

Agenda Item

Subject	Funding Strategy Statement	Status	For Publication
Report to	Authority	Date	16 th March 2023
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To secure approval of the Funding Strategy Statement which has been updated following the 2022 valuation.

2 Recommendations

- 2.1 Members are recommended to:
- a. Approve the revised Funding Strategy Statement at Appendix A.**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Scheme Funding

To maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report relate to the identified Corporate Risks concerned with employer risk and funding.

5 Background and Options

5.1 The Funding Strategy Statement (FSS) is a statutory document which sets out the Authority's policies with regard to a range of issues concerned with achieving and maintaining full funding of the scheme and about the way in which a range of key issues concerning employers which might affect the Fund's liabilities should be dealt with. The regulations require an LGPS administering authority to produce a statement setting out the processes it will use to:

- establish a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain as nearly constant employer contribution rates as possible
- ensure the fund meets its solvency and long-term cost efficiency objectives
- take a prudent longer-term view of funding those liabilities.

5.2 The FSS is routinely reviewed at each valuation and more frequently if there are changes in regulations. Given the technical nature of the FSS its production and review involve close liaison with the actuary. The most recent review, working with a new Actuary, has also taken the opportunity to restructure what had become an unwieldy and difficult document into a simpler core document which summarises, and signposts key policies set out in appendices. While the language used remains, of necessity, somewhat technical it has been simplified and the questions which policies seek to address made clearer. This structuring of the document will also make it easier to consult on future policy changes.

5.3 Any strategy must start from the point of what it is seeking to achieve. In the case of the FSS this is to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

5.4 The LGPS regulations require that employers are consulted on changes to the FSS. For this review this has taken place in two stages

- An informal consultation over the summer of 2022 which was principally concerned with the introduction of "pass through" arrangements in relation to contractors.
- A formal consultation which closed in late January on the full revised suite of FSS documents and policies.

- 5.5 The informal consultation over last summer generated 6 responses (three from local authorities and 3 from other employers), although it is fair to say that some of these responses were actually seeking clarification on specific points rather than supporting or opposing specific policy points.
- 5.6 The formal consultation elicited 2 responses (one from a local authority and one from an F/HE institution). Again, none of the responses indicated significant opposition to the proposed policies set out in the draft FSS. While this scale of response to both stages of the consultation process might be regarded as disappointing it is not untypical in exercises of this sort.
- 5.7 Beyond the issue of “pass through” which is designed to improve the management of the risk around contractors’ participation in the Fund, particularly the increasing number of small contractors working for schools and academies, the most significant change is in the presentation of the way in which exit payments are calculated. These will move to a probability of success basis in line with both the valuation and the strategic asset allocation. Moving away from a gilts basis means that the estimation of any exit debt (or credit) will be based on the actual investment strategy being run by the Fund rather than an artificial construct. While this might not materially change the scale of any exit debt (or credit) it will be far easier for employers to understand.
- 5.8 Given that there is no fundamental opposition to the proposed FSS members are asked to approve its adoption with immediate effect.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	None directly, although the FSS represents the framework through which risks to the overall funding level are managed.
Human Resources	None
ICT	None
Legal	Production of the FSS and consultation on changes to it are requirements of the LGPS regulations and this report demonstrates compliance with the regulations.
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection