Report to:	**Pension Committee**
Date of meeting:	**22 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**

RECOMMENDATION

The Committee is recommended to:

1. **Approve the draft 2022 Valuation report (Appendix 1)**
2. **Approve the revised Funding Strategy Statement (Appendix 2)**
3. **Approve the draft Contribution review policy for consultation (Appendix 3)**
4. **Approve the draft Deferred Debt and Debt Spreading Agreement policies for consultation (Appendix 4)**

---

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 process and formal consultation with employers.

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 for the valuation were approved by the Pension Committee on 30 November 2022 alongside the draft whole fund valuation results report.

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**.

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 more specific detailed 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.
- Plumpton College asked a number of questions relating to the strategy and contribution results.
- 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. The draft strategy has been changed post consultation from a formatting perspective, to ensure the document is accessible and branded in line with Fund communication standards. The draft FSS is provided as **Appendix 2.**

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.

4. Contribution review, Deferred Debt and Debt Spreading agreement policies

4.1 The government amended the Local Government Pension Scheme (LGPS) Regulations 2013 in September 2020 introducing new powers for administering authorities to review employer contributions, spread exit payments and set up Deferred Debt Agreements (DDA). The government confirmed that if any dispute occurs relating to the new powers the LGPS internal dispute resolution procedures would apply.

4.2 The government have recognised that the LGPS has a large and diverse employer base and circumstances ca change significantly between valuations affecting both funds and employers. The cost of existing the Scheme can be prohibitive for some employers. Prior to September 2020 the LGPS regulations required payment of exit payment when the last active member of a fund left the Scheme, or an employer ceased to be an employer where there was a deficit at the time of exit.

4.3 The introduction of deferred employer status allows and administering authority to defer the triggering of an exit payment where it deems it appropriate, has a policy and has regard to actuarial advice. While this arrangement is in place deferred employer continue to ay contributions as required by the Fund revised in the valuations. A alternative new power allows for an exit payment to be spread over a period of time.

4.4 The September 2020 regs also broaden the circumstances in which the Fund can amend an employer’s contribution rate between valuations to allow for situations where the liabilities appear to have changed significantly, where it appears there is a significant change in the employer’s ability to meet statutory obligations, or where an employer requests a review and undertaken to meet the costs.

4.5 There is no requirement on the Fund to use these new powers, they can only be used where there is a policy in place in or alongside the FSS.

4.6 The Fund is recommending the introduction of two new policies to cover these new powers as suggested in the draft FSS. The draft policies are included as Contributions Review policy as **Appendix 3** and Deferred Debt Policy is **Appendix 4**. If the Committee agree to the draft policies these will be shared with scheme employers for comment and brought back to the Committee in June for final approval and implementation.

5. Conclusion and reasons for recommendation

5.1 The Pension Committee is recommended to approve the Valuation report, approve the Funding Strategy Statement, approve the draft Contribution review policy for consultation and approve the draft Deferred Debt Agreement and Debt Spreading agreement policy for consultation.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
Email: Sian.Kunert@eastsussex.gov.uk