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| **Subject** | **Valuation 2019 – Review of Outcomes** | **Status** | For Publication |
| **Report to** | Local Pension Board | **Date** | 23rd July 2020 |
| **Report of** | Head of Pensions Administration | | |
| **Equality Impact Assessment** | Not Required | Attached | No |
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## 1 Purpose of the Report

1.1 To update members on the final outcomes of the 2019 valuation process.

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## 2 Recommendations

2.1 Members are recommended to:

a. **Note the completion of the Valuation process and the range of outcomes that apply to both individual employers and to groups of employers in the fund**

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## 3 Link to Corporate Objectives

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

**Customer Focus**

To design our services around the needs of our customers (whether scheme members or employers). A key focus with this triennial valuation was to engage at an early stage with groups of employers to understand the likely outcomes and the potential flexibilities available within the process.

**Listening to our stakeholders**

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

Employers were consulted frequently during the valuation process, including formally in relation to the Funding Strategy Statement.

**Effective and Transparent Governance**

To uphold effective governance showing prudence and propriety at all times. The fund has a responsibility to ensure that the ability of employers to meet their commitments is kept under review and a small number of employers were identified during the process and bespoke funding arrangements were applied to address potential affordability issues whilst minimising the risk to the fund.

## 4 Implications for the Corporate Risk Register

4.1 The outcomes of the valuation process link to the risks set out in the Corporate Risk Register in respect of 'investment and funding' as the purpose of the valuation is for SYPA to be able to determine the liabilities and assets of the fund and set an appropriate plan to ensure that the fund can continue to meet its liabilities (i.e. payments of benefits to its members) in the longer term.

## 5 Background and Options

5.1 Members will be aware that each LGPS fund has a statutory obligation to carry out a valuation of the fund every three years and the fund actuary produces a Rates and Adjustment Certificate confirming the employer contribution rates that will apply for the three year period from 1 April 2020. Employer Contributions consist of primary contributions (the contributions needed to cover the cost of benefits that active members will build up in future) and secondary contributions (the amounts needed to cover any existing shortfall).

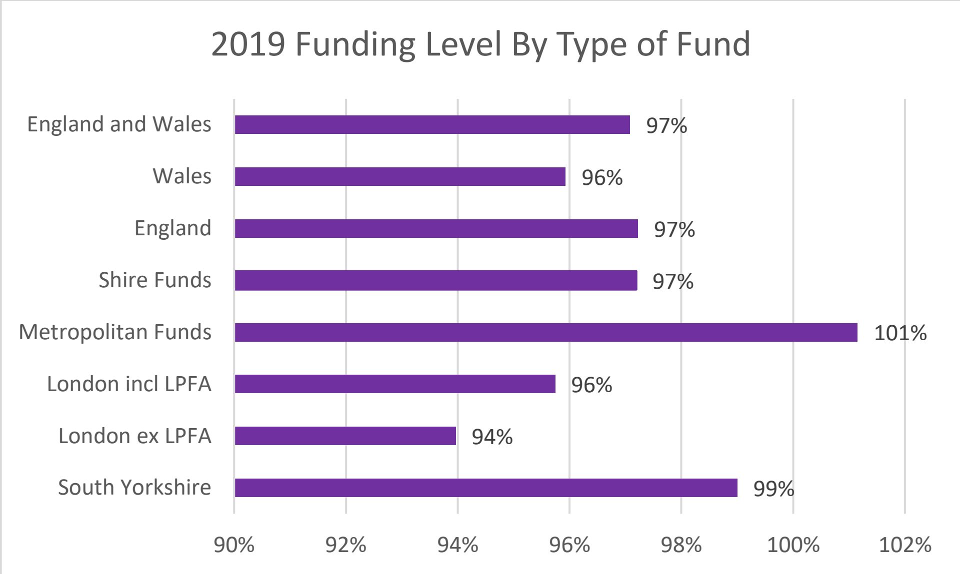
5.2 Authorisation to complete the valuation process in line with the statutory timetable for publication of the final report (31 March 2020) was delegated by the Authority to the Director in consultation with the actuary. The final valuation report was duly published by the deadline date and is now attached for reference at **Appendix A**.

*Comparison with other LGPS Funds*

5.3 The overall funding position as at the valuation date of 31 March 2019 shows a funding level of 99% as compared with 86% at the 2016 valuation. The funding strategy is designed in such a way as to target a solvency funding level of 100% so this is a desirable outcome.

5.4 The graph below shows a comparison between the South Yorkshire position and the position for the various different types of fund across England and Wales. Whilst an underfunded position will inevitably result in increased employer contributions, a significant over-funded position suggests that public monies are being drawn away from arguably more appropriate use in supporting the funding of valuable public services.

5.5 This graph hides a wide range of variations at individual fund level with the best (125%) and worst funded (70%) funds both being in London. It is also important to bear in mind that this comparison is based on the valuation basis, i.e. the figures generated by local actuarial assumptions in order to generate the contribution plan for the next three years. This means that inevitably there is a degree of comparing "apples and pears" involved. It does, however, give some understanding of where South Yorkshire's funding level fits within the overall picture for the LGPS in England and Wales.




