



Committee Report

Committee	ISLE OF WIGHT PENSION FUND COMMITTEE
Date	8 FEBRUARY 2023
Title	FUNDING STRATEGY STATEMENT 2023
Report of	PENSION FUND MANAGER

EXECUTIVE SUMMARY

1. This report presents the Funding Strategy Statement for the Isle of Wight Council Pension Fund updated to reflect the 31 March 2022 formal valuation of the fund.

RECOMMENDATION

2. That the committee note the process that has been followed for the review and update of the Funding Strategy Statement, including consultation with interested parties.
3. That the committee adopts the Funding Strategy Statement, including the newly created contribution review policy and cessation policy.
4. That the committee approve the publication of the Funding Strategy Statement 2023 on the fund's website.

BACKGROUND

5. The main purpose of the formal valuation of the Isle of Wight Council Pension Fund (the fund) is to review funding plans to ensure they are fit for purpose and set contribution rates payable by participating employers within the fund. The valuation is a statutory requirement and is a health check of the fund and its funding plan.
6. As part of the valuation process, the fund is required to prepare a Funding Strategy Statement (FSS). It is a regulatory requirement for the fund to have a FSS and it is reviewed every three years in collaboration with the Fund's actuary Hymans Robertson LLP during the valuation process. Following review, it is then consulted on with the Fund's employers. The FSS must be agreed and approved by 31 March 2023.

7. The 2020 funding strategy statement, linked in the background papers to this report, is a cumbersome document, containing all the required information, but is not very user friendly, or intuitive.
8. The fund has commissioned the actuaries to review and update the FSS, which has resulted in a more concise document, supported by separate policies dealing with some of the more specific aspects of the funding strategy.

UPDATED FUNDING STRATEGY STATEMENT

9. The Funding Strategy Statement for 2023 is attached to this report as Appendix 1.
10. The core document has been re-structured to make it easier for users to navigate and find exactly what they need, along with a full review of wording to make it as easy to understand as possible.
11. This core document includes details specific to the Isle of Wight Council Pension Fund on:
 - The approach to calculating and certifying contributions for each employer type (e.g. academies, Transferee Admission Bodies) in section 2, including specifying when additional contributions may be payable in section 3.
 - The contribution stability mechanism approach for the Council in section 2.2.
 - The approach to allocating assets between employers in section 4.
 - The 2022 valuation approach and assumptions including brief details of the key financial and demographic assumptions, in Appendix D.
 - The method of setting contribution rates for different types of new employers, in section 5.
 - The fund's considerations in respect of bulk transfers of members either into or out of an employer, in section 6.
 - What happens when an employer leaves the fund in section 7, including the fund's approach to exit credits and the flexibilities offered for the payment of cessation debts, expanded further in Appendix F.
 - How the uncertainty relating to McCloud is allowed for.
12. The core document is supported by a number of appendices:
 - (a) Appendices A to D are consistent with those used in previous versions of the FSS. These respectively cover the regulatory framework, roles and responsibilities, risks and controls, and actuarial assumptions.
 - (b) Appendices E and F introduce new policies for the fund, covering recently introduced flexibilities for the fund in respect of the ability to review employer contribution rates between valuations, and the treatment of employers at cessation.
13. There are a number of highlighted/shaded references in the FSS document as presented, which indicate that further information is available from the fund on request. These areas will be the subject of additional policies in due course.
14. It is proposed that these are created over the next 12-18 months, so they are fully operational before the next valuation.

15. The specific areas to be covered by these policies include:
 - (a) The prepayment of employer contributions.
 - (b) Academy participation.
 - (c) Pass-through arrangements for transferee admission bodies.
 - (d) Employer admission to the fund.
 - (e) Bulk transfers.
 - (f) Exit credits.
 - (g) Flexibility on exit.
16. Items (b) to (d) expand on section 5 in the revised FSS; item (e) expands on section 6; and items (f) and (g) expand on the new Appendix F.
17. Each of these new policies will be brought to the local pension board for review and onward recommendation to the pension fund committee for adoption in due course.
18. The final text of the FSS will be updated to remove the blue highlighting before publication.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

Corporate Aims

19. There is nothing contained in this report which directly contributes to the priorities contained in the [Corporate Plan 2021 - 2025](#). Publication of this report supports the Corporate Plan key value of “being fair and transparent”.

