



Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Pensions Committee
Date:	01 December 2022
Subject:	Funding Strategy Statement and Climate Analysis Report

Summary:

This paper brings to the Committee the draft Funding Strategy Statement and the Climate Analysis Report, produced by the Fund's Actuary, for consideration and comment.

Recommendation(s):

That the Committee consider and discuss the paper and feedback any comments to the Fund's Actuary on the content of the FSS and the Climate Analysis Report.

Background

1. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation. The initial Valuation outcome was presented to the Committee at its September meeting and the final draft report detailing the funding position and the employer contribution rates payable to for the three years to March 2026 will be brought to the March 2023 meeting for approval.
2. As employees' contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.
3. The purpose of this Funding Strategy Statement (FSS) is to:
 - Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
 - Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;

- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
 - Take a prudent longer-term view of funding those liabilities.
4. The FSS sets out how the Fund will meet its funding objectives, which are set out below:
- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
 - Ensure the solvency of the Fund;
 - Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
 - Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
 - Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.
5. The FSS covers the areas of:
- The Funding method;
 - Valuation assumptions and funding model;
 - Pooling of employers;
 - New employers;
 - Cessation valuations;
 - Links with the Investment Strategy Statement; and
 - Risks and counter measures.
6. Within the risk section, Climate risk is considered. As part of the recommendations from the S13 review undertaken by Government Actuaries Department (GAD), Funds are required to set out climate scenario analysis on the assets and liabilities of the Fund in-line with the Key Principles agreed with GAD, for the purpose of the 2022 LGPS valuations. This has been undertaken by Barnett Waddingham, and the outcome of the scenario analysis is attached at appendix B.
7. The outcome of the analysis is that, based on the scenario testing in the report, the Actuary is comfortable with the current level of prudence included in the proposed funding assumptions. The Committee should consider the actions set out within the Climate paper for managing climate risk, as set out in the next steps at the end of the report. Initial comments on the next steps have been added in italics where appropriate:

- Different employers are likely to be affected by climate change in different ways, and at different times. The administering authority should stay alert to this and continuously monitor employer covenant to ensure that any changes in covenant are revealed. Any changes should be dealt with as required and as soon as possible, in order to best protect the Fund and the other participating employers.

Employer covenant is monitored by the Fund at each triennial review, and in between through regular contact with employers to understand any upcoming risks.

- The Fund should regularly monitor the funding position of the Fund. This is currently done using Barnett Waddingham's Monitor software.
This is reported quarterly to Committee in the Fund Update report.
- The administering authority may also wish to consider the climate risk and opportunities of the Fund's assets and investment strategy. This should be discussed with the Fund's investment advisers.
Climate risk and opportunities are discussed with Managers on a regular basis and will be considered when the Fund looks at its approach to net zero, expected to be done in 2023.
- The Fund should take advice from their Fund Actuary on appropriate changes to the Fund's mortality assumptions at future valuations.
- The Fund should ensure they are in receipt of regular updates on legislative matters from their advisers.

8. The Fund Actuary, Melanie Durrant, will highlight the key areas of the FSS and the Climate Analysis report and answer any questions the Committee may have.

Conclusion

9. The FSS has been updated following the 2022 Triennial Valuation to take account of the process used to finalise employer contribution rates.
10. The FSS has been circulated to all employers for consultation, and comments will be considered and discussed with the Fund Actuary, in addition to any comments from the Committee. The final draft version of the FSS, along with the Valuation report including the employers' agreed contribution rates, will be brought to the March 2023 meeting of this Committee for approval.
11. The climate scenario analysis reporting, as required by GAD, has been undertaken by the Actuary and they are comfortable with the current level of prudence included in the proposed funding assumptions.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Funding Strategy Statement
Appendix B	Climate Analysis Report as at March 2022

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.