

## **Pension Fund Committee**

Meeting to be held on Friday, 17 March 2017

|                                       |
|---------------------------------------|
| Electoral Division affected:<br>None; |
|---------------------------------------|

### **Funding Strategy Statement**

(Appendix A refers)

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#### **Executive Summary**

This report sets out the Fund's revised Funding Strategy Statement (FSS) following the results of the 2016 valuation as noted by the Committee at its meeting of 2 December. The revised FSS incorporates the requirements set out in the Fund's Investment Strategy Statement (ISS).

#### **Recommendation**

The Committee is requested to approve the revised Funding Strategy Statement as set out in Appendix 'A'.

#### **Background and Advice**

All Local Government Pension Scheme funds in England and Wales are required to publish a Funding Strategy Statement (FSS) in accordance with the Local Government Pension Scheme Regulations 2013 (as amended).

The purpose of the FSS is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

Lancashire County Council, as administering authority of Lancashire County Pension Fund, is required to prepare and publish its FSS after consultation with all relevant interested parties involved with the Fund – such as local authority employers, admitted bodies and scheduled/resolved bodies.

Given this, and in accordance with governing legislation, all interested parties connected with the Lancashire County Pension Fund have been consulted and given opportunity to comment prior to the FSS being finalised and adopted. The FSS takes into consideration all comments and feedback received.

## **Legislative Framework**

Regulation 58 of the Local Government Pension Scheme Regulation 2013 (as amended) provides the statutory framework from which LGPS authorities are required to prepare their FSS having regard to:

- CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS (2016 Edition);
- Its Investment Strategy Statement published under Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS. In practical terms this means that the FSS will need to be comprehensively revisited at each triennial valuation with an annual review in the interim period linked to the review of the ISS.

## **Contents of FSS**

The FSS is prepared under the following headings:

- Purpose of the FSS in policy terms;
- Aims and purpose of the Pension fund
- Responsibilities of the main parties
- Solvency issues and target funding levels
- Link to investment policy and the Investment Strategy Statement
- Identification of risks and counter-measures
- Monitoring and review

## **Fund Value as at 31 March 2016**

The triennial valuation of the assets and liabilities of the Lancashire County Pension fund as at 31 March 2016 has been carried out by the Fund Actuary, Mercer. The results of the valuation, including amendments to individual employer contribution rates, will be effective from 1 April 2017.

At headline whole fund level the overall funding level based on the various updated assumptions is around 90% as at 31 March 2016, compared to 78% at 31 March 2013. The actuary presented these results at the Committee meeting on 2 December 2016 and the results were also communicated to the individual employers in one to one surgery meetings and an employers' meeting on 7 December 2016.

The key elements of the Fund's revised FSS was also communicated to the employers at the members briefing and at the time of writing this report discussions are still ongoing with some of the individual fund employers in respect of options available to them via the revised FSS.

As the solvency level of the Fund is 90% at the valuation date, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will normally be expressed as a specific sum (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish.

Employers may, in certain circumstances at the discretion of the Administering Authority, also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the total contributions at the expected monetary levels from the preceding valuation (including any indexation in the deficit contributions over the recovery period). Full details are set out in this FSS in Appendix A.

The target recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and the employer risk profile individual employer recovery periods would also be expected to reduce by 3 years at this valuation. Where there is an increase in contributions required at this valuation the employer will be able to step-up their contributions over a period to be decided by the Administering Authority.

The formal Actuarial Valuation report as at the 31 March 2016 is expected to be available no later than 31 March 2017. A copy of the report will be put in the Pension fund knowledge library for committee members to view.

## **Consultations**

The Fund's Actuary, Mercer and individual employers have been consulted on the details of the FSS.

## **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Legal

Non- compliance with statutory regulation.

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

| Paper                                                                                               | Date | Contact/Tel           |
|-----------------------------------------------------------------------------------------------------|------|-----------------------|
| Local Government Pension Scheme Regulation 2013 (as amended)                                        | 2013 | Abigail Leech (30808) |
| CIPFA guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS (2016 Edition) | 2016 |                       |
| The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016           | 2016 |                       |