

SOUTH YORKSHIRE PENSIONS AUTHORITY

14 March 2019

Report of the Fund Director

Consultation on the Framework for Valuation 2019

1) Purpose of the Report

To provide members with details of the responses to the consultation with employers on the framework for valuation 2019.

2) Recommendations

Members are recommended to:

- a) **Note the responses to the consultation exercise undertaken with employers.**
 - b) **Approve the specific changes to the proposals set out in this report, and note the areas where further discussion will be undertaken with the Actuary.**
 - c) **Approve the immediate change to the Funding Strategy Statement in relation to Exit Credits which was consulted on.**
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3) Background Information

3.1 At the Authority's meeting in November 2018 members approved consultation with employers on a number of issues as part of the process of setting the framework for the 2019 valuation. The document issued to employers setting out the specific issues consulted on is at Appendix A.

3.2 This is the first time the Authority has undertaken an exercise of this sort and the response was low with 4 out of nearly 500 employers responding, although other feedback on some of the issues being consulted on has been received through the regular interaction between fund officers and the Directors of Finance of the District Councils. However, undertaking the exercise in this way is an important part of the Authority's future approach to engaging with employers in terms of being as open as possible with employers at as early a stage as possible. This approach will continue to be adopted with all employers through the remainder of the valuation process.

3.3 The responses received were from 1 District Council, 1 large employer and 2 Academy Trusts. While not representing a statistically significant proportion of the employer base within the Fund this does give a sample of views from significant employer groups which is helpful.

3.4 Taking the issues consulted on in turn, the comments received and any specific further actions can be summarised as follows:

- Valuation Assumptions –
 - There was some comment that pay restraint will impact in areas other than the local authorities going forward. Officers will follow up with specific groups of employers to evidence this, and if evidence can be provided engage with the actuary to widen the scope of the assumption about pay restraint.
 - Comment was made about the level of the inflation assumption relative to current levels of inflation. Fundamentally this misunderstands the nature of the assumption, which is made over the lifetime of the Fund's liabilities (i.e. well over 60 years), and because of this timescale will not reflect current actual inflation.
 - Officers will continue to engage with the actuary around the proposed assumptions to ensure that they evolve in the light of additional evidence as it emerges.
- Deficit Recovery Arrangements and Management of Surpluses -
 - Unsurprisingly employers supported an arrangement in relation to the remaining deficits which was most beneficial to them. This is an area which it is suggested is likely to have to be dealt with on a case by case basis, however, it is proposed that the Fund's position should be that the benefits of improved investment returns should in part be reflected in the faster repayment of any remaining deficits.
 - While the level of response was small there was support for retaining a surplus as a contingency against future negative experience, although there was a desire that this should be considered in the light of the level of any actual surplus which is a reasonable position.
- Exit Credits –
 - There was some support for the Fund's position on this, and the proposed changes will be immediately reflected in the Funding Strategy Statement. It is, however, understood that the Government intends to further amend the LGPS regulations so that Exit Credits are not payable.

- Academies –
 - There was no clear support one way or another for the proposition so it is suggested that it should not be pursued. However, in light of the comments made it is proposed to ask the Actuary to undertake modelling on the impact of an Academy pool and also to model the impact of treating Multi-Academy Trusts as single employers if they wish to consider this.

- Employer Covenant –
 - While there were no specific proposals in this area it did raise a number of questions which will be addressed in ongoing dialogue with employers as the valuation process evolves. The key issue here is likely to be that the Fund and the individual employer will have differing views on the risk that exists in each case.

- Recovery of Costs
 - There were no fundamental objections to the proposals here, but a reasonable request for transparency around costs which is something that the Fund is already working to try to deliver.

- Ill Health and Voluntary Early Retirement Allowances and Strain Payments
 - There were no fundamental disagreements with the proposition rather requests to maintain the flow of information to employers which is entirely reasonable. One response sought to retain the option for making strain payments by instalments. While the logic for this request is understood from the Fund's point of view this is an undesirable situation, particularly in an increasingly cash flow negative situation.

3.5 A further issue raised was the impact of changes in the LGPS benefit structure proposed as a result of the operation of the “cost cap” mechanism. Since this consultation was launched the postponement of any changes as a result of the “cost cap” mechanism has been halted due to pending appeals to the Supreme Court in relation to transitional protections arising from the introduction of the Career Average Scheme. This issue does add uncertainty to the valuation process and the request made which was entirely reasonable was that the Actuary should be asked to model the impact of the changes that were proposed. This work will be commissioned alongside the valuation, as it

will provide more detailed evidence to engage in dialogue around any changes proposed by the Scheme Advisory Board.

4) Implications and risks

- Financial – Of itself this consultation exercise does not have any financial implications. The financial implications of the valuation process will only be known when it is completed.
- Legal – The Authority has a duty to consult employers in relation to the development of the Funding Strategy Statement. This exercise forms part of the steps required to fulfil that duty.
- Diversity – There are no apparent diversity implications.
- Risk – The proposals consulted on sought to achieve a sensible approach to the balance of risk between employers and the Fund within the valuation process.

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Background papers used in the preparation of this report are available for inspection at the offices of the Authority in Barnsley.