NORTH YORKSHIRE COUNTY COUNCIL

PENSION BOARD

6 October 2022

FUNDING STRATEGY STATEMENT

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To review the Funding Strategy Statement prior to it being consulted on with the Fund's employers.

2.0 BACKGROUND

2.1 The Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations") provide the statutory framework from which the Council in its capacity as the Administering Authority for the North Yorkshire Pension Fund (NYPF) is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS are:

- after consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy
- in preparing the FSS, the Administering Authority must have regard to
  - the guidance issued by CIPFA for this purpose
  - the supplementary statutory guidance issued by MHCLG (now DLUHC): Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements
  - the Investment Strategy Statement (ISS) for the NYPF published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended)
  - The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS

2.2 The purpose of the FSS is to clearly set out the Fund's approach to:

- meet the cost of employers' liabilities over the long term
- maintain as constant a primary contribution rate as possible
- achieve solvency and cost efficiency over the long term

2.3 The FSS is updated every three years in line with each Valuation, or more frequently if required. The last update was in 2021 following MHCLG (now DLUHC) publishing statutory guidance on how to use new employer flexibilities. This included preparing and maintaining policies on review of employer contributions (between formal valuations), spreading employer exit payments and deferred debt agreements. A general review was carried out at the same time and information regarding climate risk was also added.

3.0 2022 FUNDING STRATEGY STATEMENT

3.1 The FSS has been reviewed and updated in collaboration with the Fund's actuary to reflect the approach being taken in the 2022 Valuation. The updated document, showing tracked changes from the 2021 FSS is attached as an **Appendix.** The main changes to the document are described below.

Section 5, determination of the funding target and recovery period

3.2 The wording has been simplified to have stepping of contribution rate changes as the default approach for all employers.

3.3 The default recovery periods for open and closed employers have been clarified, and the maximum deficit recovery period which could be applied at the discretion of the Fund has been reduced by three years, three years on from the 2019 Valuation. The surplus recovery period has been reduced by three years.

Section 5, prepayment of contributions

3.4 A paragraph has been added to outline the potential for the prepayment of contributions. It is unlikely that this option would be made widely available, given the potential impact on the Fund's monthly cashflow position over the three year period from April 2023.

Section 7, climate risk

3.5 The sentence in square brackets has been added in anticipation of the requirements of the Government Actuary's Department and the expected legislation on climate risk reporting, which is currently being consulted on.

Section 7, regulatory and compliance risk

3.6 This section has been updated to reflect the Treasury Direction on GMP indexation made on 31 March 2021, and to be consistent with DLUHC's required approach to allowing for McCloud. It also notes that the 2020 cost management process is still in progress.

Appendix 1, colleges and universities

3.7 Additional wording has been included to reflect the standard and strong covenant approach being taken in the 2022 Valuation.

Appendix 1, financial assumptions

3.8 The wording in the section on discount rates has been simplified. An additional one-off allowance for the current rate of inflation will be included, to reflect the impact this is expected to have on pension benefits from April 2023.

3.9 At the end of Appendix 1 updates have been made to demographic and mortality assumptions and the summary of financial assumptions.

4.0 RECOMMENDATION

4.1 Pension Board members are asked to review and comment on the FSS prior to it being consulted on with the Fund’s employers.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

26 September 2022