

Report of the Managing Director West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 23 March 2023

AJ

Subject:

West Yorkshire Pension Fund Funding Strategy Statement

Summary statement:

Each LGPS fund must maintain a Funding Strategy Statement (FSS) in accordance with the Local Government Pension Scheme Regulations 2013. It must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy. It is customary for each LGPS fund to update its Funding Strategy Statement as part of the triennial actuarial valuation process, which needs to be completed by 31 March 2023.

A report was taken to the Joint Advisory Group (JAG) on 26 January 2023, asking for the changes to the Funding Strategy Statement be approved. JAG did not approve the changes as it requested further amendments be made in relation to disinvestment from fossil fuels within a specified timeline. It was explained at the meeting that it would not be appropriate to make these changes for a number of reasons, which are set out in the report.

Approval of the FSS is required to enable the Rates and Adjustment certificate to be signed by WYPF's Actuary by 31 March 2023 as part of the 2022 valuation process.

Euan Miller
Managing Director

Portfolio:

Report Contact: Euan Miller
Phone: 01274 434517
E-mail: euan.miller@wypf.org.uk

1. SUMMARY

- 1.1 It is customary for each LGPS fund to update its Funding Strategy Statement (FSS) as part of the triennial actuarial valuation process, which needs to be completed by 31 March 2023. Approval of the FSS is required to enable the Rates and Adjustment certificate to be signed by WYPF's Actuary by 31 March 2023 as part of the 2022 valuation process.

2. BACKGROUND

- 2.1 WYPF must maintain a Funding Strategy Statement in accordance with the Local Government Pension Scheme Regulations 2013. It must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy.

- 2.2 The proposed amendments to the FSS as part of the 2022 valuation process are for two key items:

- Funding Approaches and Principles for the 2022 Valuation

Due to the short term inflationary pressure at the 2022 valuation an adjustment of 10% be added to the liabilities for all funding targets. (This adjustment will be reviewed on a quarterly basis to ensure it remains appropriate in light of prevailing market conditions. (See point 5.12 of the FSS))

Details of the discount rates, probability of funding success and trajectory periods for the 2022 valuation. (see point 5.15 of the FSS)

For the majority of employers an adjustment to any surplus used to reduce the contributions to below the primary rate will be made such that only the surplus above a funding level of 105% as at 31 March 2022 is used to calculate secondary contributions from 1 April 2023. This adjustment reflects the volatility in asset values since 31 March 2022 and the challenging outlook. It is intended to reduce the risk of an employer's contributions reducing from 1 April 2023 only to be increased from 1 April 2026 if market conditions remain challenging and the funding position falls below 100% at the 2025 valuation. (see point 5.21 of the FSS)

- The introduction of two groups or pools of employers for funding purposes:
 - Town and Parish Councils and,
 - Academies Groups

References to how this would work are made throughout the document.

- 2.3 A consultation with stakeholders such as Scheme Employers on the proposed amendments to the FSS ran for 6 weeks up until 31 December 2022.

- 2.4 A report was taken to the Joint Advisory Group (JAG) on 26 January 2023, asking for the changes to the Funding Strategy Statement to be approved. The changes were tracked to aid reference and was appended to the report.

- 2.5 JAG did not approve the changes as it requested further amendments be made in relation to divestment from fossil fuels within a specified timeline. It was explained at the meeting that it would not be appropriate to make material changes to the FSS without further consultation with stakeholders. Members wanted discussion regarding divestment to take place and their concerns to be noted but were advised that JAG is not the body responsible for agreeing policy on these matters. Officers further advised that the FSS is a policy document and needed to be consistent with other WYPF policies which were matters considered by the Investment Advisory Panel rather than JAG.
- 2.6 Approval of the FSS is required to enable the Rates and Adjustment certificate to be signed by the Funds Actuary by 31 March 2023 as part of the 2022 valuation process.

3. OTHER CONSIDERATIONS

None

4. FINANCIAL & RESOURCE APPRAISAL

The 2022 Actuarial Valuation will determine employer contribution rates applying for the period from 1 April 2023 to 31 March 2026.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

All LGPS funds must maintain a Funding Strategy Statement (FSS) in accordance with the Local Government Pension Scheme Regulations 2013. It must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy.

6. LEGAL APPRAISAL

The LGPS Regulations require each LGPS fund to complete its actuarial valuation process via the issuing of a Rates and Adjustments certificate by 31 March 2023.

7. OTHER IMPLICATIONS

7.1 SUSTAINABILITY IMPLICATIONS

None

7.2 GREENHOUSE GAS EMISSIONS IMPACTS

None

7.3 COMMUNITY SAFETY IMPLICATIONS

None

7.4 HUMAN RIGHTS ACT

None

7.5 TRADE UNION

None

7.6 WARD IMPLICATIONS

None

7.7 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

None

7.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

The Committee should approve the Funding Strategy Statement in order for the 2022 actuarial valuation process to be completed by the statutory deadline of 31 March 2023.

10. RECOMMENDATIONS

It is recommended that the changes to the Funding Strategy Statement be approved.

11. APPENDICES

Appendix A – Funding Strategy Statement
Appendix B– Funding Strategy Statement report to the Joint Advisory Group

12. BACKGROUND DOCUMENTS

LGPS Regulations 2013 [Timeline LGPS Regulations 2013 \(lgpsregs.org\)](https://www.lgpsregs.org)