NORTH YORKSHIRE COUNCIL

PENSION FUND COMMITTEE

13 SEPTEMBER 2024

PUBLIC SERVICE PENSIONS ACT 2013 – SECTION 13 REPORT

Report of the Treasurer

1. PURPOSE OF REPORT

1.1. To present the background of the Section 13 Report regime, the findings of the review based on 2022 valuation positions, and the related RAG ratings and metrics for the North Yorkshire Pension Fund.

2. BACKGROUND

2.1 The Ministry of Housing, Communities and Local Government (MHCLG) appointed the Government Actuary's Department (GAD) to report under Section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the LGPS.

2.2 Published on 14 August 2024, the latest report is the third Section 13 report and is based on the results of LGPS fund valuations on 31 March 2022.

2.3 This report is based on the funds' actuarial valuations and other data provided by the funds and their actuaries. GAD then consider issues of compliance, consistency, solvency, and long-term cost efficiency across the various LGPS funds.

2.4 For solvency and long-term cost efficiency GAD uses several metrics and raises flags against these metrics on a RAG basis, to highlight areas of risk or where further investigation is required. They also use a white "for information" flag where specific action is not expected.

3 31 MARCH 2022 REVIEW

3.1 The 31 March 2022 review is attached as **Appendix 1**. The key points are summarised in the six-page executive summary.

3.2 Across all LGPS funds, the funding level improved from 98% at the 2019 valuation to 106% at the 2022 valuation. This funding level is an aggregation funding levels on a prudent basis for the 86 LGPS funds in England and Wales. North Yorkshire Pension Fund's (NYPF) applies prudence through a probability of funding success approach, and at the 2022 valuation this was 80%. The exact approach will vary from fund to fund, so GAD uses a best estimate basis (probability of funding success at 50%) with a standard set of assumptions for their comparisons. Unsurprisingly, the aggregate funding level is much higher, at 122% on this basis.

3.3 It is interesting to note that 30% of funds were in deficit, as determined on a local basis, on 31 March 2022.

3.4 The report then goes on to consider compliance with the regulations, consistency between valuation approaches across the LGPS, solvency metrics and flags, and long-term cost efficiency metrics and flags.

3.5 GAD had little to say about compliance, other than funds being compliant with the relevant regulations.

3.6 On consistency, under the regulations, funds are allowed to undertake valuations using assumptions suitable for their local circumstances. This presents issues for GAD when they are attempting to make comparisons across the LGPS. Although they consider consistency to have improved since 2019, they have asked the Scheme Advisory Board (SAB) to look at how this could be further improved. They also mention a climate change principles document in development, to be ready in advance of the March 2025 valuation, although no publication date is available.

3.7 Amongst the reasons the review regime was implemented in 2013 were concerns around solvency and affordability. At that time, with the global financial crisis still fresh in peoples' memories, this was understandable. However, circumstances are now very different, so much so that GAD has not raised any solvency related red or amber flags, even with some funds having significant deficits.

3.8 There are only three flags relating to long-term cost efficiency. GAD's view is otherwise that all funds are appropriately setting employer contributions to cover the cost of future accrual.

3.9 Introduced in this review, GAD looked at how surpluses were used, and did not raise any flags. It is expected that scrutiny of this issue will increase in future reviews, particularly if surpluses increase materially. This is about intergenerational fairness – whether the current generation of taxpayers is benefitting appropriately from any surplus, relative to future taxpayers. However, GAD recognises that investment strategies, prudence, and financial and non-financial assumptions will contribute to the funding level, so their focus is on contribution rate outcomes rather than funding levels per se.

4. FURTHER INFORMATION, INCLUDING NYPF REVIEW RESULTS

4.1 The appendices to the 2022 review include a wealth of information on the detail of the review and the outcomes for each LGPS fund.

4.2 The chart on page 12 shows how local funding levels compare when measured on a SAB standard basis (determined by the SAB to calculate liabilities on a consistent basis, allowing for comparisons to be made).

Individual funds are not identified but it's possible to identify NYPF, which had a local funding level of 116% and a funding level on a SAB standard basis of 133%.

4.3 The chart on page 13 shows the difference between these two funding levels and how this compares to other funds. This could reflect the amount of prudence built into local valuations, but it could also reflect different investment strategies, as higher returning strategies for a given level of prudence would result in a higher funding level, all other things being equal.

4.4 The solvency metrics are shown on pages 33-38. NYPF is on page 36 and has green flags against all measures. The long-term cost efficiency metrics are on pages 45-49, with NYPF on page 48, with green flags against all measures.

4.5 Additional details on funding levels, assumptions, investment, membership and contribution rates is set out in GAD's Funding Analysis Report.

5. RECOMMENDATIONS

5.1. Members are recommended to note the report.

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