*Local Funding Variations*

5.6 The position at whole fund level also disguises the fact that individual employers have significant differences in funding positions according to their unique membership profile and past contribution history.

5.7 The table below shows the average funding levels grouped by the types of employer represented in the fund. As would be expected, long standing employers such as scheduled bodies who are relatively mature employers with an established history of contributing to the scheme are generally near 100% funded which means that overall contribution levels have reduced from 1 April 2020 compared with the 2016 valuation.

| Sector | Average funding level at 2019 Valuation | Total Annual Contribution Change from 2016 valuation plan (£ m, approx) | By Employer Movement in Total Contributions compared with 2016 Valuation Plan | |
|---|---|---|---|---|
| | | | Employers with **Increase** in Total Contributions | Employers with **Reduction** in Total Contributions |
| Four Councils | 100.6% | -38.30 | 0 | 4 |
| Other Scheduled Bodies | 101.2% | -0.36 | 2 | 5 |
| Academies | 61.6% | 4.50 | 236 | 59 |
| FE/HE sector | 98.5% | -2.10 | 1 | 5 |
| Community Admission Bodies | 100.9% | -0.78 | 12 | 23 |
| Transferee Admission Bodies (contractors) | 104.6% | -0.77 | 58 | 42 |
| Parish/Town Councils | 104.2% | -0.02 | 8 | 10 |
| | | | | |
| Whole Fund | 99.0% | -37.83 | 317 | 148 |

5.8 Subject to individual funding variations, there is clear underfunding in the academy sector and, in the main, their contribution levels have had to increase at this valuation as they work towards achieving a fully funded position over the maximum recovery period of 16 years from 1 April 2020. Unlike transferee admission bodies (contractors), academies do not generally start from a fully funded position because they inherit the liabilities of past deferred and pensioner members at the point they switch from local authority control. This means that, depending on their date of conversion, they will have started with a low funding position relative to their active membership and their contribution rates will be proportionately higher. Very recent academy conversions (e.g. those schools who converted in 2019/20) will find that they have benefited from the stronger funding position of the local authority and may have converted with much lower or, in some cases, no deficit.

5.9 The overall funding position of transferee admission bodies (contractors) is shown as slightly higher than 100% funding. Unlike the approach in other sectors, this is beneficial because it reflects the fact that many of these admission agreements result from short-term service contracts and the fund is looking to minimise the risk of a shortfall at the point the service contract ceases. In the event of a surplus at the date the agreement terminates, the surplus can be credited to the employer or to the admission body according to the respective funding risk borne by each during the length of the contract.

*Use of Employer Flexibilities*

5.10 We have previously reported to members that a programme of engagement with employers in relation to the valuation process was carried out in the summer of 2019 and this is likely to have resulted in the increased use of flexibilities available to employers as part of the valuation cycle. The following provides a summary of the various tools used by employers which were intended to assist them in planning for their various obligations.

- **43** employers elected to pre-pay their monthly deficit payments, either on an annual or 3 year basis. This is a mutually beneficial arrangement - for employers who receive discounted rates to reflect early payment and for the fund in terms of cash flow and early investment potential.

- **25** Multi-Academy Trusts (MATs) are now paying a combined employer contribution rate for all the schools within the MAT. Although this doesn't impact the overall contribution payable, it is administratively simpler for MATs and is a new provision not previously available to them.

*McCloud impact*

5.11 Members will be aware that the fund was unable to mandate the payment of additional contributions towards the upcoming costs of the McCloud judgement because the statutory provisions that will determine the remedy have not yet been made. Employers were strongly encouraged to commence payment of the contributions required to minimise the risk of the fund needing to claw back additional payments in the event that the remedy is settled in the inter-valuation period. In the event, the vast majority of employers **(97%)** have elected to build in the McCloud costs from 1 April 2020 which is a positive step because it potentially reduces significantly both the risk of underpayment and the administrative burden in terms of recouping costs at a later date.

*Employer Covenant issues*

5.12 As part of the valuation process, an exercise was undertaken to identify the small number of employers that are deemed to be a potential risk to the fund in the event that they are unable to meet their contribution obligations. Primarily, these are bodies that do not have the backing of a guarantor or bond agreement and therefore would be a risk to the fund in the event of insolvency. For any of these bodies in a deficit position, individual discussions were held with the employers and a suitable recovery period to return to full funding was agreed. This is the first step in an ongoing commitment to monitor employers with a weak covenant (often long standing charities who joined the scheme many years ago before risk was properly factored into the admission process) and further action will be taken during the inter-valuation period to provide assurance on long-term affordability.

## 6 <u>Implications</u>

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

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|---|---|
| Financial | No direct implications for the fund but all employers are impacted by the final Rates and Adjustment certificate as this determines their contribution from 1 April 2020 for the next 3 years. |
| Human Resources | None |
| ICT | None |
| Legal | None |
| Procurement | None |

**Jason Bailey**

**Head of Pensions Administration**

| **Background Papers** | |
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| **Document** | **Place of Inspection** |
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