Pension Fund Strategic Aims

20. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.
21. The funding strategy objectives, supporting the primary objective above, are to:
 - (a) 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.
 - (b) use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency.
 - (c) where appropriate, ensure stable employer contribution rates.
 - (d) reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy.
 - (e) use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

CONSULTATION

22. The Local Government Pension Scheme Regulations 2013 require that the administering authority must consult on the Funding Strategy Statement before publication with such persons as it sees fit.
23. The draft FSS was circulated to all employers of the fund on 22 December 2022, opening a consultation period ending on 27 January 2023. The suggested period for consultation is 30 days, but this has been extended to allow for the Christmas and New Year break.
24. At the date of writing this report, only one employer had responded to the consultation, asking a question about section 7.3, specifically the circumstances in which the administering authority might exercise its discretion to not repay a surplus on cessation. The Pension Fund Manager responded to the question, and the employer confirmed their appreciation of the clarification.
25. A verbal update will be provided at the committee meeting should any further consultation responses be received from employers.

LOCAL PENSION BOARD VIEW

26. The draft Funding Strategy Statement was presented to the Local Pension Board at its meeting on 17 January 2023, and members were asked to feed back any comments by Friday 27 January 2023, the same deadline as given to employers.
27. Comments were received from the chairman of the board, which have been considered by the Pension Fund Manager. None have resulted in changes to the current draft of the FSS; the comments will be taken into consideration in future reviews of the proposed new policies.
28. A verbal update will be provided at the committee meeting should any further comments be received from board members.

FINANCIAL / BUDGET IMPLICATIONS

29. The cost for the preparation of the core funding strategy statement, and the costs for drafting future policies, are as agreed in the contract procured in 2017. These costs are borne by the pension fund.
30. The employer contribution rates arising from the valuation, determined using the processes outlined in the funding strategy statement, linked into the investment strategy for the fund, ensure the pension fund will have sufficient assets to pay its current and future benefit obligations.

LEGAL IMPLICATIONS

31. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.

32. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council's statutory duties in respect of the LGPS.
33. Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare, maintain and publish a written statement setting out its funding strategy. The regulations specify that the statement should be published after consultation with such persons as the administering authority considers appropriate.
34. The regulations also state that the administering authority must have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) document "Preparing and Maintaining and Funding Strategy Statement in the LGPS" 2016 edition.

EQUALITY AND DIVERSITY

35. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
36. The adoption of the funding strategy statement has no implications for any of the protected characteristics.

OPTIONS

37. In respect of the consultation process followed for the Funding Strategy Statement, there are two options:
 - (a) That the committee note the process that has been followed for the review and update of the Funding Strategy Statement, including consultation with interested parties.
 - (b) That the committee requests further consultation to be undertaken with alternative bodies.
38. The following options are available in respect of the adoption of the FSS:
 - (a) That the committee adopts the Funding Strategy Statement, including the newly created contribution review policy and cessation policy.
 - (b) That the committee requires amendments to one or more of the constituent parts of the Funding Strategy Statement and defers adoption until such time as the amendments have been made.

RISK MANAGEMENT

39. Risk management is central to the Local Government Pension Scheme (LGPS). LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.
40. The FSS contains detailed information about the risks associated with the funding of the fund, covering financial, demographic, regulatory and governance risks.
41. Details of these risks and the control mechanisms in place to mitigate those risks are set out in Appendix C to the FSS, as well as within the fund's own detailed risk register.

EVALUATION

42. The Local Government Pension Scheme Regulations 2013 state that the administering authority must consult "with such persons as it considers appropriate" when making amendments to the Funding Strategy Statement.
43. As detailed in paragraphs 23 and 26 above, the fund has consulted with scheme employers and members of the Local Pension Board. It is considered that these are "appropriate persons".
44. Scheme employers are directly impacted by the FSS as it is the basis on which their contributions rates are set and specifies out how the fund will treat each type of employer when interacting with them in terms of their admission to, engagement with, and departure from, the fund.
45. The Local Pension Board has been established under the Public Service Pensions Act 2013 to assist the scheme manager (the committee) in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. Their review will give assurance to the committee that the FSS is compliant with regulations.
46. Based on the above, the option at paragraph 37a) is recommended.
47. The FSS has been prepared by the fund's actuaries, Hymans Robertson LLP, taking into account the requirements of the guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their 2016 publication "Preparing and maintaining a funding strategy statement in the LGPS".
48. The two new policies embedded within the FSS, the Contribution review policy and Cessation policy, both clarify the fund's existing practices in a policy, required to fulfil the minimum requirements of the CIPFA guidance.
49. Given that the FSS and the two new policies have been prepared by the fund's actuaries, and are in line with CIPFA guidance, the option at paragraph 38a) is recommended.

APPENDICES ATTACHED

50. Appendix 1: Isle of Wight Council Pension Fund: DRAFT Funding Strategy Statement 2023.

BACKGROUND PAPERS

51. Isle of Wight Council Pension Fund: Funding Strategy Statement 2020.
<https://www.isleofwightpensionfund.org/resources/funding-strategy-statement-2020/>

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