

Agenda Item 7

Pension Board
9 March 2021

Regulatory Statements

Report of the Head of Pensions

Summary

This report brought to Committee the following regulatory statements for review:

- Funding Strategy Statement (FSS) - attached as appendix 1 to this report
- Investment Strategy Statement (ISS) - attached as appendix 2 to this report

The main proposed revisions to the FSS are based on the new Employer discretions that have been introduced and must be captured to enable the Fund and Employers to utilise the discretions. In respect of the ISS, the proposed revisions reflect the decisions made by Committee at its meeting on 25 January 2021.

Funding Strategy Statement

Background

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that 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 framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

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Consultation

This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

The consultation process for this FSS is:

- a) A draft version of the FSS was issued to all participating employers on 22 February 2020 for comment;
- b) Comments were requested within 16 days;
- c) Comments received will be advised to Committee at its meeting on 5 March 2021.

Review

The FSS is reviewed in detail at least every three years as part of the triennial valuation. That version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is expected that amendments may be needed within the three year period, and depending on the level of the amendment will determine the appropriate consultation process. The amendments required reflect regulatory changes that have an impact on the way the Fund operates and as such these amendments have been considered significant a full consultation, as outlined above has been undertaken.

Proposed revisions

The proposed FSS, attached at appendix 1, has been revised following the change in Regulations offering additional employer flexibilities. The updates to the FSS in respect of these changes can be found in note (f) and note (j) in Section 3.3.

There is an additional section on the Fund’s approach to dealing with uncertainty arising from the Goodwin court case (section 2.8) and an update in section 3.7 on the Fund’s approach to monitoring the cost of ill-health early retirements.

Publication

The FSS is made available through the following routes:

- Published on the website, at www.gloucestershire.gov.uk/extra/pensions/investments
- A copy sent by email to each participating employer in the Fund;
- A copy sent to employee/pensioner representatives;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to independent advisers;
- Copies made available on request.

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Investment Strategy Statement

Background

The LGPS - Management & Investment of Funds Regulations 2019 introduced a prudential framework for investment decision making, introduced a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and required all funds to publish an Investment Strategy Statement (ISS).

The ISS is made in accordance with Regulation 7 of the Regulations and guidance issued from time to time by the Secretary of State. The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Consultation

The ISS has been prepared having taken advice from the actuary to the Fund, Hymans Robertson LLP and the Fund's Independent Investment Adviser.

Review

The ISS, which was previously approved by the Committee, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

Proposed revisions

The proposed ISS, attached at appendix 2, contains amendments shown via tracked changes. The ISS has been updated to incorporate the recommendations agreed by Committee at its meeting on 25 January 2021. The main areas of amendment relate to the Equity allocation contained within the tables as well as the inclusion of the intended currency hedging level and the management of cashflow for the Fund.

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Publication

The ISS is made available through the following routes:

- Published on the website, at www.gloucestershire.gov.uk/extra/pensions/investments
- A copy sent to employee/pensioner representatives;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to the Fund actuary;
- Copies made available on request.

Recommendation

That the Board note the following revised regulatory statements as attached to this report:

- Funding Strategy Statement
- Investment Strategy Statement

Contact Officer

Matthew Trebilcock – Head of Pensions (01452 328920)