SOUTH YORKSHIRE
PENSIONS AUTHORITY

Subject	**Funding Strategy Statement**	**Status**	For Publication
Report to	Local Pensions Board	**Date**	11 December 2019
Report of	Fund Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

1.1 To provide the Board with the opportunity to provide its views on the draft Funding Strategy Statement (FSS) to the Authority before its approval.

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2 Recommendations

2.1 Members are recommended to:

a. **Receive and comment upon the Draft Funding Strategy Statement at Appendix A.**

b. **Make any recommendations that are felt appropriate to the Authority in relation to the Funding Strategy Statement.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

There is a requirement in the LGPS regulations to consult on the Funding Strategy Statement with relevant stakeholders. Given the composition of the Board it provides one of a range of opportunities to fulfil this requirement.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Ensuring that the draft Funding Strategy Statement is widely available to stakeholders for comment and is discussed in public for such as the Board and the Employers' Forum demonstrates the transparency of the process of its development.

4 Implications for the Corporate Risk Register

4.1 An effective funding strategy addresses the risks that exist around the Authority being able to balance the interests of the Fund and employers in achieving both full funding and long term stability in contributions.

4.2 As with any process based on a series of assumptions there is a significant risk that there is a difference between reality and the forecast. This is in part addressed through the level of prudence built into the assumptions, but as indicated within the Funding Strategy Statement itself this can only represent partial mitigation and an appreciable degree of risk will always remain.

5 Background and Options

5.1 Alongside the Triennial valuation process and the certification of contributions by the Actuary the Authority is required to produce a Funding Strategy Statement which in simple terms is intended to set out how it intends to ensure that funds are available to meet the liability to pay pensions when they fall due. Thus the Strategy sets out the Authority's policies in relation to a wide range of matters including the setting of employer contributions, the management of deficits and surpluses, the assessment of employer covenant and the management of employer admissions and exits.

5.2 The regulations require that stakeholders are consulted as part of the process of reviewing and producing the Funding Strategy Statement. The process undertaken in this case has involved:

- A formal consultation with all employers on key actuarial assumptions before the valuation date of 31st March 2019.
- A presentation by the Actuary at the Employers' Forum on 12th November 2019.
- Discussions with key employer groups covering both valuation results and these policy issues (separate meetings were held with District Councils, Academies, F&HE Institutions and other employers).
- All employers have been provided with the draft Funding Strategy Statement for comment.
- The Local Pension Board is being provided with the opportunity to comment on the draft statement at this meeting.

5.3 Any comments and views received will be reflected on by officers in producing their final recommendations to the Authority and will be included in the report on the final strategy considered by the Authority at its January meeting.

5.4 The key changes reflected in the draft FSS which is at Appendix A are set out below:

- **Alternative Funding Targets –** As a precursor to the introduction a differentiated investment strategies reflecting the risk to the Fund posed by specific employers different funding targets may be used for employers with a lesser covenant in order to provide more certainty that liabilities will be met. This approach will initially be particularly focussed on Community Admission Bodies especially those without a guarantor.
- **McCloud –** An estimate has been made of the impact of the McCloud case and employers are being provided with the option of making additional contributions now to begin to meet the cost or to make what may be a greater level of contributions (including a "backdating" element) once the final remedy is

known. This potentially provides greater stability in contribution rates for employers who choose take this option.

- **Short Term Pay Growth –** The assumption about short term pay growth based on research with major employers has been set at 3% for the next 3 years. This includes the effect of incremental progression as well as headline pay awards and thus is likely to be closer to the real growth in the pay bill.
- **Ill Health Captive –** The scope of this arrangement which in effect insures ill health liabilities for smaller employers will be increased to all employers with fewer than 100 active members. Employers who have participated up to now will likely see a reduction in premiums due to experience over the last 3 years.
- **Prepayments –** Options will be provided for all employers to prepay any deficit contributions, in addition the option to pay off the whole deficit will be offered. District Councils will continue to be offered a prepayment arrangement in relation to future service contributions.
- **Contribution Stability –** For employers who still have a deficit the total cash level of contributions over the period 2020-23 will be maintained at the same level as currently plus inflation. This provides a balance in sharing the benefits of improved funding levels between employers and the Fund where a deficit remains while increasing the certainty of recovering the deficit.
- **Deficit Recovery –** The maximum deficit recovery period will be 16 years (a reduction of 3 years as compared to the last valuation). Where possible and within the overall approach to contribution stability deficit recovery periods for individual employers will be brought down further.
- **Phasing of Contribution Increases –** Phasing of contribution increases will be allowed (at the discretion of the Fund) but only on the basis of the total contributions payable over the period 2020-23 being the same as required in the actuary's initial assessment. Additionally discussions are being held with Academies and F&HE Institutions about implementing any new contribution plans on an academic year basis in line with funding.
- **Academies –** The Fund's default position will be that Multi Academy Trusts are treated as a single employer, although individual schools will continue to be tracked separately.
- **Outsourcing and Exits –** Policies are proposed to address issues surrounding exit credits, the new fair deal and the Government's proposals around deferred employer status.

5.5 The framework set out in the draft FSS is intended to protect the Fund and ensure the greatest possible likelihood of achieving and maintaining full funding at employer level while at the same time giving flexibility to recognise both the general financial pressures facing employers and deal with cases of particular difficulty.

5.6 There are a number of uncertainties which the policy framework set out in the draft FSS seeks to address. The largest of these relates to the impact of the McCloud judgement, where while an estimate of the cost has been made no proposals have been tabled by the Government which would define the nature of the actual remedy. In general terms it will, all other things being equal, serve employers better to make provision for these costs now, rather than wait until a remedy is in place and play catch up. However, there is an affordability argument and the Fund has no power to make employers pay additional contributions in relation to what is at present a notional liability.

5.7 The Board are invited to discuss the issues raised by the draft FSS and consider whether it wishes to make any recommendations to the Authority.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The Funding Strategy Statement provides the basis for determining future contributions by employers. The various options provided in terms of the ability to pre-pay some contributions and the broad strategy around deficit contributions and dealing with the implications of the McCloud case will impact on the Fund's cash flow profile going forward.
Human Resources	None
ICT	None
Legal	The production of a Funding Strategy Statement is a requirement of the LGPS Regulations. Working closely with the actuary in order to produce the statement as has been done ensures compliance with the regulations.
Procurement	None

George Graham

Fund Director

Background Papers	
Document	**Place of Inspection**