



LOCAL PENSION COMMITTEE - 28 FEBRUARY 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**PENSION FUND - FUNDING STRATEGY STATEMENT AND
INVESTMENT STRATEGY STATEMENT**

Purpose of the Report

1. The purpose of this report is to seek the Committee's approval of the Pension Fund's revised Funding Strategy Statement (FSS) and revised Investment Strategy Statement (ISS), following the consultation.

Background

2. Each LGPS administering authority has a statutory obligation to have an actuarial valuation carried out every three years and all funds in England and Wales need to have a valuation carried out as at 31st March 2019. Leicestershire County Council Pension Fund's actuarial valuation has been carried out by Richard Warden of Hymans Robertson LLP.
3. The major purpose of the actuarial valuation is for the actuary to set employer contribution rates for a three-year period, that commences one year after the valuation date (i.e. for the period 1 April 2020 to 31 March 2023). To set these contribution rates the actuary must take account of many factors, most of which are assumptions of what will happen in the future. These assumptions do not impact onto the ultimate cost of paying benefits they simply calculate the liability derived from these benefits, which in turn impacts the level of contributions set.
4. As part of the valuation process the Fund must review and amend its Funding Strategy Statement (FSS) to reflect the approach to the 2019 valuation and Investment Strategy Statement (ISS). These are important Fund documents as they detail how the Fund sets the funding approach used in the valuation for each of the Fund's employers.
5. On the 8 November 2019 the Committee received reports with the draft FSS and ISS with a recommendation that a consultation takes place. This is a requirement of the pension scheme regulations.
6. The consultation took place between the 18 November 2019 and the 31 December 2019 and included consultation with the Local Pension Board, promotion at the Fund's AGM and circulation to all the scheme employers.

7. The ISS will be monitored and updated, if necessary annually. The Fund will maintain the three year cycle for major updates.

Updated Funding Strategy Statement

8. The draft FSS that is attached as Appendix A is an updated version of the Fund's existing FSS agreed on 17 January 2017. By way of summary, the major changes from the existing document are the:-
 - (i) Fund's stabilisation policy
 - (ii) Fund's approach to setting employer contribution rates
 - (iii) Fund's cessation policy
9. Page 11 of the FSS includes a table detailing the Fund's framework for setting differing employer group rates.
10. The employers on stabilised rates have been informed of their employer contributions rates for the following three years and their full-service rates without the stabilisation mechanism. Provision of full-service rates assists employers with their future budget planning.
11. Excluding investment returns and other unknowns (e.g. life expectancy) when employers pay less than their full-service rates, future valuations are likely to increase their employer's rates further.
12. Colleges and the two Universities generally paid less than their full-service rates in 2016 so increases were anticipated at the 2019 valuation.

The Results of the Funding Strategy Statement Consultation

13. There were a considerable number of general questions – many of these were simply due to the greater amount of information provided within the FSS. These questions were answered accordingly. Employers that replied found the extra information helpful and reported it was a positive improvement. Queries raised were as follows:-
 - One parish Council and one Community Admission Body wished to pay a higher employer contribution rate and Officers have agreed this.
 - Some stabilised employers enquired about paying an extra one-off lump sum. However, from this only one district council is considering this further.
 - The biggest group enquiry was from the Colleges and the two Universities that collectively felt they were akin to tax raising bodies that paid a stabilised contribution rate, thus wanted to review the 15-year deficit recovery period and the 80% likelihood of success.

- All employers were offered to opportunity to meet with the Fund's officers. There was an additional conference call for this group on the 18 December 2019 but only one employer joined the call.
 - After meeting with some of these employers one employer has provided sufficient supporting evidence of their financial robustness and Officers have agreed flexibility in their contribution rate increases. For the majority of the other employers, Officers and the Fund's Actuary feel the proposals are acceptable and have been agreed with employers.
 - Only one employer's valuation rate remains unresolved.
 - There have been some minor questions from the new pass-through employers (as this is the first time we have been through a valuation with this group), but these are generally more about the process and Officers are working to resolve these.
14. Other than the one outstanding employer, Officers are pleased to inform the Committee that following communication and conversations over 180 employer valuation rates have been finalised.

Government Actuary's Department (GAD)

15. After the valuation is complete GAD will carry out a scheme level valuation to evaluate funds against four measures; compliance, consistency, solvency and long term cost efficiency. Within this there are two specific areas they will focus on;

Consistency of treatment of the potential McCloud costs

16. GAD intends to review fund's FSS and valuation reports to check their approach towards the potential additional McCloud costs and how these have been set out. Officers have worked closely with the Actuary on this point and the Fund has adopted a robust and transparent approach to McCloud within the FSS

Falling contribution rates

17. Where funds have reduced overall contribution rates, GAD will review the FSS and valuation reports to check this has not had an adverse impact on future taxpayers. GAD expect funds that have reduced the overall contributions to have;
- Kept the same deficit recovery period, or brought it forward, and
 - Made an explicit allowance for potential McCloud costs.
18. Officers and the Actuary agreed to increase contributions for the larger employers – the stabilised employers, Colleges and the Universities. Some of the smaller employers received reductions in their rates but the Actuary and Officers expect the Fund's aggregate contribution rate to be higher than the equivalent figure in 2016.

Updated Investment Strategy Statement

19. The draft ISS, attached as Appendix B, is an updated version of the Fund's existing ISS agreed on 17 January 2019. By way of summary, the major changes from the existing document are:-

- (i) Arranged in a format to address the following seven areas:-
 1. Governance
 2. Fund Objectives
 3. Fund Management
 4. Asset Allocation
 5. Risks
 6. Asset Investment Pooling
 7. Responsible Investment
- (ii) The Fund's asset allocation targets following the annual strategy refresh agreed by the Committee on 24 January 2020.
- (iii) Clarification of the link between the Funding Strategy Statement's required investment returns and returns from the revised annual asset allocation review by Hymans Robertson.
- (iv) Inclusion of the target asset allocation linking the expected long term returns from each asset class aligning the target investment return required within the FSS. In summary the assets the Fund invests in are still suitable.
- (v) The Fund's approach to responsible investment (RI) in the respect of Environmental, Social and Governance (ESG) factors has been expanded as has how LGPS Central approaches RI.

The Results of the ISS Consultation

20. At the Pension Fund's Annual General Meeting on 18th November 2019 in response to a question tabled it was agreed to make the linkage between risks and responsible investing clearer. The Fund recognises ESG risks within the risk section of the ISS and have amended this statement to clearly state where in the ISS the Fund's ESG policy, which incorporates climate change resides. This covers the Fund's approach to ESG factors and stewardship.

Timeline

21. The timeline for providing final rates to employers following the valuation is as follows:

- 28 February 2020 – Local Pensions Committee to formally sign off the FSS and ISS.
- March 2020 - The Fund Actuary to provide the final valuation results for the Fund.

- March 2020 - Officers to send the final full valuation results to all employers, confirming the agreed contribution rates.
- 1 April 2020 - New employer rates commence.

Recommendation

22. It is recommended that the Local Pension Committee;

- i) Approve the Funding Strategy Statement that is attached as Appendix A to this report.
- ii) Approve the Investment Strategy Statement that is attached as Appendix B to this report.

Equality and Human Rights Implications

None

Appendices

Appendix A – Funding Strategy Statement

Appendix B – Investment Strategy Statement

Officers to Contact

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