CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 15 February 2023
Report Subject	Funding Strategy Statement
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The draft Funding Strategy Statement (FSS) was approved by the Committee in November 2022 and the consultation with employers commenced, which ended on 13 January 2023. The employers had the opportunity to feedback via:

- the Annual Joint Consultative Meeting (AJCM) on the 13 December 2022
- Optional 1-1 sessions with the Actuary to discuss their individual valuation results and the FSS. In total six employers took up this option and feedback was positive.
- Provide a written response to the FSS consultation. One response was received and this supported the principles, assumptions and flexibility provided.

Given this feedback no fundamental changes are proposed to the FSS as a result of the consultation but the document has been updated in the following key areas:

- The initial climate change scenario modelling has now taken place based on the proposed investment strategy and this section has now been updated.
- Other changes have been made to the FSS to finalise it, including activation of hyperlinks, finalisation of the missing information/assumptions and expanded wording included to enable the termination policy to be reviewed mid valuation where necessary and if market conditions permit.

The proposed FSS in relation to the 2022 valuation is attached as Appendix 1 and has been produced for approval by the Committee. The Actuary will then produce the final valuation report and implement the new contribution requirements from 1 April 2023. Some employers are intending to pay more than the minimum contributions required to support future sustainability of their contributions which is a positive outcome to the consultation.

RECOMMENDATIONS	
1	The Committee notes the activity since the November 2022 meeting.
2	The Committee approve the Funding Strategy Statement.

REPORT DETAILS

1.00	Funding Strategy Statement
1.01	**Draft Funding Strategy Statement** The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. In doing this, they must have regard to FSS guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.
1.02	The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation at 31 March 2022, together with the Administering Authority's policies in the areas where the Administering Authority has discretion to manage the funding position of the Fund. The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement and this will be monitored over the inter-valuation period.
1.03	The FSS includes reference to the updated investment strategy objectives from the investment strategy review and other updates to the Cash and Risk Management framework. The proposed strategy has little impact on the expected risk/return profile of Fund asset portfolio so no there is no impact on the proposed valuation assumptions.
1.04	The draft FSS that was approved by the Committee in November 2022 and the consultation with employers commenced, which ended on 13 January 2023. Employers were provided with their individual results schedules and the draft FSS during late November and feedback was requested. One formal written response was received but other feedback was provided as part of Steering Group meetings with the Councils and a meeting with the education sector employers.
1.05	As part of the consultation process, the Annual Joint Consultative Meeting (AJCM) took place on 13 December 2022 where the Actuary presented the whole Fund valuation results and explained the information set out in the employer results schedules and the factors that affected individual employer results. There was an opportunity to raise questions which a number of employers did.
1.06	In addition employers also had the option to book a 1-1 session with the Actuary to discuss their individual valuation results and feedback comments. In total six employers took up this option and feedback was positive. Results were explained on a 1-1 basis which helped to improve each employers understanding of the process.
1.07	As a consequence of the consultation feedback no fundamental changes are proposed to the assumptions and policies. Some employers are intending to pay more than the minimum contributions required to support future sustainability of their contributions which is a positive outcome to the consultation. Employers are being asked to confirm their final contributions for the 3 years from 1 April 2023 in early March 2023 to enable completion of the final Rates & Adjustments certificate for sign off by the Actuary.

	However there have been a number of updates made versus the draft FSS for Committee approval as per paragraphs 1.08 and 1.09 of this report as well as some minor changes. These have been highlighted in the FSS for ease of reference.
1.08	**Climate Change Scenario Analysis** An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. The principles around the analysis of climate risks as part of the 2022 valuation has been agreed at a national level and the Actuary is required to consider this as part of his professional requirements when reporting on the valuation. The projections are meant to illustrate the different elements of risk under three climate change scenarios based on the current strategic allocation. The scenarios are **not** meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change. The actions taken (both historically and in future) by the Fund in relation to making its asset portfolio more sustainable is set out in the separate Taskforce for Climate Change (TCFD) reports and analysis of the asset portfolio adopting the same (or similar) scenarios although this can be over a different time period as is the case in the separate committee report. However the same principles apply in terms of scenarios considered. The analysis considers a projection of the funding levels (assets divided by the Fund liabilities) under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change. The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only three out of a considerable range of potential outcomes it shows that climate change can have far reaching effects on the Fund. The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The scenarios considered (Rapid, Orderly and Failed Transition on a global basis) and the relative impacts over 5, 20 and 40 years are shown in the section of the FSS on page 11. More detail will be included in the Actuary's final valuation report.
1.09	**Employer Termination policy** Specific wording to enable the termination policy to be reviewed in between valuations or for specific cases where necessary given current

	market volatility. Whilst this is unlikely to be a material risk to the Fund, given that there are typically no employer terminations due to the nature of the employer base, it is important that the review can take place if circumstances warrant it.
1.10	Other minor changes and additions have been made to the FSS to finalise it, including: • activation of hyperlinks • removal of square brackets where information has been finalised • small formatting changes
1.11	Once the final FSS has been approved by the Committee, the Fund Actuary will produce the final valuation report and contribution certificate no later than 31 March 2023 and the new contribution rates will be implemented from 1 April 2023 for the 3 years to 31 March 2026. The final FSS will then be published on the Fund website for employers.

2.00	**RESOURCE IMPLICATIONS**
2.01	The Actuary will collate the final contribution information and produce the valuation report which will be signed off by 31 March 2023.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Administering Authority consulted with employing bodies over the development of the Funding Strategy Statement during December 2022 and January 2023.

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The actuarial valuation is a vital governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements which have a material impact on budgets and local services. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Funding Strategy Statement

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	1. Current FSS and 2019 Actuarial Valuation report. 2. Committee reports on the actuarial valuation and funding strategy statements from June 2022 and November 2022. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (h) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (i) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to

	public sector clients. GAD is a non-ministerial department of HM Treasury.