement. It should be noted that it is the LGPS Administering Authority who must prepare and publish a FSS and the non-practitioners on the group are to provide technical support or views from each represented stakeholder.

Outcomes

- Updated guidance document for LGPS Administering Authorities on preparing and maintaining the FSS.
- Increased engagement and understanding across the LGPS, particularly from LGPS employers on preparing and the areas which apply to the FSS.

Responsibilities

- SAB Secretariat to convene meetings of the group.
- An approximate date of the next meeting will be decided at each individual meeting according to the requirements of the group.

Timescales

For the guidance to be in place in good time for the start of the 2025 Actuarial Valuation the group aims to have the guidance ready by December 2024. To do this approval will be required at the CRC meeting on 21 October 2024 and CIPFA's PFMB on 7 November 2024, followed by Ministerial approval

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