

Investment Committee

Hybrid Meeting – 11 November 2024

Item 9 – Paper G

Funding Strategy Statement (FSS) guidance

Background

1. Regulation 58 of the Local Government Pension Scheme Regulations (LGPS) 2013 requires funds in England and Wales to publish a written statement setting out its funding strategy. As a reminder, Part (4) of this regulation requires that:
 - (a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012(42); and
 - (b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016'.
3. The Board's Compliance and Reporting Committee (CRC) set up a working group comprising of fund practitioners, fund actuaries, the Government Actuary's Department (GAD), scheme employers, LGPS legal advisors, scheme member representatives and the Scottish Scheme Advisory Board. That group worked on updating the previous CIPFA guidance from 2016 to help funds create their FSS document. A primary aim of the new guidance was to cover all the necessary topic areas but without being prescriptive in the policy approach to take. A priority was also that the FSS document published by a fund should be better understood by its primary readership of scheme employers.
4. The new FSS guidance has been drafted so it can be applicable in Scotland and Northern Ireland and has been reviewed for comment by Scottish LGPS practitioners in the working group. The Secretariat have also shared the guidance with the Scottish Public Pensions Agency (SPPA) policy team and the Scottish Scheme Advisory Board (SSAB) for potential adoption by Scottish Ministers.
5. The project was first started in Autumn 2022 and the Secretariat has received a significant amount of input from all group members to the final version, which reflects the current funding scenarios faced by LGPS funds now and as they prepare for the 2025 Actuarial Valuation.

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Current position

6. The new FSS guidance was approved by the Board's CRC when it met on 21 October 2024 with only minor comments which have been addressed since the meeting. The Committee are invited to note the new guidance which can be found at **Annex A** (shared confidentially via email).
7. The Secretariat wanted to bring the updated guidance to this Committee's attention for two reasons. Firstly, because of the link between the FSS and the Investment Strategy Statement (ISS) covered in the LGPS regulations, the Committee will wish to note the section in the guidance covering a FSS's interaction with a fund's ISS (paragraphs 45 to 49).
8. Secondly, the new FSS guidance has been updated to take into consideration some of the recommendations made in the Government Actuary's [latest review](#) of local fund valuation reports. Specifically for climate risk reporting, the FSS guidance now sets out that funds should be clear on their approach to assessing the potential impact of climate risk, how this is used in decision making, risk management and how it links with other management strategies. However, as the subject of climate risk reporting is an evolving area, the FSS guidance recognises this and therefore a separate climate principles document is referenced in the guidance which has been drafted by fund actuaries and which is broadly supported by GAD (at paragraph 42).
9. It is proposed that the Board will publish the climate risk reporting principles document and the current draft can be found at **Annex B** to this paper (shared confidentially via email). The Committee is invited to comment on this document.

Next steps

10. The Secretariat are aiming for the FSS guidance to be available for the end of the year and it will be submitted for approval by the Chartered Institute of Public Finance and Accountancy (CIPFA) at its Public Finance Management Board meeting on 7 November 2024. If approved there, it will be put for approval at the Board's meeting on 25 November 2024 and the Secretariat will then work with MHCLG officials for it to receive Ministerial approval, with the plan for final guidance to be issued before the end of December 2024.
