**Pension Fund Committee**
Meeting to be held on 27 March 2014

| Electoral Division affected: None |
|---|

**Funding Strategy Statement and Statement of Investment Principles**
(Appendices 'A' and 'B' refer)

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**Executive Summary**

This report sets out the Fund's revised Funding Strategy Statement following the results of the 2013 formal actuarial valuation of the Fund as noted by the Committee at its meeting of 29 November 2013.

The revised Funding Strategy Statement incorporates the requirements set out in the Fund's Statement of Investment Principles, which itself has been updated to reflect the changes to specific investment strategies relating to particular asset classes, previously approved by the Pension Fund Committee.

**Recommendation**

The Committee is requested to approve:

1. the revised Funding Strategy Statement, as set out at Appendix 'A'.

2. the revised Statement of Investment Principles, as set out at Appendix 'B'.

**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 (Administration) Regulations 2008.

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

To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Pension Fund's Statement of Investment Principles (SIP) must be reviewed and, if necessary, revised from time to time (and within 6 months of any material change).

Lancashire County Council

The SIP describes the high-level principles governing the investment decision-making and management of the Pension Fund and the policy that has been developed to ensure their implementation. The revised Funding Strategy Statement incorporates the requirements set out in the Fund's Statement of Investment Principles, which itself has been updated (Appendix 'B') to reflect the changes to specific investment strategies relating to particular asset classes, previously approved by the Pension Fund Committee.

**Purpose of the Funding Strategy Statement (FSS)**

The purpose of the FSS is:

- To establish a clear and transparent fund-specific strategy, which will identify how employers pension liabilities are best met going forward.
- To support the regulatory requirement to maintain as nearly constant employer contribution rate as possible; and
- To take a prudent longer-term view of funding those liabilities.

**Legislative Framework**

Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 provides the statutory framework from which LGPS Administering Authorities are required to prepare their FSS having regard to:

- CIPFA Pensions Panel "Guidance on Preparing and Maintaining a Funding Strategy Statement 2012"
- Its Statement of Investment Principles (SIP) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

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 SIP. 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 SIP.

The Fund Actuary must have regard to the FSS as part of the Fund valuation process.

The FSS is prepared in consultation with interested parties. These have been defined as participating employers, the actuary and investment consultant (Mercers). The draft FSS has been prepared based on Mercer's advice and the pertinent elements have been shared with participating employers. Members of the Scheme have not been consulted as their benefits are guaranteed by statute, but they will have access to the final statement on the Your Pension Service website.

**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 set out in the Statement of Investment Principles;
- Identification of risks and counter-measures.

**Fund Valuation as at 31 March 2013**

The triennial Valuation of the assets and liabilities of the Lancashire County Pension Fund as at 31 March 2013 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 2014.

At headline whole fund level the overall funding level based on the various updated assumptions is around 78% as at the 31 March 2013, compared to 80% at March 2010. This differs from the figures in the regular performance reports because of the revised assumptions. Given the significant negative movements in key elements such as the discount rate this should be seen as a positive result for the Fund.

The results of the 2013 Valuation reveal a funding position of 78%. The Actuary presented these results at the Committee meeting held on 29 November 2013 and the results were also communicated to individual employers at a Directors Briefing on 10 December 2013. Subsequently the Actuary and Fund Officers have held one to one "surgery sessions" with individual employers to assist them in understanding the results of the valuation.

The pertinent elements of the Fund's revised Funding Strategy Statement (FSS), attached at Appendix 'A', was also communicated to employers at the Directors Briefing and at the time of writing discussion is still ongoing with a number of individual Fund employers in respect of their individual employer contribution rates and the options available to them via the revised Funding Strategy Statement.

Section 5 of the FSS set out the deficit recovery plan as follows: -

Underlying the assumptions used in the calculation of the funding target are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for changes in market conditions that have occurred since the valuation date;

- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A maximum deficit recovery period of 19 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A different period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- Where increases in employer contribution rates are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2014/15 may be implemented in equal steps, over a maximum period of 3 years.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit
- a schedule of lump sum amounts over 2014/17 in respect of the past service deficit (subject to the review from April 2017 based on the results of the 2016 actuarial valuation).

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

The formal Actuarial Valuation Report as at 31 March 2013 is expected to be available no later than 31 March 2014. A copy of the Report will be sent to all members of the Pension Fund Committee.

**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/Directorate/Tel |
|---|---|---|
| Local Government Pension Scheme (Administration) Regulations 2008 | 2008 | Andrew Fox/ County Treasurer's Directorate/ 35916 |
| Statutory Instrument 2009 No.3093 – Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 | 2009 | Andrew Fox/ County Treasurer's Directorate/ 35916 |

Reason for inclusion in Part II, if appropriate

N/A