

**Report to:** Pension Board

**Date of meeting:** 08 February 2023

**By:** Chief Finance Officer

**Title:** Triennial Valuation 2022 and Funding Strategy Statement

**Purpose:** This report provides the results of the 2022 triennial Valuation and a revised Funding Strategy Statement

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## **RECOMMENDATION**

The Board is recommended to:

- 1. Consider the draft 2022 Valuation report (Appendix 1)**
  - 2. Consider the revised Funding Strategy Statement (Appendix 2)**
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### **1. Background**

1.1 It is the responsibility of East Sussex County Council, in its capacity as Administering Authority to the East Sussex Pension Fund (the Fund), to prepare, publish and maintain the Fund's Funding Strategy Statement. This document has been reviewed alongside the 2022 Valuation and went through formal consultation with employers following the draft strategy presented to this Board in November 2022.

1.2 The 2022 Valuation of the Fund on a triennial basis is a regulatory requirement and is used to determine contribution rates payable by participating employers for the period commencing 1 April 2023. The valuation is carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). The Fund Actuary has now prepared the 2022 Valuation report which records the high-level outcomes of the actuarial valuation.

### **2. Triennial Valuation 2022 report**

2.1 The Pension Board and Pension Committee received an update on the 2022 triennial valuation in November 2022 following a presentation to the Committee in July on the proposed assumptions. The November meetings set out the initial 2022 whole fund valuation results and draft whole fund primary rate along with the details assumptions, a climate scenario report and the draft Funding Strategy Statement (FSS). The initial results showed a current whole fund funding level of 123% up from 107% in 2019 and an expectation that employer contribution rates which were (on average) expected to slightly reduce overall, but the primary rate would be higher due the increased inflation assumptions for future benefit accruals. The draft strategy and assumptions were approved by the Pension Committee on 30 November 2022 and a consultation commenced with employers on the draft FSS.

2.2 Working alongside the Fund Actuary, Fund Officers have now completed the consultation period with employers around the draft FSS and employers have all had sight of their individual results and contribution rates. The consultation period was kick started with a well-attended Employer Forum on 24 November 2022, where a presentation was received

from the Fund Actuary and those employers in attendance received their draft results and had the opportunity to speak to the Fund actuary.

2.3 The Fund Actuary has now drafted the 2022 Valuation report which records the high-level outcomes of the actuarial valuation, including the value of the assets and liabilities of the Fund as at 31 March 2022 and the required rate of employers' contributions to the Fund for the period from 1 April 2023 to 31 March 2026 (set out in the Rates and Adjustments certificate). The report is provided in Appendix 1.

2.4 Please note at the time of writing there were a small number of employer contribution rates which may still require finalisation. Therefore, the rates and adjustments certificate in the draft valuation report may be updated for a small number of employers before the valuation is approved at Pension Committee on 22 February and signed off by the Fund actuary.

2.5 In addition the Fund Actuary has advised that there is an appendix that will be added to the Valuation Report to cover the section 13 valuation and Pension Dashboards calculation requirements. Information was only received from the Government Actuaries department recently. Officers will share this with Board members once it has been provided and will form part of the Pension Committee published papers.

### **3. Funding Strategy Statement (FSS)**

3.1 Under the Regulations, all Local Government Pension Scheme (LGPS) funds have a statutory obligation to produce a Funding Strategy Statement (FSS). The Fund reviews the FSS at least every three years alongside the valuation but also from time-to-time when required. The current version of the FSS was approved by the Pension Committee on 16 March 2020 following the 2019 valuation.

3.2 The revised FSS was approved in draft form by the Pension Committee in November 2022. Following this approval, the draft version was issued to all participating employers for consultation alongside their individual results and contribution rates. The consultation period with employers ran for 7 weeks from 1 December 2022 to 20 January 2023.

3.3 The Fund received communication from 38 (30%) Scheme Employers who stated they had no comments or questions, and had direct questions and communication from 8 scheme employers / Academy Trusts which covered the following items.

- Crowborough Town Council responded asking for assurance that the Fund will remain in surplus as current inflation is significantly higher than the long term assumptions and suggested that it would be wiser not to reduce contribution rates at this stage.
- Brighton Aldridge Community Academy and Portslade Aldridge Community Academy confirmed they support the Funding Strategy Statement as a whole. They also confirmed they supported the Academy pooling change and were happy to be within the pool, they agreed with a stabilisation approach, but questioned whether the DFE guarantee for academies should provide a significantly strong covenant to warrant a lower funding threshold for amortising the surplus. They also asked for clarity over the ill health insurance provision and impact the pool.
- NSL confirmed they had no comments on the FSS, but asked for consideration of the draft rate.
- STEP multi academy trust confirmed they wanted to remain outside the academy pool. The communication also led to further conversations with the employer, which has helped engagement with this trust.

- South Downs Learning Trust asked for confirmation on the date the new rates came into place and wanted to confirm their understand on a single point.
- Wealden District Council had no comment or question on the FSS but got in touch to ask when rates for employers and members would be finalised to help then ensure operationally they could administer the new rates in time.
- Southern Housing (formally Optivo), requested a meeting to discuss their results which was held with officers and the Fund actuary.

3.4 As there was no formal challenge to any aspect of the FSS by scheme employers and no recommendations to consider for change, officer are not recommending any further change to the draft FSS following the results of the consultation.

3.5 During the consultation process the Fund Actuary raised the topic of amending the methodology for calculating cessation exit payments. This was following a high level of volatility in gilt yield in late 2022. The volatility in gilt yields could have significant consequences on the calculation of cessation debts where an employer is subject to a full cessation event or minimum risk funding positions. Instead, the Fund Actuary is proposing that a more stable valuation method could be implemented while ensuring sufficient levels of prudence in the assumptions, using stochastic modelling. As a result, Fund officers will look further into the implications of the existing and proposed approach, and if an alternative approach is preferred, officers will consult with employers and make a recommendation to amend the current methodology as laid out in the FSS.

3.6 Following the consultation and Pension Board discussions, Fund officers will look at the accessibility and branding of the FSS to ensure it is aligned with the requirements and branding of the Fund for its published policies and strategies, so the appearance will change slightly to the version in the appendix.

#### **4. Conclusion and reasons for recommendation**

4.1 The Board is recommended to consider this report

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