SOUTH YORKSHIRE
PENSIONS AUTHORITY

Subject of Briefing Note	**Informal Consultation on Funding Strategy Statement (FSS)**	**Status**	For Publication
Briefing for	All Employers in SYPA Fund	**Date**	2 August 2022
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Purpose of this Briefing

To consult informally with employers in the fund on the proposed changes to the Funding Strategy Statement (FSS) ahead of the formal consultation to be issued in the autumn.

Recommendations

Employers are recommended to:

- **Review the key changes that SYPA proposes to incorporate in the draft Funding Strategy Statement (FSS) when it is issued for formal consultation in the autumn**
- **Feed back any comments on the proposals as soon as possible and by 31 August 2022 ideally.**

Background

The purpose of the Funding Strategy Statement (FSS), as set out by the (then) Department for Communities and Local Government (DCLG) back in 2003 is “to establish a clear and transparent fund specific funding strategy which would identify how employers’ pension liabilities are best met going forward”.

The FSS is a statutory requirement under the LGPS Regulations and must be kept under review and subject to consultation where changes are being made. In producing the FSS, funds must have regard to guidance published by CIPFA as well as to the Investment Strategy Statement. For this reason, and because of the nature of the content, the FSS is subject to review as part of the triennial valuation process.

Historically, the draft FSS would be produced and issued for consultation towards the end of the calendar year once the provisional valuation results were available. However, the recent change of fund actuary affords an opportunity to revise the approach and to reflect recent experience of working with employers which suggests that some revisions to the FSS would be beneficial and that employers would appreciate early engagement on any changes being proposed.

Proposals

In consultation with the actuary, we have been reviewing the existing FSS and have produced a summary of the key principles contained within the FSS and the current expectation of how this may change as part of the 2022 review, subject to consultation. The summary document is attached at **Appendix A**.

There are no fundamental changes planned to the FSS but there a number of developments in line with the evolution of the funding strategy which it is intended to draw out as part of the formal consultation in the autumn:-

Funding Assumptions. These are broadly in line with the valuation assumptions approved by the Authority in March 2022 but are represented in the FSS for transparency.

Setting Contributions. These principles are broadly in line with the existing FSS in terms of the desire to achieve stability of contributions whilst reducing deficits and allowing some flexibility to reflect individual employer circumstances.

Other Funding Principles. At the last valuation, the majority of employers chose to contribute towards the costs of meeting the expected costs of the McCloud remedy. Now that the legislation giving effect to the remedy is moving forward the costs will form a part of the overall liability assessment of employers.

The summary document draws attention to two new elements that are intended to be reflected in the updated FSS. The first is simply reflecting wider developments in the approach to climate change risk. The second is the proposed introduction of “pass through” arrangements for new employer admissions created from outsourcings.

Pass Through

Traditionally, any new employer (contractor) joining the fund via an admission agreement following the outsourcing of a service from a local authority or academy trust would have its own assets and liabilities determined independently based on the membership profile of the transferring staff. Employer contribution rates are re-assessed as part of the triennial valuation (usually resulting in a change in contribution) and a further assessment is then carried out when the outsourcing comes to an end (e.g. if the service is re-tendered or brought back in-house) which can lead to a deficit or surplus payment being required.

Feedback from outsourcing employers and from contractors suggests that the potential cost impacts under the existing admission agreement arrangements are often difficult to predict and this can lead to complexities with service contracts; these can be particularly disproportionate where the outsourcings may involve just a small number of staff transferring employment. A “pass through” arrangement is one where a contractor applying for admitted body status simply pays the same primary contribution rate as the outsourcing (guarantor) employer who is letting the contract. The Fund is not required to separate out the assets and liabilities of the transferring staff as the outsourcing employer assumes responsibility for these.

The table below outlines our view of the main potential advantages and drawbacks of a “pass through” arrangement compared with the more traditional agreement. As highlighted, there is a greater level of risk borne by the outsourcing employer though it is likely that this would be modest in the context of the overall funding risk for their entire scheme membership and would likely be offset by the advantages gained elsewhere.

“Pass Through” Advantages	“Pass Through” Drawbacks
Contractor pension cost certainty when bidding for new contracts creates an even playing field for procurement	Higher funding risk for outsourced staff is borne by outsourcing employer
Reductions in actuarial fees	
Avoids deficit or surplus payments at contract end	
Flexibility retained for contractors to meet certain extra costs e.g. early retirements	
No bond requirement – can be expensive to acquire	

Although the proposal would be to make “pass through” arrangements the default position for any new admission agreements, outsourcing employers would still have the option to elect not to apply “pass through” and retain the existing arrangements provided that both the contractor and the outsourcing employer had confirmed they understood the implications. This approach is consistent with that increasingly being adopted by other LGPS funds.

Appendix B is a more detailed draft proposed “pass through” policy intended to provide employers with the opportunity to consider the principles involved since this does mark a step change from the arrangements which have been in place for many years. Informal discussions with employers to date suggest the greater certainty provided by “pass through” would be welcomed but we are keen to hear employers views on the proposals.

Employer Flexibilities

In September 2020, the Government introduced new provisions which LGPS funds could choose to adopt in relation to the following three areas:-

1. Contribution rate reviews between triennial valuations
2. Spreading payment of a cessation debt
3. Deferred Debt Agreement (“DDA”) alternative to immediate cessation

Appendix C provides more detail in relation to these flexibilities. We are flagging to employers at this stage that we intend to include a policy on the application of these flexibilities in the FSS. Although these are simply enabling provisions and primarily included in this informal consultation for information, employers are welcome to comment on their adoption if they wish to do so.

Summary

We hope that employers will take the opportunity to consider the proposed changes to the FSS as set out above and welcome any feedback on the proposals **by 31 August 2022 ideally**. This will enable us to consider any comments ahead of issuing the full Funding Strategy Statement (FSS) for formal consultation in the autumn.

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